Treasury Minutes on the Twenty Third to the Twenty Ninth, the Thirty First to the Thirty Fifth, the Thirty Seventh to the Thirty Eighth, the Forty Second and the Fiftieth Reports from the Committee of Public Accounts 2007-2008

23rd Report	Report on the NHS Summarised Accounts 2006-07: achieving financial balance
24th Report	The privatisation of QinetiQ
25th Report	The cancellation of the Bicester Accommodation Centre
26th Report	Caring for vulnerable babies: the reorganisation of neonatal services in England
27th Report	DFID: providing budget support to developing countries
28th Report	Government preparations for digital switchover
29th Report	A progress in resolving difficulties in administering the Single Payment Scheme in England
31st Report	Progress in tackling benefit fraud
32nd Report	Reducing the cost of complying with regulations: the delivery of the Administrative Burdens Programme
33rd Report	Ministry of Defence: Major Projects Report 2007
34th Report	Increasing employment rates for ethnic minorities
35th Report	Housing Market Renewal: Pathfinders
37th Report	Ministry of Defence: leaving the services
38th Report	Nuclear Decommissioning Authority: taking forward decommissioning
42nd Report	Preparing for sporting success
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Presented to Parliament by the Exchequer Secretary to the Treasury by Command of Her Majesty
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TREASURY MINUTES DATED 16 OCTOBER 2008 ON THE TWENTY THIRD TO THE TWENTY NINTH, THE THIRTY FIRST TO THE THIRTY FIFTH, THE THIRTY SEVENTH TO THE THIRTY EIGHTH, THE FORTY SECOND AND THE FIFTIETH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2007-08

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Twenty Third Report

Department of Health (DH)

Report on NHS Summarised Accounts 2006-07: achieving financial balance

1. The Department of Health welcomes this report by the House of Commons Public Accounts Committee on the NHS Summarised Accounts for 2006-07. Financial recovery within the NHS was a key priority for the Department in 2006-07, and the Department agrees with the Committee's conclusion that the NHS has done well in not only restoring overall financial balance, but also in delivering a very healthy £515 million surplus. This was achieved in the context of the NHS delivering all of the major national targets and with significantly improved patient satisfaction.

2. It is important to remember that the focus of the Committee's report was the 2006-07 financial year. The financial health of organisations across the NHS has continued to improve in 2007-08. In August this year, we published the 2007-08 final accounts position for the NHS, which showed a final audited surplus of £1,667million.

3. Equally important is the improvement in the level of variation in financial performance. At the end of 2007-08, every sector of the NHS, and each and every Strategic Health Authority (SHA) area had recorded a surplus. Across the NHS, only 11 organisations (just three per cent) recorded a deficit. This surplus has enabled the deployment of nearly all of the baseline and the additional resources for 2008-09 and continues our strategy to ensure there is sufficient flexibility so that we can respond to fluctuations in demand, whilst maintaining sufficient funds for investment in new services.

PAC Conclusion (1): Following two years of deficits the NHS as a whole delivered a £515 million net surplus in 2006-07. This was achieved by top slicing some budgets and holding them in reserves, targeted support for organisations with the most significant financial problems and tighter performance management of NHS finances by the Department.

4. The Department made financial recovery and the restoration of financial balance a key priority for the NHS in 2006-07. In order to place the NHS on a firm and stable financial footing, decisive action was needed in 2006-07. The framework for this action was established in early 2006 and had the following key components:

- Increased transparency of financial reporting at all levels;
- Putting those organisations with the most significant financial problems through a formal turnaround process;
- Tighter performance management of NHS finances from the Department.

5. This framework was designed to ensure that where problems existed they could not be hidden, that the NHS had the skills and support necessary to address them, and that sufficient money was set aside to ensure that the NHS as a whole lived within its resources without forcing individual overspending organisations to take actions that would have unacceptable service consequences.

PAC Conclusion (2): A small core of NHS organisations has a combined deficit of £917 million, 80 per cent of which exists in 10 per cent of organisations. Building on lessons learned from the turnaround programme, Strategic Health Authorities need to support these organisations to achieve financial balance through, for example, helping to devise recovery plans, establishing networks to exchange good practice, training to improve financial management and facilitating the sharing of financial expertise.

6. The Department is pleased to see improvements in the overall numbers of NHS bodies demonstrating improved performance in their use of resources scores.

7. Throughout 2007-08, the proportion of organisations reporting a deficit position reduced from 22 per cent at the end of 2006-07 and to three per cent by the end of 2007-08. In addition, the level of gross deficit has been brought under control, and has significantly reduced from £917 million at the end of 2006-07 to £125 million in the 2007/08 final accounts.

8. The Department accepts that there is room for further improvement. A small number of organisations continue to face significant financial challenges and we are working with SHAs to improve their financial performance.

PAC Conclusion (3): There are significant regional variations in the financial performance of the NHS. While every Strategic Health Authority area improved its financial standing compared to 2005-06, performance ranged from a deficit of £153 million in the East of England to a surplus of £189 million in the North West. The Department should establish the reasons behind the variations in financial performance through benchmarking and establish whether they reflect geographical differences in health care needs, provision and quality.

9. The Department notes the Committee's recommendation to adopt the use of benchmarking as a means of establishing the reasons behind variations in financial performance. There is local benchmarking being carried out by PCTs and Trusts across the NHS, but it should be noted that the longer standing deficits are clustered in certain parts of the country, of which the East of England is one. The deficits in these organisations are long standing and deep-rooted and their recovery has taken about a year longer than organisations in other parts of the NHS.

10. Whilst there have been variations in financial performance across the NHS throughout 2007-08, the NHS in all areas of the country has shown significant improvement in its financial performance, ending the year with all regions reporting surplus positions. East of England is the most improved region in 2007-08, moving to a surplus of some £85 million, an improvement of £238 million over 2006-07.

PAC Conclusion (4): There is some evidence that financial balance was achieved by slowing down or postponing some healthcare. While the overall quality of NHS health care, as rated by the Healthcare Commission, has improved, 14 Primary Care Trusts made financial savings by requiring their provider Trusts to freeze or slow down non-essential planned treatments. To minimise the risk of this happening again NHS organisations need to agree annual work plans and supporting budgets before the start of the financial year, profile work as far as practicable, and have reliable information early enough to take remedial action where health service provision is put at risk.

11. The Department agrees with the Committee's recommendations with regard to planning and supporting budgets before the start of the financial year, profiling work where practicable and having reliable information early enough to take remedial action.

12. Financial recovery has had to take place alongside, and not at the expense of, service improvements. The Department acknowledges that failure to keep a tight grip on financial performance undermines service delivery for patients. The certainty of the system of loans introduced in 2006-07, has allowed NHS Trusts to recover their financial position in a planned and structured way that has been agreed with Strategic Health Authorities and the Department, and has in turn allowed appropriate and affordable patient services to be maintained.

13. From 2006-07, the Department increased the emphasis of reporting on the year-to-date position in its reporting to both the Departmental Management Board and the NHS Management Board.

14. Throughout 2007-08, the Department continued to collect both year-to-date, and forecast information, on balance sheet, income and expenditure, and cash flow data. Key indicators of financial performance were collected on a monthly basis and with SHAs required to provide explanations of any significant variations.

15. During 2008-09, the Department will maintain this strong focus on year-to-date financial data and will collect key indicators of financial performance on a monthly basis. The 2008/09 Operating Framework has set out a financial framework that fully supports improvements in services within available resources, whilst also delivering on national priorities.

16. Finally, one of the benefits of planning for a surplus is that it gives organisations the flexibility to respond to changes in demand and avoid the need to freeze or slow down non-essential planned treatments.

PAC Conclusion (5): More robust costing systems are essential if the NHS is to achieve longer-term financial stability. Under Payment by Results, NHS organisations receive income based on the work they perform in accordance with tariffs increasingly agreed nationally. Where costs are fixed there is a risk that income may not be sufficient to cover them resulting in a deficit. Management boards of NHS organisations need to be confident that their financial systems are fit for purpose to enable all costs to be understood, analysed in sufficient detail, and managed effectively.

17. The Department recognises that as Trusts have moved from local prices to the Payment by Results national tariff, there have been "gainers" and "losers". Those Trusts with below-tariff costs have gained income, and those with costs above tariff have lost income.

18. The Department therefore put in place transitional arrangements, designed to cushion the introduction of Payment by Results, with a phased movement to operating under full PbR tariff. This three-year transitional period began in 2005-06. The timetable for these transitional arrangements was flagged with Trusts a number of years ago, and so they have had time to prepare for operating under the full Payment by Results tariff.

19. It is worth noting that PbR activity accounted for around 60 per cent of acute Trust income in 2007-08.

20. The Department agrees that NHS organisations need to be confident that their financial systems are fit for purpose and must enable all costs to be understood. The Department collects both programme budgeting and national reference cost information and these exercises require organisations to analyse and understand the costs they are incurring. Some organisations have introduced Patient Level Information and Costing Systems (PLICS) and this is an area that we will continue to develop within the NHS.

21. The Department supports the introduction of PLICS as this will provide information to improve hospital operational performance and quality as well as enabling continuous improvement of PbR mechanisms.

22. An increasing number of hospitals are introducing PLICS and to support this, the Department recently finalised a set of best practice costing standards with the intention of introducing them across the NHS. This will greatly improve the ability of organisations to benchmark their performance as well as enabling the Department to have greater assurance on the quality of information used for costing.

PAC Conclusion (6): Financial forecasting is not sufficiently reliable and needs to improve. Maintaining financial balance requires accurate and timely forecasting of income and expenditure. Forecast financial position data provided by NHS organisations throughout 2006-07 were often inaccurate. Strategic Health Authorities should identify those organisations, which consistently provide poor forecasts and help them improve through training and sharing of good practice.

23. The Department agrees with the Committee’s conclusion and continues to work with SHAs to improve the quality of their organisations’ forecasting.

24. Since 2007-08, Payment by Results tariffs and the Operating Framework have been issued earlier than was the case in previous years. This has helped the NHS in developing more robust plans and one of the benefits has been less movement in the forecasts.

25. Through 2007-08 there is evidence of improved forecasting. Since quarter two of 2007/08 the forecast outturn has shown little variation including very little movement between draft and audited accounts.

26. In 2006-07, the Healthcare Commission’s annual health check results for use of resources showed 14 per cent of trusts were “excellent” and 23 per cent were “good”. This is compared to a combined score of only 15 per cent in these two categories for 2005-06. The Healthcare Commission will publish the results of the 2007-08 annual health check on 16 October 2008.

27. For 2008-09 the forecast at quarter one shows stability when compared to the 2007-08 year-end. This is further evidence of improved financial management in the NHS.

PAC Conclusion (7): There is a clear link between financial performance and the quality of service provided. NHS organisations, which perform well financially tend to provide better quality services. Sound sustainable financial management is therefore vital in delivering improved health care. In reviewing performance and capability, the senior management of NHS organisations should assess how well their financial and clinical staff engage and the extent to which financial awareness is embedded in their organisations. Where this is deficient an improvement programme with key milestones should be put in place.

28. The Department agrees with the Committee's conclusion that there is a clear link between financial performance and the quality of service provided.

29. Such a link was demonstrated by the work comparing the financial standing of an NHS organisation with its quality rating as determined by the Healthcare Commission in its Annual Health Check 2006-07. This work showed there to be a correlation between financial standing and quality of service, whereby better performers financially are also better on quality. Therefore, it is no surprise that those organisations practicing sustainable financial management by generating a surplus should continue to deliver improved performance against healthcare standards.

30. In addition, improvements have been made by staff across the NHS, both clinicians and financial managers, who have worked hard throughout 2006-07 and 2007-08 to reduce inefficiency, make savings and reduce deficits, whilst at the same time meeting all new national targets and improving quality of care for patients. One of the main factors in the NHS achieving financial recovery over last three years has been about the deficit organisations returning to balance rather than simply about organisations' under-spends.

PAC Conclusion (8): The Department and the NHS are forecasting a surplus of £1.8 billion in 2007-08. While maintaining financial stability is important, large surpluses increase the risk that the NHS will be perceived as delivering less health care than it could have done if resources had been fully utilised. NHS organisations will need to be able to demonstrate to their local stakeholders that the level of health care delivered meets local priorities and needs.

31. NHS finances ended 2007-08 in a strong position. In the Final Accounts, the NHS reported a net surplus of £1,667 million (2.1 per cent of total resources), all of which sits in the NHS, compared with a £515 million net surplus at 2006-07.

32. A healthy surplus is a clear sign that the NHS has a strong and sustainable financial position but also remains on course to deliver against its key pledges. This represents sound financial planning and is essential for avoiding a "boom and bust" economy in the NHS.

33. The application of effective and sustainable financial management practices across the whole NHS, together with year on year delivery of financial surpluses at an organisational level, will raise both national healthcare standards and support the delivery of better services to patients.

34. The NHS achieved a great deal in 2007-08. It delivered what it said it would on 18 weeks and healthcare associated infections, whilst maintaining a high level of performance against its other key indicators. The NHS surplus at quarter one of 2008-09 shows that nearly all the baseline and the additional resources for 2008-09 are being deployed. This continues our strategy of flexibility to be able to respond to fluctuations in demand, whilst maintaining sufficient funds for investment in new services.

Twenty Fourth Report

Ministry of Defence

The Privatisation of QinetiQ

1. The Government welcomes the report by the Public Accounts Committee (the Committee) into the privatisation of QinetiQ. The Government believes that overall the process has been a significant success. It has generated cash receipts of around £800 million for the taxpayer. It has established QinetiQ as a successful new British company, and protected the viability of a business of strategic importance to UK defence interests.

2. The Government welcomes the Committee's assessment that its strategy of bringing in a strategic partner to help develop the business in advance of flotation was beneficial, and is one, which should be considered in future privatisations. The Government also welcomes the acknowledgement that, by selling only a minority of shares in the initial stage of the transaction, it successfully ensured that the taxpayer benefited from the subsequent growth in value of QinetiQ. The Government notes the committee's view that the stock market flotation of QinetiQ was well executed, and that the Ministry of Defence (the Department) made effective use of the expertise available within the Shareholder Executive. The Government welcomes the committee's view that the privatisation of QinetiQ has successfully protected the viability of a business of strategic importance to the UK.

3. The Government notes the Committee's view that there were weaknesses in the 2003 sale process and that an additional £90 million might have been raised, and has commented on this detail below.

PAC Conclusion (1): The budget for defence research fell by 40 per cent in real terms between 1992 and 1998, limiting the ability of the Defence Evaluation and Research Agency to maintain the breadth of its expertise. QinetiQ has been successful at finding new sources of revenue to balance the decline in research spending and has increased its turnover by 48 per cent since 2003.

4. Although taken in the context of a declining research budget, the Government's decision to pursue the partial privatisation of the Defence Evaluation and Research Agency was based on a number of factors. These included: strengthening the links between civil and defence technology; the introduction of commercial disciplines and competition into the programme as a way to reduce prices for defence customers; encouraging the commercial exploitation of technology funded by the defence programme; and sustaining capabilities that might otherwise be unaffordable. As part of public consultation in May 1999, the Department recognised that it could no longer: "rely entirely on its own research programmes to seed UK defence technology capability". Increasingly, it needed to: "reach out to the wider national and global technology base and be agile and innovative in the application of that technology to Defence problems and requirements".

5. The Government welcomes the Committee's acknowledgement that the privatisation of QinetiQ has been successful in protecting the viability of a business of strategic importance to UK Defence interests. QinetiQ is now established as a successful FTSE 250 company with a market capitalisation of £1.3 billion. It is a British based defence and technology company employing 13,500 staff. QinetiQ is a key supplier of cutting edge technology and services for the Armed Forces. The growth and development of the company, both in the UK and internationally, since its formation in 2001, has significantly increased its value and as the largest shareholder it is the taxpayer who has gained the most from the increase in QinetiQ's value. QinetiQ's ability to find new sources of revenue is evidence that it can operate effectively in the private sector and that the privatisation process has been a success.

PAC Conclusion (2): The restrictions that prevented QinetiQ from engaging in defence manufacturing contracts were lifted in April 2008. If QinetiQ is successful in winning more contracts to supply the Department there will be greater scope for conflicts with its important role of advising the Department on the procurement of equipment. The Department needs to actively manage the operation of the Compliance Regime to protect the independence of QinetiQ's advice, which is critical to UK defence interests.

6. When QinetiQ was formed in July 2001, the Department put in place a range of measures to ensure that the company did not undertake activities that could cause an unmanageable conflict of interest that would affect its ability to carry out work for MOD customers. These included a number of separate elements:

- a set of compliance principles enshrined in the company's Articles of Association that govern QinetiQ's overall activities;
- an overarching compliance regime that gives customers wide ranging powers to veto any activity that could cause an unmanageable conflict of interest;
- a right for an MOD representative to attend meetings of the company's internal Compliance Committee (a sub-committee of the main board);
- a requirement for QinetiQ to appoint separate Compliance Implementation and Compliance Audit Directors, whose roles are to ensure that appropriate compliance process exist within the company, and that their operation and effectiveness is regularly audited;
- A right for the Department to veto any changes to QinetiQ's internal compliance processes.

7. In addition, the Department has a separate right to require QinetiQ to seek the Department's specific approval if it wishes to carry out certain defence manufacturing activities, which might also cause a conflict of interest. In reviewing the operation of the compliance regime the Department has concluded that the existence of this additional approvals process on top of the wider conflict of interest protections has caused some confusion, and that there was scope for simplifying the regime. Consequently, it was announced in 2006 that the separate defence manufacturing approvals process would be removed from 1 April 2008, by which date the Department would be in a position to open its research programme to full competition, potentially providing greater opportunities for the rest of industry to bid for work and therefore increasing the range of options available to MOD customers for obtaining impartial advice.

8. The change was agreed by MOD customers and did not affect the level of protection available as they continue to have access to the wider provisions contained elsewhere in the compliance regime.

9. The Government fully agrees with the Committee's view that the Compliance Regime needs to be actively managed, and mechanisms to do so have been in place since 2001. A well-established process exists to ensure that potential conflicts are identified and discussed with MOD customers, who have the right to veto the work if they feel that proposals to manage any conflict are not satisfactory. Since 2001, the Department has routinely attended the QinetiQ Compliance Committee, which monitors the operation of the regime within the company. The Department's Internal Audit team have recently carried out an exercise in conjunction with QinetiQ and its MOD customers to identify any lessons from the regime's operation and these are currently being discussed with the company.

10. As acknowledged by the NAO, the Compliance Regime is working well. The Department will continue actively to monitor the Compliance Regime to ensure any conflicts of interest are identified, appropriately managed and to ensure it continues to receive impartial advice.

PAC Conclusion (3): The sale to Carlyle was conducted in 2002, when market conditions were poor and before the future of QinetiQ's most significant long term contract, accounting for about a third of QinetiQ's revenue, had been agreed. The Treasury had agreed to credit the Department's budget with £250 million if the sale was completed before 31 March 2003. The Treasury should avoid creating incentives to press ahead with privatisation's when conditions are unlikely to maximise longer-term value to the taxpayer.

11. The Department and its advisers considered a number of options for the route and timing of the QinetiQ sale. In 2001, these options included: a direct stock market flotation of the company; a two stage process involving the sale of a minority stake to a strategic partner to help develop the business prior to a flotation; or a potential delay to the programme. It was recognised at the time that market conditions were declining, and therefore a direct flotation would be unlikely to deliver best value. The Department considered delaying the sale, but concluded that doing so could make it difficult for QinetiQ to address the growing challenges it faced and could damage the company and its future value. Because of the poor market conditions it was felt that the strategic partner approach would yield the best long-term outcome. Despite the market conditions and the complexity of QinetiQ's business, the equity value of QinetiQ increased from £125 million to £1.3 billion by February 2006 as a result of the introduction of a strategic partner in 2003.

12. The Government recognised at the time, that any arrangements related to the timing of receipts to the Department, should not be at the expense of achieving overall value for money. To that end, the Treasury agreed to credit the Department's 2002 budget with £250 million even if the project was delayed.

13. The Government accepts the need to ensure that the financial incentives placed on Departments are consistent with the need to deliver value for money to the taxpayer.

PAC Conclusion (4): The Department negotiated the terms of QinetiQ's most significant contract, the Long Term Partnering Agreement, at the same time as conducting the sale of part of the business. Bidders would have been unable to place an accurate value on QinetiQ and Carlyle were subsequently able to negotiate a reduction in the value they ascribed to the business. Departments should settle the terms of significant contracts before entering negotiations to privatise public sector businesses.

14. The Department recognised that there were risks associated with proceeding before the Long Term Partnering Agreement (LTPA) was signed. However, this was an extremely complex 25-year agreement and finalising the full contractual terms was likely to take a substantial period. The risks had to be balanced against the possible damage to the QinetiQ sale process that would follow any delay. QinetiQ was declining in value and a deferment could have damaged the company. The Department took steps to mitigate the risks by ensuring that a signed Heads of Terms for the LTPA had been agreed with QinetiQ before the key sale documents on which bidders based their initial valuations was issued. The Department and its advisers believed that this provided an adequate basis for bidders to value the company.

15. Before agreeing to any subsequent reduction in the value of the business by Carlyle, the Department obtained confirmation from its advisers that the adjustments were justified. Before the deal was finally signed, it also sought confirmation that the negotiated adjustments were not such that they materially affected the basis of the competitive process insofar that other bidders would have been likely to act in the same way.

16. The Government agrees that ideally it is desirable to settle the terms of significant contracts before entering negotiations to privatise public sector businesses. However, vendors have to balance a variety of risks, and judge between them in order to maximise overall value for money. This can only be done in the light of the specific circumstances of a particular project.

PAC Conclusion (5): The Department weakened the competition by eliminating bidders at an early stage in the process, including the only trade bidder. It also appointed a preferred bidder with major price sensitive issues outstanding, turning a competitive process into one of negotiation. Departments should maintain competition until significant price sensitive issues have been resolved.

17. The Government does not believe that in reality competition was weakened by eliminating certain bidders at an early stage. Twelve bidders received the Information Memorandum and a shortlist of four bidders was selected. The NAO acknowledge in their report that the Department correctly identified and selected the four strongest bids. The Department concluded that retaining weaker bidders in the process for longer would not have increased competitive tension nor have produced a different outcome. Indeed, the Department was concerned that having too long a shortlist could have deterred the strongest bidders from carrying out, at their own expense, the work necessary to produce a detailed offer. The competition process was led on the Government's behalf by UBS Warburg, a leading investment bank, in line with market practice at the time.

18. The Department did not rule out trade bidders per se (other than defence manufacturers). However, a primary objective was to protect the impartiality of advice from QinetiQ to MOD customers. The Department believed that a trade bidder could have conflicts of interest and would need to demonstrate that these could be adequately managed. The only pure trade bidder was SERCO, and the Department did not feel that they had demonstrated the ability to address these and other concerns. Two out of the twelve bids taken forward to the next stage contained involvement from trade bidders in partnership with financial investors.

19. On a complex project such as the QinetiQ privatisation it is inevitable that there will be price sensitive issues that can only be resolved during detailed negotiations. It is unlikely that bidders would commit to doing the work needed to resolve such issues without being given a period of exclusivity. This is why it is normal practice to appoint a preferred bidder.

20. Although Carlyle were appointed preferred bidder, the Department made it clear that it had retained a reserve bidder. This maintained as much competitive tension as possible throughout the negotiations.

PAC Conclusion (6): The Department executed the flotation well, assisted by the involvement of the Shareholder Executive. The Shareholder Executive provided valuable experience and expertise, which helped protect the Department's interests where these were not aligned with those of Carlyle and QinetiQ. Departments should take advantage of the available expertise by involving the Shareholder Executive in future privatisations.

21. The Government welcomes the Committee's recognition that the flotation was well executed. The flotation raised approximately £360 million before costs for the taxpayer. This is in addition to the proceeds gained from the sale to Carlyle and the value of Government's retained stake in QinetiQ.

22. In preparing for the flotation the Department worked closely with the Shareholder Executive. The team carrying out the flotation was jointly headed by an official seconded from the Shareholder Executive into the department and an official from the Department. The Department has worked closely with the Shareholder Executive since it's formation in 2003. Since this time a number of staff from the Shareholder Executive has been seconded into the Department to work alongside the Department's staff on a number of business and corporate finance issues.

23. The Government accepts the conclusion that Departments should seek to make full use of the expertise available in the Shareholder Executive.

PAC Conclusion (7): QinetiQ senior management received £200 for each £1 they invested whilst the taxpayer received just £9. QinetiQ management negotiated their own incentive arrangements before Carlyle were appointed preferred bidder, without making the Department aware of this serious conflict of interest. Such profiteering at the expense of the taxpayer is not something this Committee would expect from former public servants. In future privatisations Departments should prevent management from having discussions on incentivisation with investors until a preferred bidder has been appointed and the basic structure of the incentive scheme agreed.

24. Returns to management need to be viewed in the context of the over £800 million that has been raised for the taxpayer from the privatisation. The objective of the management incentive scheme was to maximise the growth in the value of the business during the period when the government retained the majority of the shares, and therefore ensure that the taxpayer was the greatest beneficiary. The Government believes that the structure of the scheme was consistent with this objective.

25. The Department did not want management to make very large returns simply as a result of the privatisation; however, it accepted that they could make significant amounts of money if this was linked to the growth in the value of the business. Although management received higher than expected returns, this was the result of a greater than expected growth in the value of the company's equity between the sale to Carlyle in 2003 and the flotation on the stock market in 2006. Although management benefited from this additional growth so did the taxpayer. The value of the taxpayer's stake grew by 786 per cent from the start of the privatisation to flotation (from £80 million to £600 million). The scheme's design meant that management would only benefit if the value of the taxpayer's stake also grew.

26. Senior management were required to invest their own money in the company and the scheme was structured to ensure that they would only benefit once the Government and Carlyle had received a set level of return on their shares. If this level was not achieved, management stood to lose their investment. Consequently, those senior managers who chose to invest held shares in the highest risk, but highest return, element of the company's equity. There was no certainty about returns under the scheme, and not all senior managers who were originally entitled to invest subscribed for shares.

27. The NAO acknowledge that it is normal for private equity firms to use share incentives to align management's interests with their own. The ability of private equity firms to use such schemes to incentivise growth is an important part of how they value a company. Therefore it would be difficult for them to submit a robust bid without talking to management, who were best placed to advise who was most critical to the company's development and therefore should be incentivised most.

28. This was seen as particularly true in relation to QinetiQ, which has a unique business model and cannot be easily compared with other companies. The Department did not therefore feel that it was improper for bidders to seek management's views, and all short-listed bidders had the opportunity to talk to management. Although QinetiQ's management gave their views to Carlyle on the scheme, as they did on other aspects of the company's future business, the Department did not view this as a "negotiation". The scheme was proposed by Carlyle and its predicted financial impact, based on assumptions about the company's likely growth rate, was modelled by the Government's advisers before it was finally accepted by the Government.

29. Overall, the Government considers that it would be difficult for bidders to propose a share scheme without having discussed the issue with management. The Government believes that on balance it is preferable for these discussions to be held before a preferred bidder is appointed as this allows the merits of the different schemes to be a factor in the bid assessment process.

PAC Conclusion (8): Sir John Chisholm, the then chief executive, was allowed to propose the allocation of shares to senior QinetiQ management without the oversight of the remuneration committee. The Combined Code on Corporate Governance, which QinetiQ committed to follow, prohibits directors from being involved in deciding their own remuneration. Departments should ensure that directors in any company to be privatised are not able to propose their own incentives without independent oversight.

30. Whilst QinetiQ's Executive Directors gave their views on the allocation of shares to senior management, they were not ultimately part of the decision-making process. The final decisions on the scheme rested with the Department and The Carlyle Group. It would not have been appropriate for the remuneration committee to be involved in approving the allocation of shares as the committee had no formal remit to advise on the proposed management incentive scheme. This was because it was a committee of QinetiQ Group, wholly owned by the Department, and, under the deal agreed with Carlyle, a new jointly owned company, QinetiQ Holdings, would be formed.

31. The Government agrees that decisions over incentive proposals for any company to be privatised should be independent of the company's management chain. However, it believes that it would not be desirable to prevent those who know the business best from expressing their opinions during the process.

PAC Conclusion (9): In relying on Carlyle to develop the management incentive scheme the Department failed to protect its interests. The resulting scheme gave management returns far in excess of what was necessary to incentivise them. Specialist advice could have explored ways of limiting returns to management, for example capping returns or stripping out the impact of favourable market movements on the growth in value of the company. Departments should seek appropriate advice on restricting returns under incentive schemes.

32. The Government agrees that specialist advice should be sought on the design of incentive schemes. However, the Department believed that such expertise was a key part of the contribution that would be brought by its strategic partner, The Carlyle Group. Carlyle is a private global investment firm and as such they are experts in incentivising management teams to grow the value of the businesses they invest in. The scheme was structured so that the shares awarded to management were drawn pro-rata from the holdings of the Department and Carlyle, so bath parties had a common interest in seeking to ensure that the scheme did not allocate more shares than were necessary to meet the objectives of maximising the growth in QinetiQ's equity in advance of the stock market flotation.

33. In their report on the QinetiQ privatisation, the National Audit Office notes that capping incentives can diminish the attraction of the deal to potential investors. This is because they potentially remove any incentive for management to grow value beyond the level at which the scheme has been capped. In the Government's view this could have reduced the potential return to the taxpayer who owned the majority of QinetiQ's shares before the flotation. After the flotation, the Government's stake was reduced to 19 per cent consequently the taxpayer received a smaller share of any subsequent growth.

34. In principle it is possible to strip out market movements from calculations of any return. However, if they are to be a fair reflection of management performance such schemes typically have to insulate management from the effects of declines as well as improvement in the market. Potentially this could have created a situation under which senior managers were rewarded even if the value of the company had declined. In addition, such schemes tend to be used for established companies with a readily identifiable peer group, whose market performance is clearly discernable. QinetiQ was a unique and newly formed business, which was being prepared for a stock market flotation.

35. The main reason for the very high returns to management was the greater than expected growth in the value of QinetiQ's equity between the sale to Carlyle in 2003 and the stock market flotation in 2006 rather than the structure of the scheme itself.

PAC Conclusion (10): The Department allowed QinetiQ to reimburse Carlyle's bid costs without validating them. It is well precedented for the acquired company to refund the successful bidder's costs in private equity transactions where the whole business is sold, but in this case the Department retained a majority of the shares, and it had also made clear to all bidders that such costs would not be reimbursed. The Department should require bidders to meet costs which are their responsibility; and where they are not, it should validate costs before meeting them.

36. The Department made it clear during the competitive stage of the process that bidders should not assume that their costs should be reimbursed, and this was indeed the case for the losing bidders. However, both Carlyle and Permira's submitted final bids that were based on an assumption that their bid costs would be repaid if they were successful. The calculation of the proceeds to the Government was dependent on this assumption, and if the Department had disallowed bid costs then the overall value of the bid would have been reduced accordingly. The Department did not validate the costs as they were borne by QinetiQ rather than the Department.

37. Throughout the process, Carlyle had an incentive to minimise costs as they would have been liable for them if they had failed to reach a negotiated deal with the Department. In addition, as a shareholder in QinetiQ, Carlyle had an incentive to avoid unnecessary costs as any payments made by QinetiQ would have affected the value of their stake.

38. The Government agrees that it is best practice to put in place a mechanism to ensure that such costs are properly validated. However, it feels Departments should have the flexibility to pay bid costs, if they feel that this will provide better overall value for money, for example to avoid having to give warranties to purchasers by requiring them to carry out a detailed risk analysis.

PAC Conclusion (11): The Department could have received £90 million more than it did from the privatisation. It sold Carlyle 2.5 per cent more of QinetiQ than they had asked for in their bid, allowed management to influence the design of their own incentives to the detriment of the taxpayer and did not consider excluding the impact of the improvement in the general market from the returns management received.

39. The Government disagrees with the Committee's conclusion. The Government has not previously commented on the basis for this analysis, as it was carried out after the publication of the NAO's report. The Government feels that the analysis does not reflect the potential for changes in one area to have had an adverse impact on the value of other parts of the sale. For example, although with hindsight, the value of the incentive scheme is now known, it could not have been known at the time of the sale. Changes in the scheme's design could have reduced the incentive to maximise growth before flotation, potentially reducing the value of the taxpayer's stake in the company.

40. The agreement to sell an additional 2.5 per cent of equity to Carlyle cannot be considered in isolation from the rest of the deal. This decision was part of a larger negotiated package of changes agreed in November 2002. At this point, Carlyle presented evidence that changes to the LTPA and other factors had reduced the value of QinetiQ by £50 million and that the proceeds from the sale should be reduced proportionately. As indicated in the NAO's report, the Department sought advice on the proposed reduction from its UBS Warburg. They advised that there had been a decline in value and recommended that the Department seek to reach the best commercial deal possible with Carlyle in the circumstances.

41. The Department eventually agreed a reduction of £30 million in the value of QinetiQ and in addition agreed to sell an additional 2.5 per cent of equity in order to maintain the size of the deal. Before signing the revised deal in December 2002, UBS Warburg advised that these negotiated adjustments did not materially affect the basis on which Carlyle had been selected and that other bidders would have been likely to seek similar adjustments. Neither the Government nor UBS Warburg believes that greater proceeds could have been achieved in this negotiation.

42. Thus, the Government considers that there is no evidence to support the view that an additional £90 million could have been raised in the sale to Carlyle in 2002.

PAC Conclusion (12): The Department successfully ensured that the taxpayer benefited from the growth in the value of the business by initially selling only a minority of shares, in recognition that it was unlikely to maximise proceeds in the prevailing market conditions. This approach was in line with earlier recommendations from this Committee. The strategy of bringing in a strategic partner to develop the business in advance of a flotation had some benefits and Departments should consider repeating this in future privatisations.

43. The Government agrees and welcomes the Committee's conclusions that its strategy of carrying out the sale in two phases was successful in ensuring that the taxpayer benefited from the growth before flotation. It also welcomes the recognition that the introduction of a strategic partner was beneficial. The Government believes that this was the correct approach to maximising the value of QinetiQ, which as a newly formed and unique business was particularly difficult to value.

44. The Government accepts the PAC's conclusion that the strategy of bringing in a strategic partner to help grow the value of a business in advance of a flotation should be considered in future privatisations.

Twenty Fifth Report

Home Office

The cancellation of Bicester Accommodation Centre

1. The Home Office and the UK Border Agency welcome this report by the Public Accounts Committee in which it examined the cancellation of Bicester Accommodation Centre in June 2005. The Committee acknowledged that this was an innovative pilot project which formed part of a wider Home Office initiative to cope with rising numbers of asylum applications in 2000-02 by speeding up the processing of asylum claims and reducing the social tensions and the risk of fraud inherent in the way that asylum seekers were dispersed around the United Kingdom.

PAC Conclusion (1): The £29 million spent on the Bicester accommodation project did not deliver any benefit to the taxpayer or advance the development of asylum policy. From the outset, the benefits forecast for the project never outweighed the expected costs. The Department signed the main contract before obtaining detailed planning permission, and should have managed its consultants more effectively. It planned and granted the contract without considering the need for an exit strategy. The Home Office did not seek to gain the confidence of the local community even though it was aware of the strength of feeling locally.

PAC Conclusion (4): Not all of the benefits included in the Bicester cost benefit analysis were true savings or "cashable", increasing the likelihood that the net cost would be greater than the £39 million forecast in the business case. The Home Office should have followed the Treasury's Green Book on investment appraisal which sets out detailed guidance for the economic assessment of the social costs and benefits of all new policies, projects and programmes. The Green Book, which all Departments should follow, recommends that all spending proposals should be accompanied by a proportionate and well-structured business case.

2. The accommodation centre programme, of which Bicester Accommodation Centre was a part, was one of a set of measures to deal with the rapid increase in numbers of asylum applications. Other measures included increased removals and the streamlining of appeals to minimise delay and cut down barriers to removal. From the start, the Bicester Centre was an innovative project, aimed at testing out a new approach. It was always the case that the cost of this initial project would be higher than subsequent ones, given that it was testing out the concept. However, costs rose because of the delays due to the opposition of the planning application and subsequent legal challenges.

3. With hindsight, it is evident that this project was not needed because asylum applications, excluding dependants, in 2005 were less than a third of the levels they were in 2002 (25,710 compared to 84,130). However, at the time, in the context of a dynamic external and policy situation, this was not apparent which is why the decision to go ahead with the centre was taken. The Home Office believes that the project was properly appraised and evaluated in the course of its life, not least through the Gateway process. The Home Office has consistently improved project appraisal and programme management since 2005. The lessons highlighted in the Committee's report have been learned and the recommendations have fed into improved processes and practices.

4. Economists are now part of the team supporting the Home Office Group Investment Board (GIB), providing guidance to the project teams on economic assessment and advice to GIB on the robustness of economic cases. This includes advice on the quantification of social benefits in financial terms. Where true social benefits have been identified, but cannot be quantified in financial terms, every effort is made to provide some quantification so that achievement of benefits can be measured. In addition, the business case is required to make a clear argument that the non-quantified benefits justify the net costs of the project as measured in financial terms.

5. Home Office programme and project guidance now requires the production of sound business cases for all major investment proposals as set out in the Green Book. Compliance with Green Book requirements is ensured by the business cases being reviewed at each major update by subject area experts. For example, the Financial Case is reviewed by Management Accountants and Financial Policy Analysts. Any divergence from Green Book principles is brought to the attention of business case teams for rectification.

PAC Conclusion (2): The business case for the Bicester Centre did not recognize explicitly the inherent risk of planning delay, nor the changes to the asylum system and external events, on the potential cost and delivery of the project. The business case for innovative or controversial projects should be explicit about the risks facing the project and how they are to be managed. They should also be based on realistic assumptions about likely costs and realisable benefits, and include ongoing consideration of whether the proposal continues to offer value for money. If the value for money of a project relies on unquantifiable benefits, this should be made clear to the Accounting Officer, together with the financial implications of cancelling the project at key stages in its development.

6. The Home Office accepts that it needed to increase scrutiny of project business cases. Bicester Accommodation Centre was one of the first projects considered by the Group Investment Board (GIB). GIB is a sub-Board of the Home Office Board which was set up to provide strategic leadership for the planning and management of Home Office investment, and approve major project investment decisions. GIB is now firmly embedded as part of the operating model of the Home Office, and the investment appraisal and approval process has been refined in the light of experience.

7. GIB scrutinises and challenges the assumptions on which cases are based, requiring sensitivity analysis to be completed to inform decisions. The GIB process now includes provision for any case with a negative Net Present Value where justification relies on benefits, which cannot be quantified in financial terms to be referred to the Accounting Officer for consideration and approval. GIB will first satisfy itself that all other aspects of the case are in order, and that all quantification possible, in financial, or if that is not possible non-financial, terms has been completed.

8. At the time of the production of the Bicester Accommodation Centre business case, the predecessor of the UK Border Agency did not have an investment approvals body in place. Since April 2004, the Joint Approvals Committee (JAC) has been in operation within the Agency. The JAC considers all investments with whole life costs up to £40 million. For those investments over £40 million, the JAC review and approve the case to proceed to the GIB. The Agency is continually seeking ways to ensure

that the JAC process provides the necessary challenge. One initiative being taken forward is an initiation stage, which all proposals will be required to go through and pass before they can produce a business case. This will provide UK Border Agency with early sight of innovative or controversial projects and put in place the necessary controls / support much earlier into the projects lifecycle.

9. The Home Office has gained experience in handling controversial applications. Relevant business cases are now sensitivity tested for delays, planning risks and other potential cost pressures, and public consultation is embedded in normal practice. The Gateway process helps ensure risk is properly managed.

10. The Department has developed a training course for Senior Responsible Owners (SROs), which emphasises the SRO's responsibility to ensure continuing Value for Money of their project and to continuously assess the impact on the business case of any changes in the environment.

PAC Conclusion (3): In planning this innovative project, the cost benefit analyses were not subjected to close and ongoing scrutiny by the Home Office's Group Investment Board to assess whether the nature and timing of the anticipated benefits were realistic. Such scrutiny was particularly important given there were other policy developments in hand, which impacted upon the need for the scheme. The Home Office should have assigned responsibility for co-ordination of asylum policy at a sufficiently senior level to avoid 'silo working'.

11. The Home Office accepts that there was a need for better coordination of policy and closer scrutiny of major projects. At the time of the Bicester Accommodation Centre project, the Group Investment Board was newly established and only considered the project in its later stages, when the project was already close to award of contract. GIB now routinely considers projects on at least four occasions:

- at an early stage when a business case is first available;
- before any procurement action starts;
- before award of contract; and
- after implementation to consider a report on benefits achieved.

12. The GIB has now been in operation for five years and the JAC for four years. Both have learnt lessons and undertaken internal reviews of their processes. Cost benefit analysis is a requirement for all cases. All projects subject to GIB approval also have to provide monthly reports on progress and status, which are analysed by the Department's Programme and Project Management Centre of Excellence, which submits a monthly report to the Home Office Board.

13. As a result of the re-organisation that took place following the creation of the UK Border Agency in April 2008, the Deputy Chief Executive now leads a new Policy and Strategy Group including a Strategy Team tasked with setting the Agency's long-term strategic direction. Individual policy development units embedded within the main business areas have also been re-configured. Asylum policy is dealt with within a new Immigration Policy unit, led at Senior Civil Service level, which brings together policy on asylum, managed migration and enforcement.

PAC Conclusion (5): More than £6 million was spent on consultants but the Home Office could not demonstrate that they had added value in helping the Department mitigate risks to delivery of the project. The Home Office should review its procedures on the appointment and use of consultants and, in particular, should take heed of this Committee's 31st Report of Session 2006-07, *Central Government's use of consultants*.

14. The Home Office accepts that it has learnt a number of lessons out of the external engagement. These have been directly fed in to the Consultancy and Contingent Labour (CCL) programme mentioned below. The Bicester Accommodation Centre project required the input of a range of specialists, to design, cost, prepare and submit a series of planning applications for large and complex schemes, and to see those proposals through a series of planning and judicial hurdles. For a project of this scale, these are areas which typically requiring external expertise.

15. The Home Office recognises the need to derive value for money from the use of consultancy services. The Department has been operating a Consultancy and Contingent Labour (CCL) Programme, since the summer of 2007. Under this programme, and in light of the recommendations made in the Report on *Central Government's use of consultants*, the Home Office has developed a new set of consultancy and professional services policies and procedures. This work was undertaken in collaboration with the OGC's Consultancy Value Programme (CVP). The programme takes full account of the OGC's work on strengthening business cases for consultancy assignments, and establishes new approval levels and procedures, and new assignment review and feedback provisions, for the use of such services, with the CVP acknowledging the Home Office's leading position in developments in this area.

16. The CCL Programme has brought greater departmental focus to bear on the use of consultants. The Home Office's expenditure on consultancy was some 36 percent lower in 2007-08 than it had been in 2006-07. The initiation stage shortly to be launched for all projects across the UK Border Agency will require projects to outline internal and external staff demands and the costs associated with this. The requirement for resources will be reviewed at each approvals stage. A Home Office Programme and Project Management Flexible Resource pool was launched in January 2008 from which projects can draw specialist PPM staff.

PAC Conclusion (6): The Home Office and the Border and Immigration Agency failed to develop effective contact with the local community and other interested parties, including local MPs. When compiling the business case for an innovative or sensitive project, the Department should consult with interest groups and other stakeholders and reflect their views in the business case.

PAC Conclusion (7): The Home Office did not have a strategy for dealing with public opposition to controversial projects. When seeking planning permission for controversial projects, the Home Office and the Border and Immigration Agency should model costs under a wider range of scenarios and learn from the experiences of colleagues in planning the location of new probation and drug treatment hostels.

17. Stakeholder engagement events, including public exhibitions of plans, were staged. However, it was clear that opposition to the scheme would extend to a public planning inquiry. This was anticipated by the project, but further delays caused by legal challenges to the decision to grant outline planning permission were not fully anticipated. The Committee's recommendations regarding stakeholder engagement are accepted and amplify some of the findings of the 2006 'IND Review', which identified the need to improve engagement with stakeholders.

18. The arrangements the UK Border Agency has since made at both the regional and the national level reflect the importance it places upon ensuring effective engagement with stakeholders in carrying out its work. At the national level, in August 2007, the Agency established the National Migration Group to promote dialogue on policy and operational issues including the impact of migration on local communities, businesses and the delivery of local services. The Agency also appointed Regional Directors who are responsible for developing effective stakeholder engagement locally. To underpin these developments the UK Border Agency established a small team to coordinate stakeholder initiatives nationally; to support regional stakeholder activities; and to help strengthen the organisation's capacity and skill in establishing and maintaining good relationships with its stakeholders.

19. The Agency acknowledges the need to take special care over sensitive projects and proposals using its established channels of stakeholder engagement. Where local impacts occur, the Agency uses Regional Directors' experience and contacts when consulting interested parties. The Agency also funds Regional Strategic Migration Partnerships (RSMPs) across the UK to help with such projects. The RSMPs are multi-agency regional fora, which come together on a quarterly basis to consider the impacts of migration.

20. Over the past three years the Agency has successfully procured accommodation for asylum seekers, taking local impacts and concerns into account.

21. For large-scale immigration removal centre projects, including new centres, the Agency now routinely makes use of the Ministry of Justice Custodial Property Group and its advisers for the supervision of its programmes. In particular, this means taking advantage of the programme management and procurement framework systems used by MoJ for major prison-building projects, including new prisons, and exploiting the knowledge and experience of the Prison Service for the benefit of the secure Immigration estate.

PAC Conclusion (8): Some 30 months after the cancellation of the Bicester Centre, the Home Office has yet to inform the local community of its future intentions for the site. The Home Office should come to a decision on the future use of the Bicester site to end the uncertainty for local people.

22. Since cancelling the Accommodation Centres project in 2005, the UK Border Agency has moved ahead with other secure Removal Centre projects at Gatwick and Heathrow, which are naturally a strong fit with the business. Following the development of those sites, the Agency is now in a position to look to move ahead with a planning application for the land owned at the site near Bicester (Site A).

23. The UK Border Agency fully accepts that local people deserve to know the future of the site as soon as possible and announced on 19 May 2008 its intention to progress a design for a new purpose-built secure Immigration Removals Centre on Site A, with a view to submitting a planning application to Cherwell District Council later this year. The Agency will do so in parallel with a similar application for a secure centre on the vacant plot adjacent to the existing Yarl's Wood Removals Centre in Bedfordshire. The Agency will proceed with one centre.

24. In the meantime, the Agency has engaged with the local MPs, planning officers, parish councillors, and local people, and will continue to do so as plans develop and the application is submitted. A stakeholder manager has been appointed by the Agency to ensure that all interested parties are kept fully informed of events.

Twenty Sixth Report

Department of Health (DH)

Caring for vulnerable babies: the reorganisation of neonatal services in England

1. The Department of Health (the Department) welcomes this report by the Public Accounts Committee, which examined the progress made in reorganising neonatal services in England since the Department's 2003 report *Neonatal Intensive Care Review: Strategy for Improvement*. The Department accepts the Committee's conclusion that demand for neonatal services has risen year on year and there are still challenges in meeting this increased demand. The Department also recognises the need to improve data on patient outcomes.

2. The Department is pleased the Committee has recognised there is widespread support for neonatal services being delivered through clinical networks, which have helped improve communication and co-ordination between units. Networks have also made progress in reducing the number of times babies have to be transferred long distances to obtain the necessary level of care. However, the Department recognises that networks have developed at different rates and further progress is required on the re-designation of units to ensure the supply of intensive, intermediate and special care matches demand.

PAC Conclusion (1): The decision to establish a Neonatal Task Force is an important development, with the potential to improve the care for vulnerable babies. The Department should set the Task Force clear objectives and associated milestones for improving services, and monitor achievements against these milestones to ensure delivery of the objectives by the end of 2008-09.

3. The Department welcomes the Committee's conclusion that the establishment of a Neonatal Task Force is an important development with the potential to improve care for vulnerable babies. The overall aim of the Task Force is to ensure that neonatal care is delivered to newborns and their families at the right time, in the right place and by staff with the most appropriate skills.

4. The Department accepts the Committee's recommendation, and will set the Task Force clear objectives and milestones. The intention is that the Taskforce will complete its work programme by November 2009, having set out its proposals for improving services and proposals for monitoring achievements to ensure delivery of the objectives.

PAC Conclusion (2): The reorganisation of neonatal services into clinical networks has had limited impact in reducing geographic variations in mortality rates. Prematurity and illness in newborn babies are associated with a complex range of factors, including social deprivation, ethnicity and maternal age. Primary Care Trusts need to improve their understanding of the changing demographics of their local population and model the impact on demand for neonatal services to target intervention and prevention strategies on key high-risk groups.

5. The Department accepts the Committee's conclusion that the reorganisation of neonatal services into clinical networks has had limited impact to date in reducing geographic variations in mortality rates. It is important Primary Care Trusts (PCTs) improve their understanding of the changing demographics of their local population and model the impact on demand for neonatal services. This should be undertaken, as part of the local strategic needs assessment and capacity planning process.

6. The Department's framework document, *Maternity Matters: Choice, access and continuity of care in a safe service*, published in 2007, sets out the strategy for modernised maternity services, placing safety, quality and improving standards of care at the heart of its vision. It promotes the provision of coordinated maternity and neonatal care delivered through networks. This will ensure all women and their babies have equitable access to the whole range of specialist services where necessary.

7. *Maternity Matters* recognises that for the best health outcomes, it is important women access maternity care at an early stage. The Department has developed a maternity indicator to increase the proportion of women who access maternity services by 12 completed weeks of pregnancy for a health and social care assessment of needs, risk and choices. This will enable women from high-risk groups to be identified at an early stage and an individualised care plan developed.

8. The Department also published in December 2007 the *Implementation Plan for Reducing Health Inequalities in Infant Mortality*. This plan featured key interventions to help reduce the infant mortality rate between disadvantaged groups and the whole of the population and provided examples of good practice to help narrow the infant mortality gap – one of the aims of the 2010 national health inequalities target. *Health Inequalities: Progress and Next Steps* (published June 2008) includes a commitment to establish a health inequalities infant mortality national support team to help deliver the recommendations of the plan.

PAC Conclusion (3): Whilst three-quarters of neonatal units have reviewed the types and intensity of care a unit should be able to provide safely, the resultant re-designation has yet to be implemented in full. All networks should work with their relevant Primary Care Trusts to use the information from local strategic needs assessment to inform the designation of neonatal units, taking into account the standards recommended by the relevant professional groups. Primary Care Trusts should base their commissioning of neonatal services on units being able to demonstrate that they have the right levels of suitably qualified and experienced staff to provide the designated levels of care.

9. The Department accepts the Committee's conclusion that the re-designation of neonatal units has yet to be implemented in full. In line with the recommendations of the Review of Commissioning Arrangements for Specialised Services, published in May 2006, Specialised Commissioning Groups (SCGs) are planning to designate their local providers of specialised Level 2 and Level 3 neonatal care. The nominated lead SCG is supporting the designation process by providing leadership and support as well as model documentation. SCG's will aim to complete the designation process in 2010-11.

10. It is important that PCTs and Specialised Commissioning Groups base their commissioning of neonatal services on units being able to demonstrate that they have the right levels of suitably qualified and experienced staff to provide the designated levels of care. To assist in this process, the Task Force will develop quality standards for a comprehensive workforce. It will also develop a toolkit for use by all those commissioning neonatal services by Autumn 2009.

PAC Conclusion (4): There are currently no formal arrangements for performance managing neonatal networks. In return for continued funding of networks, Strategic Health Authorities should agree a set of performance measures and review networks' performance against these objectives. Strategic Health Authorities should also require the two areas without a formal managed network to establish them as a priority.

11. The Department accepts the Committee's recommendation that in return for continued funding of networks, Strategic Health Authorities (SHAs) should agree a set of performance measures and review networks' performance against these objectives. To assist in this local process, the Taskforce will develop a suite of quality standards by Autumn 2009, which can be used locally to create indicators covering quality, efficiency and capability, and which allow trusts and commissioners to agree and review achievement against these indicators.

12. The Department is working with the NHS to ensure that both Northern region and Essex are covered by formal managed networks. The Northern Network is currently working to formalise its board, while in Essex a review has been established to assess the options for the future network arrangements. Its recommendations will go out to public consultation in October 2008 with implementation in the 2009-10 commissioning cycle.

PAC Conclusion (5): There are wide variations and mismatches in costs and charges between neonatal units for the different levels of care provided, and units' understanding of costs is generally poor. Improving understanding of costs drivers is essential if the Department's plan to introduce a Payment by Results tariff is to be effective. In setting tariffs for neonatal care, the Department should ensure that the full costs, including the costs of meeting professional staffing standards and providing transport services, are taken into account.

13. The Department accepts the Committee's conclusion that there are wide variations in costs and charges between the different units and believes that understanding of costs is inconsistent across the service.

14. The Department will be using reference costs to get the information it needs and will be issuing costing methodology guidance this year to aid the NHS in producing their 2008-09 reference costs, for return to the Department in Summer 2009. This collection will be used to inform the national tariff development.

15. The NHS has been informed it needs to collect the minimum dataset (ie, it is mandated or mandatory for collection) from 1 April 2008. Healthcare Resource Groups (HRGs) have been developed and are in place for use from 1 April 2008, in line with the minimum dataset. The quality of information received (activity and costs) will determine whether and when a national tariff could be implemented.

PAC Conclusion (6): There are serious shortages in the numbers of neonatal nurses with an average of nearly three vacancies per unit for nurses qualified in neonatal care. Strategic Health Authorities and the new Neonatal Task Force should develop a national action plan to address neonatal nurse shortages, including developing recruitment and retention initiatives based on good practice. In the meantime, Strategic Health Authorities should increase the number of neonatal training courses.

16. The Department accepts the Committee's conclusion that there is a shortage of neonatal nurses.

17. The taskforce has a working group concentrating on workforce issues. One of the objectives of the group will be to develop targeted action plans to assist local decision making, in addressing the neonatal nursing shortages, incorporating skill mix, staffing levels, recruitment, retention and commissioning of education and training to support an appropriately skilled workforce by Autumn 2009.

PAC Conclusion (7): Only half of networks provide specialist neonatal transport services 24 hours a day, seven days a week. Some 73 per cent of units experienced delays in transporting babies and 44 per cent believed that care had been compromised as a result. Strategic Health Authorities working with networks need to develop local partnering arrangements so that neonatal units have 24-hour access to appropriately staffed transport services.

18. The Department accepts the Committee's conclusion that only half of the networks provide specialist neonatal transport 24 hours per day, seven days a week.

19. All networks have access to some form of transport for transfer of neonates but the taskforce's working group on transport will consider all of the options for providing access to 24 hour transport services. These will be outlined in some quality standards for transfer available by Autumn 2009.

PAC Conclusion (8): On average, in 2006-07, each neonatal unit had to close to new admissions once a week due to a lack of baby cots. A third of neonatal units operated above the recommended occupancy rates of 70 per cent and three units operated above 100 per cent. High occupancy rates could have major implications for patient safety due to increased risk of infection or inadequate staffing levels. The functionality of the National Cot Locator needs to be improved so that it identifies occupancy levels in order to meet the needs of networks and units wishing to transfer babies.

20. The Department accepts the Committee's conclusion that during 2006-07 each unit had to close, on average, once a week to new admissions and that a number of units operated at times, above recommended occupancy rates.

21. The working group on Data for Commissioning will review the national cot locator and make recommendations for its future by Spring 2009.

22. The Department will assist the networks, commissioners and SHAs to work together to ensure there is sufficient neonatal capacity to meet the continually rising number of births and complex births within their local area.

Twenty Seventh Report

Department for International Development (DFID)

Department for International Development: providing budget support to developing countries

1. The Department for International Development (DFID – the Department) welcomes this report by the Public Accounts Committee, which examined DFID's use of poverty reduction budget support (PRBS). Based on the application of clear criteria, DFID uses budget support to help developing countries manage their economies and public finances and to deliver benefits for poor people, including health, education and water. DFID always uses budget support alongside other ways of delivering aid. Where the conditions are not right, DFID does not use budget support and currently provides budget support in only 15 countries.

2. Independent evaluations have shown that budget support has enabled partner governments to spend more on priority areas, to provide more services, particularly in health and education, to increase their capacity, to strengthen their financial management systems, and it has reinforced existing economic stability and good economic management and facilitated donor alignment with partner government plans. The Department is pleased that the Committee has recognised the benefits delivered by budget support. The Department constantly reviews its practice and works with others to continually improve this and agrees with the Committee that more can be done in some areas to further improve the management of budget support. The Department has already taken steps to ensure this.

PAC Conclusion (1): Budget support has delivered some direct benefits over the 10 years that DFID has provided it, particularly in increasing service delivery, but these benefits have not been quantified. DFID should work with other donors and recipient governments to:

- **collect systematic data on the financial inputs to developing country budgets, and make sure that definitions of sectors, regions and activities are applied consistently;**
- **improve the scope, frequency and reliability of data available on developing government activity, outputs and outcomes; and**
- **commission evaluations of the impact of budget support on growth and on reducing poverty.**

3. The Department does not accept that the benefits of budget support have not been quantified. Benefits have been demonstrated in many areas and quantified in some, for example changes in partner government expenditure, services delivered, and measures of public financial management systems. However, quantification of some types of benefits is challenging and so the Department is already working closely with other donors and partner governments to address weaknesses in the availability and collation of data.

4. The Department is an active participant in the Development Assistance Committee (DAC) Working Party on Statistics – the main forum for the development of improved information on donor aid flows – and already provides data in accordance with both

the DAC Statistical Reporting Directives and Creditor Reporting System Directives (CRS), both of which are well-established standards for the provision of detailed, harmonised information. This information allows better comparison of donor aid flows by, for example, sector and region. The Working Party recently agreed a new classification of aid to apply to reporting of 2010 flows, which should lead to significant improvements in the consistency of donor aid flow information.

5. The Department has already prioritised the need to further enhance data on budget support in Sub-Saharan Africa. Since 2003, the Department has financed, for the Strategic Partnership with Africa, an annual survey of budget support, which collects information from all budget support donors and from recipient African Governments.

6. The Department will encourage all donors to comply with commitments made at the Accra High Level Forum on Aid Effectiveness in September 2008 on disclosure of aid information. The UK also led the development of the International Aid Transparency Initiative (IATI), launched by 14 donors in Accra. The IATI commits donors to work together with partner country governments, civil society and other users of aid information to agree, by end 2009, an accessible common format to share information about aid.

7. The Department is working alongside partner governments and other donors to support the development and implementation of national strategies for improving statistics systems. The Department has also provided funds and technical support for the development of international good practice guidelines for the use of these systems. In all countries where the Department provides budget support, support to public financial management reform is also provided. Such support typically helps governments strengthen financial reporting, including better budget and expenditure monitoring.

8. The Department has worked as part of the international effort to carry out independent evaluation of budget support. The Department managed and invested in the largest ever multi-donor study of the instrument, which reported in 2006[1]. This OECD–DAC study, looked at the effects of $4 billion of budget support in seven countries over a five-year period, and the experiences of 24 partners fed into the work. This was widely regarded by the international development community as an authoritative piece of work. It has been complemented by independent evaluations of budget support at country level, which the Department has funded, including in Tanzania and Ghana.

9. The multi-donor study looked at how well the instrument was working. It found, among other things, that budget support was supporting expansion of basic services in health and education, and in strengthening systems. It concluded that it was not possible to assess whether or not there had been any direct impacts on growth as it was too early to expect effects to come through. Furthermore, new methods would be required to deal with issues of attribution given the many different factors that drive growth.

10. The European Commission, with support from DFID, is now actively exploring a further evaluation of budget support. This work is tackling the methodological issues although these are challenging. The evaluation is expected to focus on assessing the contribution of budget support to income growth, where this can be linked to implementation of partner government policy.

[1] Joint Evaluation of General Budget Support, Organisation for Economic Co-operation and Development – Development Assistance Committee, 2006.

PAC Conclusion (2): Performance in building the capacity of developing country governments has been mixed. While there is evidence of better policy-making and planning, there is very little evidence of improved performance in key areas such as financial management. DFID should develop more precise measures of capacity to enable it to track progress more reliably, with a greater focus on better management performance, as opposed to new legislation or better central guidance on management practices and on reducing poverty.

11. The Department does not accept that there is very little evidence of better financial management in countries where the Department provides budget support. Independent evaluations show that public financial management has strengthened in Ghana, Rwanda, Mozambique, Tanzania, Uganda and Vietnam. Results from the 2008 Paris Monitoring Survey also show that progress in strengthening public financial management systems has been achieved, with 32 per cent of the countries who participated in the survey recording an improved score.

12. The Department agrees that measuring and tracking the performance of public financial management systems is fundamental to its work. The Department considers that the current tool it uses for measuring and monitoring performance in financial management – the Public Expenditure and Financial Accountability (PEFA) framework – is effective. The Framework, developed by the PEFA partners including DFID, and endorsed by the OECD DAC Joint Venture on Public Financial Management, comprises a performance report supported by a set of 28 high-level performance indicators, plus three indicators on donor performance. The Department considers the PEFA framework to be a sound tool for measuring and monitoring performance, and DFID operational guidance recommends it as the starting point for country offices to understand public financial management systems and inform their fiduciary risk assessments.

13. The PEFA Performance Measurement Framework has been applied in over 60 countries to provide the basis for understanding the public financial management system. Country coverage is particularly high in sub-Saharan Africa and in the Caribbean with more than 80 per cent of countries having implemented PEFA based assessments. PEFA recommends that repeat assessments be carried out every three to five years to allow sufficient time for reforms to take effect. As PEFA assessments were carried out in 17 countries during 2005-06 (the first year in which the framework was launched). DFID expects data from repeat PEFA assessments for a selection of these countries to be available towards the end of 2008-09, enabling performance through time to be accurately measured and trends identified.

14. Over the next three years, the Department expects data for repeat PEFA assessments in around 60 countries to become available. Initial evidence compiled by comparing current PEFA indicators to similar indicators prepared under the Heavily Indebted Poor Countries (HIPC) initiative shows an improvement in PFM systems in seven out of 15 countries during the period 2004-06.

PAC Conclusion (3): DFID has not established the effectiveness of budget support relative to other types of aid, or been able to conclude whether, as currently implemented, it represents value for money. DFID should test the cost-effectiveness of budget support proposals against credible options. DFID's new Investment Committee should establish the standards of analysis required before programmes can be proposed, and police those standards. DFID should also make sure that programme evaluations address budget support cost-effectiveness.

15. DFID disagrees that the effectiveness of Budget Support, relative to other types of aid, has not been established. There is good evidence from independent evaluations that budget support has been shown to be more successful than other forms of aid at achieving certain effects in particular circumstances, and of the wider benefits of budget support: that it strengthens partner government systems, increases service delivery, for example in health and education, and improves the way governments use all their resources. Independent evaluations have also found that budget support improves the effectiveness of other forms of aid through its positive effects on donor harmonisation and efficiency of all partner government spending.

16. The Department agrees that its Investment Committee has a central role to play in defining the standards of cost effectiveness analysis required for all programmes and it is already performing this role. The Investment Committee's remit includes ensuring DFID's investment appraisal procedures and practices are fit for purpose and championing the use of evidence and quantification of outputs. The Investment Committee has already reinforced the requirement for quantitative results targets and strengthened cost-effectiveness analysis in appraisals.

17. The Department's Country Plans set out the overall strategy for delivering aid programmes in specific countries. Updated country planning guidance requires country teams to make explicit comparison of credible programming options, including the question of the most effective choice and mix of aid instruments. Subsequent submissions for specific budget support proposals should also include a comparison of the benefits of different design options of budget support and other financial aid mechanisms.

18. The Department, of course, continues to work with its international partners to further enhance the evidence base concerning budget support. The Department will consider how further independent evaluations can include evaluation of the relative cost-effectiveness of budget support and other ways of giving aid. This will require considerable work to address methodological difficulties in distinguishing the effects of different types of aid.

PAC Conclusion (4): The decision process governing which countries receive budget support is opaque. DFID have stated principles which must be met before working with government partners, and have developed useful tools to help appraise prospects for budget support and assess risks. Most budget support proposals, however, do not clearly weigh up the risks and benefits. In addition, the pattern of budget support that has arisen appears arbitrary. DFID should state the criteria that should determine a decision (including aspects such as benefits and risks), make sure there are precise assessments recorded against each criterion, and review their portfolio of budget support programmes to make sure there is some consistency of judgment.

19. The Department does not accept that the pattern of providing budget support is either opaque or arbitrary. The Department's updated PRBS policy (2008) sets out the two stages of analysis needed to make funding decisions. Firstly, a detailed assessment is made of the partner government's commitment to: reducing poverty; upholding human rights and international obligations; improving financial management; promoting good governance and transparency; and fighting corruption. Based on the evidence, the Department will decide whether or not aid should be used to support the government's own policies and strategies to reduce poverty.

20. Secondly, where clear commitment to the above criteria is identified, the Department will decide on the most effective way of delivering aid: through PRBS or other aid instruments. The policy states this requires assessment of:

- the Government's strategy, budget and capacity;
- fiduciary risk;
- political risk; and
- the expected benefits.

21. The Department has recently taken steps to further strengthen the evidence base for decisions, specifically the assessment of risks and benefits. These include:

- new guidance on assessing the expected benefits of budget support;
- revised guidance on carrying out Country Governance Analyses (CGAs); and
- updated fiduciary risk guidance.

22. A standardised Fiduciary Risk Assessment (FRA), evaluating national Public Financial Management and Accountability (PFMA), is now an integral part of the Department's country planning procedures and is mandatory where the Department is considering providing aid using partner government systems. The FRA helps determine options for aid instruments, acting as an assessment for providing budget support. As far as possible, the FRA draws on information from a country's most recent PEFA assessment, conducted against an internationally agreed and consistent set of benchmarks. The FRA also includes an evaluation of the risks of corruption, and a statement on whether there is a credible programme to improve PFMA.

23. All FRAs are subject to an independent, centralised scrutiny process by external experts, which strengthens consistency of approach across the Department and ensures that judgements presented are supported by reasonable evidence. The general case for PRBS at country level, and its validity as an aid instrument, is made in the Country Plan. The arguments made, together with the FRA and CGA, are reviewed by the Country Planning Review Committee before submission to Ministers.

PAC Conclusion (5): DFID's budget support objectives and monitoring have significant weaknesses. DFID follows defined processes to set programme objectives and monitor progress.

However, the approval of vague objectives, weaknesses in associated indicator sets and the potential for confusion between a variety of monitoring requirements militate against economic and effective programme management DFID should

- **make sure that the formal objectives for all budget support programmes reflect all the key benefits expected, are precisely stated, and are associated with clear baselines and success measures;**
- **systematically monitor progress against each of the objectives set out in a budget support programme, as well as progress in mitigating any associated key risks or partnership commitments; and**
- **streamline the indicators used for such monitoring, to maximise use of agreed, joint monitoring frameworks. Where necessary, DFID should institute arrangements to amend previously approved indicators as better sources emerge.**

24. The Department is continually working to improve its management of Budget Support programmes and has already taken a number of steps to improve its capability in this area. The Department's updated PRBS policy and associated guidance issued earlier this year requires country teams to translate expected benefits into clear objectives and to set out a logical monitoring framework, including indicators to monitor progress towards each objective, as well as thresholds to be achieved over time.

25. The Results Action Plan (January 2008) includes a broad range of actions to further strengthen monitoring and evaluation and to make better use of information. An initiative "Using Numbers in Decision Making", aimed at strengthening quantifiable evidence for project design and management, will ensure that all future project documents contain a systematic and quantitative statement of expected inputs, outputs and outcomes. Outputs and outcomes should be quantified, and there should be a clear statement of the initial position (baseline), and anticipated change.

26. The Department has also already taken steps to further improve the way it monitors changes over time in a government's commitment to the three partnership commitments. Assessment of government commitment is at the heart of our updated country planning process. Monitoring changes in government commitment is part of the regular monitoring of progress against the country plan. The Department's updated guidance on doing a Country Governance Analysis (CGA) recommends using this process to identify key indicators to monitor changes. The CGA guidance provides detailed information on data sources to assess the governance environment.

27. The Department coordinates monitoring with other donors through joint assessment frameworks that reflect the specific objectives of each budget support programme. Where improved data becomes available, this will be used.

PAC Conclusion (6): DFID assesses developing country systems but rarely attempts to quantify the impact of weaknesses in systems for risks to DFID's funds. DFID should use all available sources, including audit reports and other surveys, to estimate the likely impact of risks arising from weak financial systems.

28. The Department has taken a lead role among donors in assessing the *quality* of developing country systems and the level of fiduciary risk in using government systems. In this context, the Department has already taken steps to develop and use a variety of tools to better quantify the impact of any weaknesses in government systems. The Department's updated fiduciary risk assessment guidance, issued in January 2008, instructs Country Offices to consider the possible financial impact of weaknesses in public financial management systems when completing their fiduciary risk assessment. The guidance calls for consideration of how weaknesses identified by the PEFA evaluation could translate into leakage or inefficiency in the use of funds. The tools to do so will include: analyses of national audit reports, partner government Public Accounts Committee reports, public expenditure tracking surveys, procurement reviews, and other donor and civil society reports.

29. The Department has also commissioned work from external experts to help further improve the FRA guidance, including a desk study on the evidence available for quantifying risks in Malawi. Early conclusions from this study demonstrate the difficulty in predicting levels of wastage, inefficiency or losses reliably. The Department will continue to work with external experts to improve guidance in this area.

PAC Conclusion (7): DFID provides budget support expenditure in countries where expenditure and output data are so weak that it cannot monitor progress effectively. DFID provides more assistance than other bilateral donors to improve developing country's national statistics. But it remains DFID's responsibility to ensure that it can obtain sufficient monitoring information to satisfy Parliament that funds have been spent for the purposes authorised, and that such expenditure represents value for money. DFID should make an explicit assessment of the quality of the available monitoring information when proposing or extending a budget support programme, with clear identification of how and when any gaps can be closed.

30. The Department is pleased that the Committee recognises that it provides more support to statistics than other bilateral donors. The Department continues to work with others in the international community and with partner governments to support the development and implementation of national strategies for improving statistics systems. As the Committee recognised, the Department provides funds and technical support for the development of international good practice guidelines for the use of these systems. Along with the Government of the Netherlands and the World Bank, DFID initiated a facility for some of the world's poorest countries to access loan funding for statistics capacity building, to which the Department has made a 5-year, £50 million commitment. This approach will help to align donor support for statistics and help to mobilise additional resources. The mechanism will be piloted in around six countries.

31. The Department does not accept that it is unable to monitor progress effectively given the range of monitoring tools employed to ensure progress is tracked. Performance is monitored by reviews comparing actual progress against targets

including measuring the achievement of outputs and outcomes against performance indicators. All programmes, including PRBS, with an approved commitment of £1 million or above, are reviewed and scored annually on DFID's corporate systems. Risk ratings are also included, being a Value for Money requirement in the Department's Public Service Agreement (PSA). Project Completion Reports are required for all eligible projects of £1 million and over. Heads of Department / Overseas Offices are charged with ensuring the quality and accuracy of data.

32. Data used to review PRBS will typically include information on government budgets and expenditure, data drawn from national systems, data drawn from sectoral initiatives and information on progress against specific actions in the joint monitoring framework. In many countries, additional data such as that from Public Expenditure Tracking Surveys is also used.

33. The general case for PRBS at country level, and its validity as an aid instrument, is made in the Country Plan. To inform this decision, country teams are required to provide a Statistical Annex (with a standard format to allow for comparability across DFID countries) summarising progress towards the Millennium Development Goals (MDGs) and other key indicators. As part of this, they are asked to comment on the robustness of the data in general terms and for specific indicators, and on how data quality issues are being addressed by DFID or others.

PAC Conclusion (8): Domestic institutions in developing countries are often weak and have been under funded by donors. Collaborating with other donors as appropriate, DFID should ensure that bodies such as Parliaments and audit institutions receive sufficient support to help them in such tasks as mounting an effective challenge to the ruling party and securing accountability for the use of public resources, including in countries such as Nigeria to which DFID plans to extend budget support.

34. The Department agrees that transparency and accountability are key: DFID's 2006 White Paper emphasised the need to strengthen domestic accountability in all its programmes. The Department acknowledges that strengthening domestic institutions is vital in improving transparency and accountability, including in effective budget support programmes. For this reason, over the past decade, the Department has supported over 30 Parliamentary strengthening projects. Examples of current, or recently completed, projects include: a £50 million multi-donor programme to strengthen democracy and accountability in DRC; a £12 million multi-donor "Deepening Democracy" programme in Uganda, including a £2.5 million parliamentary support component, and a £2.65 million programme to strengthen the capacity of the National Assembly in Nigeria.

35. In addition, the Department's £130 million Governance and Transparency Fund (GTF) will support 38 projects to help citizens hold their Governments to account, through strengthening the wide range of groups that can empower and support them. This includes Parliaments and audit institutions.

36. Furthermore, in April 2006, DFID and the UK National Audit Office (NAO) signed a Memorandum of Understanding (MOU) aimed at building capacity and developing best practice within the State Audit Institutions in partner countries.

37. At present, the Department has no plans to introduce budget support for Nigeria.

PAC Conclusion (9): DFID claims that budget support allows it to shape national policy but at other times claims that using leverage rarely works. DFID should assess how effective budget support really is in encouraging developing country governments to prioritise policies aimed at reducing poverty and use such assessments to reach a firm and evidenced position.

38. Independent evaluations have found that, when delivered predictably, budget support increases the government's capacity to manage policy because it creates incentives for governments to strengthen their own planning processes and to increase coherence across sectors. The Joint Evaluation of Budget Support found that budget support can support policy development through "financial empowerment, strengthening incentives within government, improving coherence and coordination among international partners, and complementary technical assistance inputs".

39. The Department's conditionality and budget support policies are based on evidence that conditionality, which attempts to buy reform from an unwilling partner has rarely worked. This is why the Department only provides budget support when the government is itself committed to poverty reduction, strengthening public financial management and upholding human rights. If the government is not committed to reducing poverty, budget support is unlikely to deliver the benefits set out above, and is unlikely to encourage developing country governments to prioritise policies aimed at reducing poverty. Budget support is only given when the evidence shows a partner government is committed to these principles. The Department accepts the need to gather further evidence about the effectiveness of budget support on shaping policies and on the prioritisation of policy actions for poverty reduction.

40. Where DFID and the partner government do share the same commitments, our funding of the government's whole budget enables us to discuss with them how their overall policies and spending can best achieve these shared objectives in their country, and how their policy and financial systems can best be strengthened.

41. DFID's updated budget support policy sets out how budget support achieves results not only through the funding provided but also the other elements of the budget support "package" including policy dialogue and technical assistance. DFID's new guidance on assessing the benefits of budget support enables DFID country offices to better identify in advance, and then monitor, the different impacts of budget support, including its impact on public policies and policy processes. This will help DFID gather more evidence about the effect of budget support on policies for poverty reduction.

PAC Conclusion (10): The financial risks of putting UK funds through weak national systems are often high. Estimates of leakage and corruption in the use of developing nations' budgets are many times higher than would be acceptable in UK domestic expenditure. Despite this, there is insufficient evidence in the public domain for Parliament to come to an informed view of the balance between risk and reward. Where it assesses financial risks to be high, DFID should disclose the scale and nature of these risks, and offer its best estimate of the levels of corruption, waste and inefficiency that may result. It should also set out its risk management plans. Such information should be available when requesting funds from the UK Parliament and when accounting for their use.

42. The Department fully adheres to the requirements of the International Development (Reporting and Transparency) Act. In addition, the Department publishes regular information about its plans, performance and use of public resources in line with Treasury requirements through regular publications, including the Estimates, Resource Accounts and Annual and Autumn Performance Reports. The Department's performance reporting includes details about the success rates of DFID's high / medium / low risk bilateral projects. Internal systems embed arrangements for recognising, managing and tracking opportunities and risks. These are reflected in the Statement on Internal Control, which is published alongside the Annual Accounts.

43. Independent evaluations have found, and the NAO report acknowledges, that the provision of funds through national budget systems has helped partner countries to strengthen their financial management systems and can also improve domestic accountability. The Department will continue to apply robust criteria to inform decisions on budget support so that it is only provided when the conditions are right. Budget support is only provided to 15 of the 120 countries receiving UK funds.

44. Fiduciary Risk Assessments (FRAs) are used to provide Ministers and senior management with a better understanding of the governance context and trends, as well as the fiduciary risk in a particular country. As described in paragraphs 26 and 27, the Department is working to improve quantification of impact in terms of possible levels of loss or wastage. Appendix 7 to the Comptroller and Auditor General's report published DFID's FRA scores for ten countries. The Department will consider how best to continue making FRA scores publicly available, for example by including them in DFID's Annual Report. Individual PEFA country assessments, which form the basis of the FRA, are published on the PEFA website providing consent is received from the partner Government. Of 92 PEFA assessments completed to date, 42 have been published on the PEFA website.

Twenty Eighth Report

Department for Culture, Media and Sport (DCMS) and Department for Business Enterprise and Regulatory Reform (BERR)

Government preparations for digital switchover

1. The Departments for Culture, Media and Sport (DCMS) and for Business, Enterprise and Regulatory Reform (BERR) welcome this report by the Public Accounts Committee in which it examined the Departments and the BBC on preparations for digital switchover, and the protection of viewers and consumers. The Departments are pleased that the report noted that the partners involved in delivering switchover are working well together to deliver this complicated programme of work and they welcome the Committee's recommendations, many of which are in the process of being implemented or have already been so. These will help to ensure that switchover continues to be a success.

PAC Conclusion (1): Take-up of digital television has exceeded the Departments' expectations and, so far, the switchover timetable is on track. The programme has benefited from strong working relationships between Government and those in the broadcasting industry responsible for its implementation. However, the programme still has four more years left to run. There are still 3.75 million households, which do not have digital television and 26 million unconverted analogue television sets. These sets will not be able to display broadcast television after switchover if they have not been converted to receive digital signals.

2. The Departments are pleased that the committee recognises that the switchover programme is "on track" and "has benefited from strong working relationships" between the partners. The number of unconverted analogue television sets is falling (to 19.5 million by the end of March 2008), as is the number of homes with no digital TV (3.3 million at the end of March 2008).

3. To reduce these figures further, there is a regional communications strategy, which has already proved successful in the first switchover project in Whitehaven/ Copeland. Digital UK prepares the ground with key local stakeholders, up to two years in advance of switchover, and the first direct consumer leaflet is delivered to viewers' homes when the precise dates on which the analogue signal will be switched off are announced (normally eight months in advance of switchover). On-screen captions, warning that the analogue signal is due to be switched off, are launched six months in advance of switchover. It is worth noting that some consumers may choose not to convert all their analogue sets, but to retain them for watching recorded material or playing games.

PAC Conclusion (2): The Government's decision to use licence fee money to pay for the digital switchover removed over £800 million from Parliament's regular processes governing the allocation and use of public money. The effect has been to weaken public accountability as the Comptroller and Auditor General can only report on the BBC's use of the sums ring-fenced in the licence fee settlement at the invitation of the BBC Trust.

4. The Government's view is that switchover and the associated Help Scheme costs are broadcasting costs which should properly be met from broadcasting income. Universal access is a key part of the BBC remit and switchover will bring BBC digital services to licence fee payers who currently cannot get free-to-view digital television services through an aerial.

5. The BBC Trust has ultimate responsibility under the Charter for the BBC's stewardship of all licence fee monies, including expenditure on switchover. In the particular case of the Help Scheme, the Digital Switchover Help Scheme Agreement between the BBC Trust and DCMS makes it clear that the BBC Trust will report annually on how it has complied with its obligations in relation to the Scheme; ensure that the Scheme is operated in a way which provides for money on behalf of licence fee payers; and discuss with the National Audit Office arrangements for reviewing the value for money of the operation of the Scheme.

PAC Conclusion (3): In passing responsibility for procuring and delivering the help scheme and information campaign to the BBC, the Departments did not take adequate safeguards to secure value for money. Using the licence fee and partnerships with the BBC and industry to deliver switchover makes sense, given the Departments' limited delivery capacity and experience. However, in doing so they did not:

- **Specify the outcomes they required;**
- **Ensure that the targets set by the BBC and Digital UK were aligned with those customers; or**
- **Build in adequate customer protection to prevent the potential mis-selling of analogue televisions in the run up to switchover.**

Passing responsibility to delivery partners without adequate accountability or clarity of purpose puts value for money at risk. The Departments should clarify the outcomes they require to deliver their policy objectives and should seek assurances from the BBC that public money for the help scheme and information campaign will only be spent to deliver these outcomes.

6. The Government does not agree that there are not adequate safeguards to secure value for money. Value for money has been at the heart of the Government's planning for switchover. A clear timetable has enabled the industry and consumers to plan for change and they are meeting most costs themselves. Public help, through the Help Scheme, has been focused where evidence shows help is most needed.

7. Under the BBC's Royal Charter, the Trust has a duty to "exercise rigorous stewardship of public money". To this end the Trust has now set success criteria for the national Scheme. They reflect ongoing assessments of the trial scheme in Copeland which have allowed the Trust to incorporate the lessons learnt there. The Trust intends that the success criteria should ensure the BBC delivers the national Scheme in the most effective and economic way.

8. Throughout the Scheme's operation the Trust will continue to monitor and assess its performance to ensure that licence fee payers' money is spent in the most cost effective way. The Help Scheme budget is ring-fenced within the overall licence fee settlement.

9. The Agreement specifies the outcomes we want which are that everyone who is eligible and who wants help to switch to digital will be helped by the Scheme. The Digital Switchover Help Scheme Agreement between DCMS and the BBC Trust sets out who is eligible for help and how they should be helped.

10. The BBC has established the Marcomms Committee to review on a quarterly cycle the effectiveness of Digital UK's expenditure on marketing and communications, examine future plans and approve future expenditure. Digital UK continuously seeks opportunities for further efficiencies and cost reductions. The potential for mis-selling of analogue televisions in the run-up to switchover is dealt with on the response to PAC Conclusion 7.

PAC Conclusion (4): Take up of the help scheme in Copeland, the first area to switch to digital, suggests that demand for the scheme will be much lower than the Departments' forecasts, which look increasingly out of date. The Departments should review whether the scheme is reaching enough people and achieving its objectives, based on what happens in the Border region, which will be the first full region to switch. In the light of this review, they should amend the design of the scheme and the funds available as necessary before proceeding with switchover in the Granada region from October 2009.

11. The Departments, along with the BBC, will keep Help Scheme funding under continuous review. The Government considers it to be too early to take decisions on the appropriate level of funding based on the relatively small switch in Copeland (0.1 per cent of the whole population). Granada will be the first large urban area to switch, in 2009, and at that stage it would be sensible to take stock on the appropriate level of resources ring-fenced for the Help Scheme. The Help Scheme has recently been extended to all residents of care-homes meaning more potentially vulnerable people can be helped in making the switch to digital television. This extension of the Help Scheme will be contained within the existing budget.

PAC Conclusion (5): The only evidence of help scheme take-up available to the Departments is from Copeland in Cumbria. If this level of take-up is repeated elsewhere, there would be a surplus of £250 million in licence fee funds ring-fenced for the help scheme. The Departments have not identified what they will do in the event of a substantial funding surplus, or in the less likely event of a deficit. To promote effective accountability and stewardship of public funds, they should decide, before the implementation of switchover in Granada, how any surplus will be spent or deficit funded.

12. The Help Scheme Agreement sets the budget for the Scheme and, in broad terms, how the Government and the BBC would deal with possible over spends. It states that the BBC will not be required to contribute more than this amount so as to ensure that other budgets are protected in the event of a cost overrun. The precise mechanism for achieving this will be determined at the appropriate time: one possibility referred to in the Agreement is an increase in the BBC's borrowing limit. The Agreement also states that decisions on how to deal with any under spend would be taken nearer the time that it became apparent. We would need to look at all the circumstances at the time before deciding on the best course of action.

13. As indicated in paragraph 5, the Trust has a responsibility for ensuring value for money of all licence fee money, including expenditure of the Help Scheme. We do not share the view that effective accountability and stewardship requires that a decision on how any under spend might be used should be taken now. On the contrary, a decision, for example, that the BBC could keep all or none of any under spend could lead to perverse incentives in terms of encouraging or discouraging take up and ensuring value for money.

PAC Conclusion (6): The Departments have not defined success measures for the help scheme. The BBC subsidiary company, DSHS Limited, set up to administer the help scheme, is incentivised to maximise customer satisfaction, but that measure alone will not provide assurance of value for money. The scheme needs to strike the right balance between supporting vulnerable consumers and spending public money only where it is needed. The Departments should clarify the outcomes they wish to achieve from the scheme and should seek assurance from the BBC that it is taking action to deliver these outcomes.

14. The Help Scheme is an integral part of the overall switchover programme and only exists because of the programme. It is intended to ensure that there is a safety net for those likely to find the switch the most difficult. It will have been successful if switchover proceeds smoothly and everyone eligible who requests help gets it in accordance with the scheme.

15. The parameters of the scheme are set out in the Digital Switchover Help Scheme agreement between the DCMS and the BBC Trust. The scheme does not have targets in that it must make help available to a given number of people. Providing those who request help get it, it is quite acceptable if many of those in the eligible group choose to make the switch without recourse to the scheme. The BBC Trust is responsible for ensuring value for money and the contract has a variable element to take account of uptake. The Trust has set the Help Scheme four success measures: value for money in the national contract with eaga; encouraging appropriate take-up of the scheme; identifying and helping the most vulnerable; and customer satisfaction.

PAC Conclusion (7): The Departments' reliance on voluntary labeling and the work of Digital UK to protect consumers from potential miss-selling of analogue televisions in the run-up to switchover has, so far, not worked. The 'Digital Tick' was introduced nearly four years ago, but only half the staff in the two thirds of stores which use the Digital Tick logo understand what it means. Given reliance on the logo to protect consumers, the Departments should set out how, by the end of 2008, they will try to secure take-up of the logo by at least 90% of retailers (by sales), and at least 90% understanding of the Digital Tick among staff selling television equipment in retail stores. This should substantially reduce the risk that consumers will unwittingly purchase televisions with built-in obsolescence.

16. The retail market has moved on significantly over the past 18 months. By the end of March 2008, four out of five TVs sold were digital, and for consumers who bought analogue TVs, nine out of ten understood that they were buying a set that would need converting for switchover. Major stores, such as John Lewis, Dixons Stores Group and Comet, have committed publicly to stop selling analogue sets.

17. It is important to recognise that analogue TVs do not become obsolete after switchover. They will continue to work providing they are adapted with a digital set top box which may be for use with the terrestrial platform, cable, satellite or broadband television. A national television campaign explaining this began in spring 2008.

18. Digital UK has put in place a range of measures to support the retail trade since the beginning of 2008 including appointing a field marketing agency, Gekko, to supply retail support teams to assist stores in the first three switchover regions (Border, West Country and Wales). From 12 months before each switchover, these teams encourage stores to join the 'digital tick' scheme, supply staff training and provide information to customers at point of sale.

19. The 'Ask Digital' training programme has also been updated. Switchover training has been integrated into the intranets of retail chains including Argos and Comet, and candidates now have to pass five essential questions in the training to pass the assessment overall. Digital UK secured the take up of the 'digital tick' logo by 85 per cent of retailers (by volume of set top box and TV sales) by July 2008.

PAC Conclusion (8): The help scheme provides assistance to eligible people who wish to convert their second sets to digital, even though the Departments have not identified second set conversion as one of their objectives. For some older people and some people with disabilities it is important to be able to watch television in more than one room of the house, and Digital UK has set targets for the rates of second set conversion it is seeking to achieve. The Departments should estimate the likely costs and benefits of helping eligible people to convert their second sets. They should then clarify the scheme's objectives and priorities in respect of primary and secondary set conversion, and should work with the BBC and Digital UK to deliver the desired outcomes.

20. The Government's policy is that the Help Scheme should enable everyone who is eligible and requests help to continue to have access to the five channels currently broadcast in analogue after the analogue signal is switched off. The Scheme will convert one set. If someone already has access to digital TV, the Scheme will still convert another set. However, people may have a large number of TVs in their homes and elsewhere and it is their responsibility to take the necessary steps if they want to continue to receive TV on all of their sets.

21. The experience of Whitehaven/Copeland shows that second set conversions were not a problem for households, with 95 per cent of second sets having been converted post-switchover by mid-December 2007.

Twenty Ninth Report

Department for Environment, Food and Rural Affairs (DEFRA)

A progress update in resolving the difficulties in administering the Single Payment Scheme in England

1. The Committee re-examined the problems experienced by the Rural Payments Agency (RPA) in implementing the Single Payment Scheme (SPS) on the basis of a report by the Comptroller and Auditor General (C&AG) "A progress update in resolving the difficulties in administering the Single Payment Scheme in England."

2. Since the Comptroller and Auditor General's report in December 2007, RPA has continued to consolidate a series of measures to improve the delivery of SPS. These helped the Agency to meet its Ministerial and EU targets for SPS 2007 payments. RPA's central focus continues to be on improving its customer service, with the longer-term aim of reducing further the cycle from claim to payment.

PAC Conclusion (1): The Rural Payments Agency has not yet managed to bring the administration of the Single Payment Scheme properly under control. The extent of payment errors within the 2005 and 2006 Schemes had not been completely resolved at the time of our hearing, and data submitted subsequently by the Agency showed that over half of farmers' entitlements for those years were incorrectly calculated. The Agency has increased its calculation of more than 12,600 entitlements by a total of £28.6 million, and decreased nearly 7,300 entitlements by a total of £29.2 million.

3. The Department accepts that the legacy of the problems faced in implementing the scheme in 2005 have yet to be fully overcome. The correction of inaccuracies in the original allocation of entitlements has formed a major part of that legacy. It is anticipated that the corrective work RPA has undertaken to date will lead to better data being held for those customers for the 2008 SPS scheme year leading to fewer errors in future payments. However, it is likely that further corrections will be necessary, on an on-going basis, as a result of, for example, changes to the Rural Land Register (RLR), additional checks on land data and the results of on-farm inspections.

PAC Conclusion (2): The Agency has been slow to investigate possible overpayments, and only began taking action to recover excess payments made under the 2005 Scheme in November 2007. The Agency estimates that, under the 2005 Scheme, more than 10,000 farmers were overpaid by some £20 million in total. In addition, around 7,000 farmers were overpaid for the 2006 Scheme by over £17 million. The Agency and the Department had yet to determine options for recovering sums overpaid, adding to uncertainty for many farmers. In 19 cases, mainly large agribusinesses, overpayments were for £50,000 or more. Such recipients were likely to have known that they had been overpaid, and yet the Agency took no action to recover the funds quickly. The Agency should notify each farmer of the extent of any overpayment made, as well as agree a method of recovery and a deadline for when this would be achieved.

4. The Department accepts this conclusion. The investigation and recovery of overpayments has proven to be particularly difficult due to the inter-relationship between the entitlements of individual farmers, the newness and complexity of scheme rules and the impact on the accuracy of the partial payments made in 2005 and 2006. The delay in taking recovery action also resulted from the need to determine the accurate status of each claim whilst avoiding further delays in paying claims for the subsequent scheme year. This meant that, with the approval of Ministers, RPA concentrated resources on making full payments for the 2007 SPS scheme year rather than recovering overpayments. Some delay has also occurred as RPA has approached the recovery of funds by checking and validating claims which have potential overpayments so that these are confirmed before communicating with customers.

5. As part of RPA's overpayments recovery work, all overpayments confirmed as less than €100 are initially being written-off. Where an overpayment of more than 100 is confirmed the customer is provided with an overpayment breakdown followed by an invoice. RPA has a responsibility to recover money whilst aiming to minimise the impact on customers in the short term. Consequently, the Agency offers repayment methods of immediate payment in full or an agreed payment recovery plan over a period of time. In the event that no response is received, customers are advised that the Agency may deduct the outstanding amount from any further payments, which become due. At the time of writing, all 19 customers identified with overpayments of over £50,000 have received an invoice and some £1.4million has been recovered from a total of £1.8million.

PAC Conclusion (3): By mid November 2007, the Agency had reviewed 33,592 claims, but had failed to keep an accurate central record of overpayments made under the 2005 and 2006 Schemes. Without such a record it would be difficult to manage the recovery process effectively. The Agency should compile an accurate record of overpayments so that the Agency's Management Board and the Audit and Risk Committee can review progress in recovering the sums owed each quarter.

6. The Department accepts this conclusion. RPA now has an improved process in place for recording overpayment and recovery action. Weekly progress reports on reviewing claims and issuing invoices and monthly data on recoveries and overpayment balances are now available. Both sets of information are seen by RPA's Agency Management Board and a financial summary of recoveries is presented to RPA's Audit Committee which meets at least four times a year.

PAC Conclusion (4): The Agency's failings in implementing the Scheme have led to the risk of significant disallowance of expenditure and the imposition of penalties by the European Commission, and added to the Agency's business change project costs. The Department's 2005-06 and 2006-07 accounts included total provisions of some £220 million for disallowance, and £70 million accruals and contingent liabilities for possible late payment penalties in respect of the Single Payment Scheme in England. The cost of the business change project, through which the Scheme was implemented, is expected to exceed £300 million, some £50 million above that anticipated at the outset.

7. The Department can confirm the Committee's summary of the provisions recorded in its 2005-06 and 2006-07 accounts in respect of potential disallowance arising from administration of the SPS. However, at the time of writing, the European Commission has not made any proposals for SPS disallowance in practice, beyond the late payment penalties for the 2005 scheme, which have already been accounted for.

8. Various initiatives are being taken forward within RPA to reduce the risk of disallowance in future years. For example, as part of an exercise to improve the RLR, a trial is underway which includes updating the land information held. This will address disallowance risks from land data quality and should improve the level of payment accuracy. A Disallowance and Accreditation Committee has been established at RPA to identify and advise the Board and senior management on the significance of potential disallowance and to consider options to address the risks.

9. The RPA business change project was established in April 2001 to deliver new business and IT systems and processes to achieve administrative cost savings and improved customer service. The costs of the project increased to a total of £241.9 million with the integration of the reforms to the Common Agricultural Policy (CAP) in 2003. The project closed in May 2006. To assist with the recovery of RPA following the difficulties with the introduction of the SPS and deliver significant improvements to claim processing, an additional programme of work to that originally anticipated in the Change Programme was agreed with the Department for the period 2007-08 to 2009-10 including additional funding of approximately £35 million over the three year period. The funding covered business process and technology changes and should be fully implemented in time for processing the SPS 2009 scheme year, with benefits accruing in the years ahead.

PAC Conclusion (5): The Agency's service to farmers is still undermined by weaknesses in its IT systems, such as its inability to provide farmers with a predicted amount and payment date to assist them with their financial planning. Restoring farmers' confidence will depend on the Agency's ability to process claims promptly and to provide accurate information on the progress of each claim, including the likely payment date. The Agency should give higher priority to processing claims from farmers with greater dependency on the Scheme payments, for example hill farmers and those running smaller operations.

10. The Department accepts this conclusion. Significant IT improvements, including steps towards converting the main IT system from being task-based to claim-based, have been delivered since the PAC hearing. This gives caseworkers access to most of the information they require about an individual claim, improving the Agency's ability to process claims and respond better to farmer queries. Further system improvements are planned on an ongoing basis.

11. During 2007 and 2008 RPA has stabilised its workforce and developed an SPS Training System designed to provide whole case-workers with the skills and competencies to better administer the scheme. The aim of the modular system is to provide context and skills training to all SPS staff that reflects developing business needs.

12. Taken together, these improvements helped enable the Agency to meet its payment targets in 2007 without the need for partial payments. A reduction in the number of complaints in 2007-08 reflects improvements in the Agency's overall SPS performance and independent quarterly customer surveys have recorded improvements in the level of farmer satisfaction during 2007-08.

13. Ministers have set the RPA more challenging SPS payment targets for the 2008 scheme year. In planning to meet those targets, RPA recognises the importance of SPS and Hill Farm Allowance payments to upland farmers. More generally, the Agency appreciates that the ability of all farmers to predict the timing of their payments is important for their forward planning. RPA is moving towards achieving a stable 12-month cycle for the administration of each scheme year, which should give farmers the necessary year on year predictability.

PAC Conclusion (6): The average cost of processing claims exceeded the value of over a third of the 106,000 claims under the 2006 Scheme, making improvements in the Agency's efficiency essential. Currently, it costs around £750 to process a claim. Reducing that cost depends on greater automation in processing small, standard claims, use of echannels and reductions in staff costs through reduced overtime and shift working. The Agency's future business plans should set targets for the implementation of its efficiency measures and the savings it expects to achieve.

14. The Department accepts this conclusion. The estimate of around £750 for processing an individual SPS claim costs was based on the 2005 and 2006 scheme years. RPA is driving through a number of performance and efficiency improvements and value for money initiatives to reduce SPS administration costs. The Agency is on course to achieve capital and administration efficiency savings in its baseline budget (near cash costs including capital) in 2008-09 and headcount is expected to reduce to around 3500 FTEs in 2011, primarily through increased automation.

15. RPA is working with the Department and its network to improve efficiency (as well as levels of customer service) through Delivery Transformation initiatives such as Better Regulation and the Whole Farm Approach. In the 2008 SPS scheme year, for example, it released the first phase of an electronic channel option under a limited rollout via farm software providers and two companies adapted their software for customer use. For the 2009 scheme year, no limit has been imposed on the number of customers who can use the software and RPA (in conjunction with the Department's Whole Farm Approach) is also developing electronic claim submission screens (SPS Online), which is planned to be piloted with 1000 customers.

16. Through improved corporate, business planning and performance management processes, RPA aims to reprioritise resources to deliver further efficiency savings. The Strategy and Business Plan for 2008-09 to 2010-11 sets out RPA's targets for 2008-09 and its objectives for the next three years and RPA budget submissions incorporate planned efficiency measures and savings for each of the next three years.

PAC Conclusion (7): In preparing policy papers for Ministers, the Department had not drawn sufficient attention to all the risks to implementing the complex dynamic hybrid scheme and the likely impact on delivery timescales. For the future, the Department should consider whether it has sufficiently robust processes to scrutinise and challenge the underlying assumptions in its policy proposals. Utilising an external or peer challenge process would assist in providing appropriate emphasis to all risks so decision makers have the best information available to inform their choice of options.

17. The Department accepts this conclusion. As indicated in the Treasury Minute on the Committee's 55th Report in the 2006-07 session (Cm 7275), the then Chief Executive of RPA was responsible for delivery and at no time did he say to the Department that it was not possible to meet the objectives set.

18. Following the initial difficulties in implementing the scheme in 2005-06, a number of measures were introduced to improve information exchanges and levels of collaboration between the core Department and RPA. The Agency's Chief Executive now reports to the Director General, Food and Farming Group, who chairs the Strategic Advisory Board, which oversees RPA's strategic direction and focuses on strategic risks and issues. In year performance issues and priorities are meanwhile considered by the DEFRA-led Delivery Review Board and RPA's Chief Executive has a regular dialogue with DEFRA Ministers and the Permanent Secretary concerning risks to RPA's performance, especially those affecting customers. Staff continue to be seconded in either direction in order to help deepen common understanding between the core Department and Agency. Specifically with regard to the handling of future changes to scheme rules, improved arrangements have been put in place to help ensure the successful implementation of the CAP Health Check which is currently being negotiated at EU level.

19. RPA's Chief Executive has also made improvements to Agency governance by creating a new Agency Executive Group to provide tactical decision-making, performance improvements and to maximise return on investments and delivery of benefits. Other changes include a new Programmes and Projects Directorate with responsibility for evaluating, prioritising and selecting the right programmes and projects to ensure alignment with RPA's strategic objectives and ensuring that projects are effectively and efficiently planned and delivered. Performance management processes have also been strengthened. RPA aims to minimise delivery risks through a robust process of challenge and review from its non-executive (external) Directors, Audit Committee members and Defra's Strategic Advisory Board.

Thirty First Report

Department for Work and Pensions (DWP)

Progress in tackling benefit fraud

1. The Department for Work and Pensions (DWP – the Department) welcomes this report by the Committee into the Department's progress in tackling benefit fraud. DWP has put in place a comprehensive strategy for tackling benefit fraud based on prevention, detection and deterrence. As a result, benefit fraud is now at the lowest level ever recorded. By September 2007 fraud had reduced across all benefits to just 0.6 per cent of benefit spend.

2. International benchmarking by the National Audit Office (NAO) also shows that, compared to comparable systems in other countries, the Department is at the forefront of understanding, measuring and responding to benefit fraud.

3. The NAO recognizes that given the reductions in fraud to date it will be difficult to reduce fraud further, but the department is determined to maintain downward pressure by making the benefit system more active and tougher on those who do not abide by the rules. The Department's recent Green Paper[2] launched a review of the fraud sanctions regime and began a consultation on how the Department can use that regime to deter people even more from committing benefit fraud.

PAC Conclusion (1): The reported amount of benefit fraud has reduced, but the reported amount of customer and official error has nearly doubled in the last five years to almost £2 billion. The current extent of error is unacceptable and has contributed to the continued qualification of the Department's accounts for the past 19 years. While estimated fraud has reduced to £800 million – around 0.6% of total benefit expenditure – official error rates for benefits such as Jobseeker's Allowance are still too high at 2.1 per cent. To prevent official error increasing, the Department needs to target its training and compliance checks on those local offices and benefits, which consistently have the highest error rates. Despite efficiency drives, the Department must not allow staffing cuts to have a detrimental effect on the fight against fraud.

4. There is no evidence that the Department's successful efficiency drive has had a detrimental effect on the fight against fraud. The Department agrees with the Committee that, while fraud has been dramatically reduced, the level of error is in need of further attention. This is why the Department targets the losses from error as well as bearing down hard on fraud.

5. In January 2006, the Department established an official error task force with a specific aim of reducing error in the most vulnerable benefits. In January 2007, the Department published its first ever- comprehensive error reduction strategy[3], which tackles customer and official error in all benefits. The strategy sets out how the Department will improve staff and customer compliance processes, correct the errors already in the benefit caseload and prevent new errors from entering the system.

[2] *No one written off: reforming welfare to reward responsibility* (Cm 7363), July 2008

[3] *Getting welfare right: Tackling error in the benefits system,* January 2007

6. The implementation of the strategy remains on course with most of the initial initiatives implemented during 2007-08. These include dedicated action teams to identify and correct error; enhanced checking procedures; staff coaching targeted at tackling the most common errors; updated guidance; and IT enhancements to stop two of the most common high-value Income Support errors from entering the benefit caseload. To specifically address Housing Benefit (HB) error, the Department has launched an e-learning package to provide awareness training for local authority staff and managers. This will be followed by the introduction of the Right Benefit Toolkit, which is designed to increase the reporting of changes in circumstances by HB customers.

7. Official error in Income Support and Jobseeker's Allowance has reduced by one-third compared to 1997-98 levels, and customer error in those benefits has now begun to show a reduction. Overall the error reduction strategy is expected to deliver benefit savings of around £1 billion during the period 2007- 2012.

PAC Conclusion (2): Fraudsters increase their gains if they target benefits that act as passports to other forms of financial support. Many benefits act as a gateway to further benefit entitlement and failure to prevent invalid claims in these increases the risk of fraud in other benefits. Since our predecessors' 2003 Report, the Department has strengthened the checks carried out at the outset of a benefit claim. It should pay particular attention to the internal controls around those benefits where there is a risk that initial entitlement to one benefit could be used to obtain others to which the customer is not eligible.

8. The Department agrees with the risk highlighted by the Committee. The Department's anti-fraud strategy includes checks and controls, which reflect the risk of fraud in different benefits. Income-related benefits, which can passport entitlement to other benefits, are therefore subject to tighter checks and controls. As a result, the Department has successfully reduced fraud in Income Support, Jobseeker's Allowance, and Housing Benefit by at least half since 1997-98.

9. In addition, from April 2008, Local Authorities have been given powers to investigate and, in England and Wales, to prosecute offences in relation to a number of national social security benefits[4], alongside Housing Benefit and Council Tax Benefit. This will mean that the investigation and prosecution of fraud across all these benefits can be undertaken more efficiently and effectively.

PAC Conclusion (3): The Department is working more closely with local authorities to safeguard Housing Benefit from fraud and error. Jobcentre Plus is piloting a scheme under which its offices act as customer service centres for Housing Benefit, currently administered through 408 local authorities. When evaluating the pilot scheme, the Department must take account of the impact the new arrangements will have on the capacity of Jobcentre Plus offices to deliver its existing services. It must mitigate the risk of overloading existing staff with additional and complex benefit rules that may lead to more official error in other benefits.

[4] Income Support; Jobseeker's Allowance; Incapacity Benefit; Pension Credit and Employment and Support Allowance

10. The Department accepts the force of the Committee's conclusion. The 'In and Out of Work' pilots, to which the Committee's conclusion refers, have been introduced by DWP and HM Revenue and Customs (HMRC) with local authorities. A key aim of the new processes is to adopt a "one touch and done" process, in which Jobcentre Plus gathers all the information and evidence that is needed for any Housing Benefit, Council Tax Benefit and/or tax credits claims.

11. The Department agrees with the Committee that it should not prejudice the progress that it has already made by introducing these new procedures. However, Jobcentre Plus teams already follow many elements of these processes under existing working arrangements, and the evaluation of the pilots has found no evidence of additional risk of fraud and error entering the system.

12. The new processes will be rolled out nationally with a phased implementation. The Department's aspiration is to complete the rollout during 2008-09, as long as there is operational capacity in Jobcentre Plus, HMRC and Local Authorities.

PAC Conclusion (4): Organised crime continues to present a serious threat to the benefit system and needs careful management. Organised crime is often complex and well planned. In 2006-07, the Department took some 900 cases of organised fraud to court, and around 70 per cent of those cases which were prosecuted ended in an actual or suspended custodial sentence. Where the Department detects organised attacks on the system, it must take a firm and co-ordinated approach against these fraudsters, using both internal resources and working with external partners such as the police.

13. The Department agrees and takes a coordinated approach to identifying and tackling attacks on the benefit system by organised criminals.

14. The Department's Fraud Investigation Service (FIS) has dedicated specialist teams to tackle organised fraud, which work closely with a range of partners including the Police, HMRC, the UK Border Agency, and the Serious Organised Crime Agency. The Department has partnership agreements in place with all of these organisations to support closer working.

15. One example of this closer working is the work with HMRC in responding to joint attacks on the benefits and tax credit systems. A Joint Instant Response Team, drawing on investigative resource from both organisations, can now be deployed at short notice when a major threat to both departments is detected.

PAC Conclusion (5): In 2006-07 only £22 million of £339 million known fraud debt was recovered. Counter-fraud measures focus on overpayments identified, rather than monies recovered. The Department should set recovery targets for overpayments due to fraud and underpin these with a recovery strategy. The overall deterrent effect of the Department's counter-fraud work will ultimately be reduced unless money is recovered.

16. The Department shares the Committee's view that recovering money that has been obtained fraudulently is a key component of a vigorous anti-fraud strategy, and shares the Committee's desire to increase recovery of these overpayments. DWP agrees that setting a recovery target for overpayments due to fraud could improve performance in this area. Work is underway to consider suitable targets, subject to ensuring that they do not produce perverse incentives and our recovery drive is not impeded.

17. This issue needs, of course, to be viewed in the context of overall overpayment recovery, which covers benefit overpayments as a result of both fraud and error. In 2007-08 the Department recovered a total of over £270 – an all time high and an increase of 16 per cent over the previous year's performance. A target for overall debt recovery of £279 million has been set for 2008-09.

PAC Conclusion (6): The Department has taken too long to improve its management information systems. Despite being told in 2003 that the Department was developing a better management information system, called FRAIMS, it was only in February 2008 that the new £65 million system was rolled out. Moreover, it is not sufficiently comprehensive. The Department needs to assess the effectiveness of this management information system as it is rolled out, and evaluate the future impact on those counter-fraud activities, which currently are not served by the system.

18. The successful rollout of FRAIMS has provided DWP with a firm IT platform for its counter-fraud and error operational activity. Work is now underway on adding more functions to the system. This work will focus on the integration of the work of DWP Legal Group's Prosecution Division, how FRAIMS can better support joint working with Local Authorities, and the interface with DWP Debt Management Services. The Department expects to agree the scope of this new software by November 2008, with a delivery date in autumn 2009.

19. FRAIMS is, however, more than just a tool for collecting and producing management information. FRAIMS provides the means to manage counter-fraud and error operational activity more efficiently within a single system, replacing the four systems previously in operation.

PAC Conclusion (7): The cost-effectiveness of counter-fraud activity needs to be more routinely measured. The Department reported that it spent some £154 million combating fraud in 2006–07. It needs to understand the relative cost effectiveness of its different counter fraud actions in order to determine where best to target its resources. The Department should develop a robust methodology for measuring the cost effectiveness of its work, drawing on its new management information system and the approach used in the Comptroller and Auditor General's Report.

20. As the NAO accepts, this is not an easy area to measure. There are many important areas, which are likely to remain unquantifiable such as the deterrent effect of our policies and operational practice. The Department agrees with the Committee that we should seek to deepen our understanding of the cost-effectiveness of our different counter fraud actions to determine where best to target resources. For example, the Fraud Investigation Service has introduced a standard approach, from April 2008, for the collection of more-detailed performance information for investigators so they can compare how much resource is deployed against the main case types to help inform more-detailed productivity comparisons.

21. FRAIMS will also greatly improve the Department's ability to monitor impact and cost effectiveness, as it will directly capture Management Information across the main counter-fraud interventions examined by the Committee.

PAC Conclusion (8): Some 200,000 cases of potential fraud were investigated in 2006-07, where the Department considered there to be a high probability of a prosecution, but only 7,500 were taken to court. Potential fraudsters will not be deterred if the Department is not seen to be taking firm action where there is good evidence that fraud has taken place. The Department's 90% success rate at court suggests that they are selecting cases to prosecute which are likely to have a low risk of failure, but its lack of adequate management information makes it difficult to determine what other cases the Department should be prosecuting. The Department should analyse the outcome of prosecutions by case type so that it can make better-informed decisions about the cases it should prosecute.

22. The Department, as a prosecuting authority, has a duty, under the Code for Crown Prosecutors, to make sure that the right person is prosecuted for the right offence. The Department must be satisfied that there is enough evidence to provide a realistic prospect of conviction against each defendant; and that a prosecution is in the public interest. Every case put forward for possible prosecution is considered under that twin test; cases are not rejected by applying a more risk-averse test. The Department's 90 per cent success rate at court is comparable to that achieved by the Crown Prosecution Service in prosecutions for similar classes of offence.

23. In addition to prosecutions, the Department applies administrative penalties and formal cautions as sanctions against benefit fraud in line with the wider criminal justice system. In 2006-07 a further 21,832 cases resulted in such a sanction. Together with local authorities, overall sanctions, including prosecutions, were just over 51,000.

24. As well as cases which resulted in a prosecution or other sanction, the 200,000 cases of suspicion included cases where there was insufficient evidence to prove fraud; and cases where the amounts involved were so small that a prosecution was not in the public interest. These non-prosecution cases are handled through a Customer Compliance interview.

25. Work is being undertaken to incorporate improved management information into the new Prosecution Division IT system, which is currently being developed. Meanwhile management information is being collated to enable analysis of the outcome of prosecutions by case type.

PAC Conclusion (9): The Customer Compliance approach is potentially a good way of handling lower level frauds but there is a risk that it may erode the message that the Department is tough on fraudsters. The Department should review the cost effectiveness of Customer Compliance now that it has entered its second year of operation. This should consider the costs, performance and effectiveness of the approach, and also examine whether there are any signs that the model is undermining the Department's hard message on prosecution of fraudsters.

26. In all cases dealt with by Customer Compliance, it is made clear to the customer that any future irregularities will be considered for criminal investigation by the Fraud Investigation Service.

27. A national lead for Customer Compliance has been appointed in Jobcentre Plus who is responsible for ensuring performance and standards are maintained to the highest levels.

28. Later in 2008 the Department will assess, and agree with the NAO, the criteria for a cost effectiveness review of Customer Compliance. The full review will commence in April 2009 when complete performance figures for 2008-09 will be available to the review team.

PAC Conclusion (10): The Department needs to take proper ownership of these recommendations and put in place arrangements to implement them. Once the Department has published its Treasury Minute, setting out its intended actions in response to the Committee's recommendations, it should give responsibility for overseeing their implementation to a single senior official.

29. The Department has appointed a senior officer, the Director for Benefit Performance, who will be accountable for ensuring that actions outlined in this Treasury Minute are taken forward.

Thirty Second Report

Department for Business, Enterprise and Regulatory Reform (BERR)

Reducing the cost of complying with regulations: the delivery of the Administrative Burdens Reduction Programme

1. The Department for Business, Enterprise and Regulatory Reform (the Department), welcomes this report by the Public Accounts Committee (the Committee) in which it examines how the Better Regulation Executive (BRE) and departments have introduced the Administrative Burdens Reduction Programme, progress in delivering reductions in burdens, and the long-term results of the Programme.

PAC Conclusion 1: Regulation is not simply a burden and it can also offer benefits and protections for businesses, workers and consumers. For example, health and safety regulation has yielded the best safety record in Europe and the number of fatalities at work fell from 1,000 a year in 1974 to 250 in 2006. In seeking to reduce the burden of regulation, departments should not lose sight of the purposes for which regulations have been introduced. When considering new regulations, or amending regulations to reduce burdens, they should assess the benefits as well as the full costs of regulation, and only consider changes in the light of a balanced assessment of both.

2. The Government agrees with the Committee that regulation offers benefits and protections for businesses, workers and consumers. The Government also agrees that decisions on new regulations and changes to existing regulations should be based on a balanced assessment of both costs and benefits.

3. To support this, in May 2007 the Government introduced a revised Impact Assessment process to further embed the assessment of costs and benefits of government intervention into the earliest stages of policy making. In addition, in April 2008, it introduced a new internet-based Impact Assessment Library to increase the accessibility and transparency of the analysis and evidence underpinning regulatory changes. Also from April 2008, the Government has introduced a PSA indicator of the benefit-to-cost ratio of regulatory changes. The Better Regulation Executive and departments will continue to work to strengthen the quality of the Impact Assessments.

PAC Conclusion (2): The Better Regulation Executive introduced the Administrative Burdens Reduction Programme on the basis of the potential benefits for business estimated in a similar exercise undertaken by the Dutch Government. It did so before any assessment of the actual outcomes of the Dutch exercise, and evaluations of the Dutch experience now show that businesses have not noticed the full impact of changes. In considering new proposals for regulatory reform, the Better Regulation Executive should assess the likely impact of the proposed changes, including a rigorous assessment of both benefits and costs.

4. The Department agrees with the Committee. Recent proposals for regulatory reform, for example the Regulatory and Enforcement Sanctions Act 2008, and the current consultation on Regulatory Budgets have been accompanied by full Impact Assessments.

5. In taking forward the Administrative Burdens Reduction Programme, the Better Regulation Executive has kept in close touch with the experience of both the Netherlands and Denmark, who are undertaken similar programmes. As a result, the Programme includes an explicit communications component to ensure that businesses are aware of and realise the benefits of regulatory simplifications.

PAC Conclusion (3): The Better Regulation Executive considered that the Programme offered the potential for a £16 billion increase in GDP for an initial investment of £35 million. However, the strength of the link between the level of regulation and productivity growth is not certain. The Department for Business, Enterprise and Regulatory Reform has commissioned further research to explore the link between regulation and productivity. In taking this forward, the Better Regulation Executive should quantify the impact of administrative burdens on productivity, and test the robustness of the £16 billion estimated potential for increasing GDP.

6. The Department will continue to engage with economic research on the link between the level of regulation and productivity growth and, as a subset of this, the extent to which reducing administrative burdens will increase GDP.

7. There is ongoing economic debate around the strength of these links. One recent study[5] concluded that the initiative to set a target for reducing administrative burdens by 25 per cent by 2010 could increase GDP by 0.9 per cent. The European Commission has estimated that a 25 per cent administrative cost reduction may bring a real GDP level increase for the EU of up to 1.5 per cent – equivalent to around €150 billion (£100 billion)."[6] By their nature, there are risks associated with such estimates, including uncertainties the assumptions made about the size of spillover effects (such as the time saved by reducing administrative burdens); and the extent to which workers released by administrative reductions are fully re-employed into productive activities as opposed to leisure activities. It is therefore unlikely that an academic consensus will be reached around a single point estimate.

PAC Conclusion (4): The consultancy costs of the measurement phase were £17 million but staff costs were not recorded. The Better Regulation Executive and departments should record the internal costs of implementing the Programme and of the regulatory reform agenda.

8. The Department agrees with the Committee on the importance of recording the internal costs of implementing the Programme.

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[5] *The Lisbon Strategy – An estimation of the economic impact of reaching five Lisbon targets* Gelauf, G. M. M. and A. M. Lejour, Industrial and Economic reforms Papers No. 1. Brussels: European Commission 2006 – using the WorldScan macroeconomic model and the impact of a 25 per cent reduction of the administrative burden in Holland from 2002.

[6] Commission Working Document: *Measuring administrative costs and reducing administrative burdens in the European Union* (COM(2006) 691 final)

9. However, the Department feels that, while it is practicable to record the costs of the Better Regulation Executive and departmental Better Regulation Units, measuring the wider costs (such as how long government officials in every government department spend on Impact Assessments) of the regulatory reform agenda would add little value: as the regulatory reform agenda continues to embed in all government departments and achieve culture change, better regulation is becoming "business-as-usual."

10. The staffing costs of the regulatory reform agenda have been absorbed by departments. This approach is consistent with the assumptions in the Better Regulation Task Force's *Less is More*[7] report.

PAC Conclusion (5): The £20 billion estimate of the total administrative burden is not statistically reliable. This calculation is based on small sample sizes and non-random sample selection, and as a result cost estimates are only indicative. In addition, cost estimates do not capture the benefits of regulation. The Better Regulation Executive should not use these calculations as a baseline against which to quantify the success of the Programme or, if it does so, it should make clear the uncertainty in the estimates.

11. The Government agrees that the estimates of the administrative burden using the standard cost model are indicative rather than statistically robust. To carry out a statistically robust measurement exercise would have cost many times more than the £17 million that was spent. It nonetheless believes that the standard cost model estimates provide a useful picture of the landscape of regulation and are a pragmatic basis for identifying where useful reforms can be undertaken.

12. The Department accepts the Committee's conclusion to make clear the uncertainty in the estimates and will endeavour to caveat the reliability of the cost estimates using terminology such as "around" and "approximately" when discussing the estimated total administrative burden and administrative burden reductions.

PAC Conclusion (6): Over 60 per cent of small businesses cited the level of regulation as an obstacle to their success. Departments should follow the HMRC's example and assess the impact of regulations on small businesses. They should also give priority to relieving pressures on small businesses where it is practical to do so.

13. The Government agrees with the Committee on the importance of assessing the impact of regulations on small businesses and giving priority to relieving pressures on small businesses where practical.

14. In March 2008, the Government published a new Enterprise Strategy[8], which committed to a new approach to the application of new and existing regulation for firms that employ fewer than 20 people. This includes considering if there is scope for simplified inspection, enforcement and guidance for small firms and, where appropriate, whether small firms can be exempt from requirements without affecting essential protections.

[7] *Regulation – Less is More. Reducing Burdens, Improving Outcomes* Better Regulation Task Force, March 2005

[8] *Enterprise: Unlocking the UK's talent* available at http://www.berr.gov.uk/files/file44992.pdf

15. In June 2008 Government strengthened the Small Firms Impact Test within the Impact Assessment process. From the 2009-09 parliamentary year, departments will include an explanation of the approach adopted towards small firms in the explanatory memoranda accompanying the secondary legislation they lay before Parliament. From 2009-10, the Government will adopt this process for all regulatory measures.

16. The Government has commissioned an independent review led by Sarah Anderson CBE into how it can implement policies to give small businesses greater certainty around guidance, confidence that they have complied with regulations and to examine the impact of legal disclaimers on small business confidence when following regulations, and identify ways of making improvements.

17. The Department has also carried out a review: *Improving Outcomes from Health and Safety* which reported in August 2008. The review considered how the health and safety regulatory regime affects workplaces where the overall risk of injury or ill-health is relatively low, focusing in particular on low risk smaller businesses.

PAC Conclusion (7): The Better Regulation Executive set the target for most departments to reduce burdens by 25 per cent by 2010 without assessment of what was achievable in each case, whereas HMRC's lower targets are based on what is achievable. Credible yet demanding targets can only be set on the basis of an assessment of what is possible, and the Better Regulation Executive should move towards a system of specific, evidence-based targets for each department at the earliest opportunity.

18. The Government is focused on delivering regulatory reforms that are recognised as beneficial by business, the public and third sectors.

19. At this stage of the Administrative Burden Reduction Programme the 25 per cent administrative burden reduction targets that departments have committed to are widely understood, well established, easily communicated and are successfully maintaining departments' focus on delivery. A change in targets at this stage in the programme could divert departments' attention from delivery.

20. Departments' planning[9] for the Administrative Burden Reduction Programme indicates that delivery of 25 percent burden reduction by 2010 is feasible. The Government believes that the earliest opportunity to adopt new administrative burden reduction targets is after the 2010 deadline for the current phase of the Programme. The Government will consider the Committee's conclusion when planning for the regulatory reform agenda beyond 2010.

PAC Conclusion (7): 85 per cent of businesses are not confident that Government would reduce regulatory burdens and 75 per cent thought that burdens will increase. This Programme will only be successful if businesses notice an impact on the ground. The Better Regulation Executive and departments should therefore tailor their communications to businesses to alert them to changes in compliance requirements resulting from the Programme.

[9] *Delivering Simplification Plans: A Summary,* Better Regulation Executive December 2007

21. The Government accepts the Committee's conclusion that it should tailor its communications to businesses to alert them to changes.

22. The Government will continue to strive for better communication and engagement with business. The Department is facilitating wider thinking across government regarding communicating successes to businesses by collaborating with other government departments to formulate coherent communications messages (for example joint communications are planned on Simplification Plans).

23. The Department plans a pro-active engagement strategy with businesses and key stakeholders, which will include increasing its visibility with businesses in every region of the UK through a series of visits, speaking events and workshops. It will also be improving its website.

Thirty Third Report

Ministry of Defence (MOD)

Ministry of Defence: Major Projects Report 2007

1. The Major Projects Report 2007 provides information on the time, cost and performance of 20 of the Ministry of Defence's largest military equipment projects where the main investment decision has been taken, as well as the top ten projects in the earlier Assessment Phase.

2. As in the Major Projects Report 2006, the Ministry of Defence (the Department) primarily reduced the forecast costs for its top 20 projects by reallocating expenditure to other projects or budget lines. In 2007, it reallocated £609 million, making a total of over £1 billion reallocated over the last two years. The Department's rationale for such reallocation of budgets and expenditure is that it allows it to measure better the performance of individual teams in controlling their project costs, and to identify separately the costs of maintaining United Kingdom shipyards in accordance with the *Defence Industrial Strategy* White Paper.

PAC Conclusion (1): Since April 2005, the Department has reduced the forecast cost of procuring its major military equipment projects by transferring almost £1 billion to other projects or budget lines. The Department should address the fundamental causes of the rising costs rather than dealing with problems by simply transferring costs and budgets internally.

3. As the Department stated in evidence it believes that the transfer of costs to other budget lines was justified as a means of ensuring that costs fell to the appropriate budgets and were managed by those best placed to do so. The Department accepts that the focus of its efforts should be on avoiding cost growth. As the NAO report states (para 1.14 and figure 10) one of the main reasons for cost increases are technical factors, much of which have occurred on older projects. The report further acknowledges that the Department is seeking to address this for newer projects (para 1.19) by choosing acquisition strategies for projects to allow a better understanding of the risks involved in the technology and the risks to delivery before the main investment decision is taken.

4. This is in line with the National Audit Office 2005 Report Successful Delivery of Major Defence Projects: Effective Project Control is a Key Factor in Successful Projects, which recommended planning for certainty by taking shorter planning chunks with greater detail. Current examples of this are the Future Carrier Project, the Future Rapid Effect System vehicles, the Indirect Fire Precision Attack munition and the Search and Rescue Helicopter project.

PAC Conclusion (2): By continuing to transfer costs outside the boundaries of the Major Projects Report, the Department is not providing Parliament with the full picture on the cost of individual military equipment projects. The metrics that the Department develops for measuring its performance on acquisition for future Major Projects Reports should provide a comprehensive picture of the cost of bringing the equipment into service. For example, the Report should cover the cost of acquiring and supporting the equipment and of providing training for personnel to use it.

5. The Department agrees that the Major Projects Report in its current form does not provide Parliament with the full picture of the cost of delivering individual military equipment projects. The Department is working with the National Audit Office to develop the Report to reflect more clearly its performance in the delivery of equipment and capability through life in line with changes being made within the Department.

PAC Conclusion (3): Some of the transfers were not budgeted for and do not represent real savings. The Department could not provide concrete examples of the impact of these transfers on other areas of Defence spending. For each of the reallocations over the last two years, the Department should provide the Committee with a full statement of the effect of the cost transfer on the other budget holders, including the activities they have had to forego, and/or the compensating efficiencies they have made.

6. The Department has not argued that the transfer of costs to other budget lines represented real savings. The Department has sought to absorb these cost pressures across the wider equipment and support programme which goes beyond the top twenty projects examined in the Major Projects Report, rather than within specific budget areas, and cannot, therefore identify reductions attributable to specific transfers. In each planning round we must consider a range of competing priorities, including potential enhancements, as well as addressing cost growth where it has arisen.

7. The Department reviews its priorities and invests in those areas it determines to be the highest priority. As a consequence, the Department may have to reduce investment in lower priority areas of capability and support. As an example, Planning Round '08 decisions were taken to delete the Lightweight Mobile Artillery Weapon System (Rocket) saving £189 million and to reduce the number of Type 45 Frigates from eight to six, (advancing the Future Surface Combatant in-service date by two years to 2019 and extending T23/T22 Frigates) saving £200 million.

8. Balance of investment work identifies the range of choices to deliver most effectively the equipment and support programme, taking into account current pressures such as operations and the need to deliver defence priorities. These choices clearly identify the operational capability and industrial impact as well the costs of their implementation.

PAC Conclusion (4): The Department is spending £305 million to maintain the United Kingdom's shipbuilding industry in line with the Defence Industrial Strategy White Paper, but has not developed metrics to assess whether it is getting value for money from these payments. The Department should develop clear statements of what successful outcomes from the expenditure would be and how it plans to measure progress towards what are long-term aspirations.

9. The Department accepts that sustaining the United Kingdom's shipbuilding industry in line with the Defence Industrial Strategy must offer value for money. The Department has put in place or is putting in place a number of initiatives to measure progress towards achieving an efficient, affordable and sustainable enterprise to meet the operational needs of the Royal Navy today and in the future.

10. The Defence Industrial Strategy noted that *"In light of the serious financial challenges facing the industry, it is our view that consolidation should occur as a matter of urgency. This is particularly pertinent to the Submarine domain, but applies across the board"*. Work is ongoing to deliver the Submarine Enterprise Collaboration Agreement (SECA) involving MoD, Babcock Marine, Rolls Royce and BAE Systems (Submarine Solutions). A key event was the delivery of the SECA Public Policy Exclusion Order which was laid before Parliament in July 2008, and subject to approval, will enable the sharing of data between all parties as a first step towards improved joint working across the submarine enterprise.

11. Formation of the BAE Systems/VT Joint Venture (named BVT Surface Fleet Ltd) and Babcock Marine (following Babcock's purchase of DML at Devonport) will see incentivised delivery of efficiency, encouraging the two companies and MOD to co-operate and work together more closely, sharing in the risks and the rewards. New long-term business agreements (TOBAs) will be put in place in early 2009 establishing the MOD's commitments to sustaining key capabilities and future activity[10] and industry's commitments to rationalisation, transformation and cost reduction.

12. Looking to the future, the Department's commitment to sustain sovereign capabilities in complex warship design, build and support described in the Defence Industrial Strategy White Paper has resulted in the formation of the Naval Design Partnership (NDP). This is a strategic vehicle for the early stage design of future naval projects with the aims of sustaining UK design capability in complex naval vessels and encouraging innovation and the pull-through of new technology through multi-company participation.

13. Overall, these initiatives will deliver considerable benefits to the Department and the taxpayer while incentivising improved performance, cost and timeliness for both projects and other services. To ensure that they also represent value for money, the Department is employing a number of measures including Key Performance Indicators to measure business performance and the use of suitable international benchmarking standards to provide for continuing optimisation in productivity.

PAC Conclusion (5): The future viability of the United Kingdom's shipbuilding industry rests on the procurement of the new aircraft carriers, and after five and a half years the Department has only just signed the contract. Past experience shows that delaying projects leads to increased costs in the long run. The Department and the Treasury need to look carefully at experience on the Future Aircraft Carrier project and identify specific lessons, which they can apply on forthcoming projects to prevent such potentially damaging delays.

14. The Department accepts that delaying projects can lead to cost increases once the main investment decision is taken. This has not been an issue with the new aircraft carriers. During the assessment phase the project has made steady progress aimed at taking the design of the ships to a greater degree of maturity, fully involving Industry, to ensure a true understanding of the costs and risks involved. This included allowing time for expert independent assessor's review of the work, a move, which was highlighted as good practice by the Committee in their previous report (46th PAC Report – Ministry of Defence: Major Projects Report 2006).

[10] BVT TOBA is likely to commitment to elements of future warship building programme and payment, if needed, to sustain Maritime Key Industrial Capabilities (KICs). BM TOBA may involve commitment to elements of future support programme.

15. The Department also adopted an incremental approach to project commitments, allowing it to move ahead in stages and culminating in Manufacture Main Gate approval in July 2007. Prior to manufacture contract signature (announced on 3 July 2008) there remained complex detailed negotiations to conclude, including ensuring the best alignment of annual expenditure, work schedule and commercial arrangements, and that Industry had the confidence to move ahead with the creation of the company with which the contract was to be let, BVT Surface Fleet joint venture. The creation of BVT offers the opportunity for industrial rationalisation and represents a significant potential efficiency for Future Aircraft Carrier and the future warship-building programme.

PAC Conclusion (6): The Department is ordering fewer munitions for the Guided Multiple Launch Rocket System and transferring a budget of £165 million to the Indirect Fire Precision Attack project to fund alternative munitions. There is no guarantee that the Indirect Precision Fire Attack project will be approved as currently envisaged, and so there is a risk that frontline troops will go short of equipment. The Department should develop a robust methodology, which, as a minimum, should cover analysis of operational requirements, technical risk and likelihood of timely delivery. This would allow it to demonstrate to the Committee the cost-effectiveness of this and future transfers between projects.

16. The Department is procuring sufficient Guided Multiple Launch Rocket System munitions to meet existing requirements and does not accept that the transfer of £165 million to the Indirect Fire Precision Attack project creates a risk that frontline troops will go short of equipment. An objective of the Indirect Fire Precision Attack programme is to carry out ongoing assessment of a range of Precision Attack weapons, and to evaluate the mix and quantities of those weapons in the light of changing operational need and availability. As the Guided Multiple Launch Rocket System is also a Precision Attack weapon, it makes sense for its future funding to be held within the Indirect Fire Precision Attack programme, to provide flexibility in the types and quantities of Precision Attack weapons to be bought.

PAC Conclusion (7): There are a wide range of factors leading to cost and time overruns on defence projects, and despite numerous reforms to working practices, the Department seems unable to bring about lasting improvements. The Department should conduct an in-depth analysis of the way previous change programmes and initiatives were implemented to understand why they failed to deliver, as well as identify how to secure and sustain the necessary improvements in performance.

17. Delivery of technically challenging and complex major projects takes a considerable time. As the 2007 Major Projects Report acknowledges much of the cost growth and time delay has occurred on projects initiated before many of the recent reforms. In Major Projects Report 2007 cost overruns and delays on more recently approved projects showed signs of reducing. The report states *"…it is too early to draw a definite conclusion and prove a causal link, part of improvement may reflect the Department's increased emphasis in recent years on only making major investment decisions when it has greater confidence in the maturity of proposed solutions"*. Examples of this are outlined in paragraphs 14-15 above.

18. The Department believes that the further steps it has been taking on organisation, process, skills and behaviours, through the Defence Acquisition Change Programme and otherwise, will lead to further improvements in effective project management. As part of this work the Department is already undertaking a fresh examination of the factors that drive acquisition cycle times, including the causes of overruns, with a view to making significant reductions. Major projects will still typically involve relatively long timescales, which means that improvement will necessarily take time to come through.

Thirty Fourth Report

Department for Work and Pensions (DWP)

Increasing employment rates for ethnic minorities

1. Increasing the employment rate of people from ethnic minorities is a complex and long-term challenge. The Department for Work and Pensions ('the Department' or 'DWP') has invested substantial time and resources to meet this challenge, both through its mainstream employment support and specific pilot programmes. Significant improvements have already been made: the ethnic minority employment rate has risen by 4.4 per cent since 1997 and the ethnic minority employment rate has been consistently above 60 per cent over the last year. The gap between the employment rate of ethnic minorities and the rest of the population has reduced – even as the overall employment rate has risen.

2. However, the Government agrees with the Committee that the employment gap between people from ethnic minorities and the general population is still too high and more needs to be done to narrow this gap. On 21 July 2008 the Department published *No one written off: reforming welfare to reward responsibility*[11]. This paper sets out the Government's proposals for a benefit system that rewards responsibility and encourages them to look for work. The aim is to ensure that everyone, including people from ethnic minorities, has the opportunity to improve their circumstances by moving into and progressing in work; it seeks to end the current injustice whereby too many people are written off on benefits and excluded from the help they want to get back to work.

PAC Conclusion (1): The employment gap between ethnic minorities and the overall population is unacceptably high at 14.2 per cent. Despite the Department spending £40 million annually on pilot schemes to narrow the gap, it has decreased by only 2.8 per cent in the last 10 years.

3. The employment rate for ethnic minorities in 1997 was 56.2 per cent compared to 72.6 per cent for the overall Great Britain (GB) population: a gap of 16.4 per cent. The ethnic minority employment rate currently stands at 60.5 per cent compared to 74.7 per cent for the overall GB population, so the gap has reduced to 14.1 per cent[12]. The Government agrees with the Committee that this gap is still too large and recognises that the improvements already made are only the start of a longer process to meet this key strategic challenge.

4. The Department has been examining ways to help people from ethnic minorities through a number of small-scale pilot programmes. The lessons from these pilots have been used in developing the new devolved, area-based suite of programmes. The Department is not only increasing the level of funding considerably but also targeting that money on the areas where over 50 per cent of workless ethnic minority people live.

[11] *No one written off: reforming welfare to reward responsibility* (Cm 7363), July 2008

[12] Labour Force Survey Q2 2008 (Figures based on new Labour Force Survey weights)

5. DWP will be working with local strategic partnerships in areas that receive the new £1.5 billion Working Neighbourhoods Fund to consider how they can extend support and deliver improved outcomes for their ethnic minority residents. This is of a different order of magnitude to the small-scale outreach pilots, which it replaces and the Department believes that this is a more efficient and effective way to spend public money.

PAC Conclusion (2): The Department's current aim to make further progress in increasing ethnic minority employment lacks quantification and is not sufficiently challenging. Unlike for the period 2005-2008, the Department no longer has a specific target to increase ethnic minority employment. Its aim remains, however, to reduce the employment gap by 1 per cent for each of the next three years. This is less challenging as the Department is no longer required to discount the impact of prevailing economic conditions. The Department should set a more specific target, which is both challenging and realistic and can influence how resources are best deployed in terms of their potential to promote ethnic minority employment.

6. The Department has not changed its approach from that taken in 2005-08. It still has a target to narrow the gap between the employment rate for ethnic minorities and the overall rate. This is set out in the Public Service Agreement on employment (PSA 8). The PSA 8 target is to raise the overall employment rate, so to narrow the gap the ethnic minority employment rate must also be raised and at a faster rate. This is a challenging ambition and a good guide to policy.

PAC Conclusion (3): Lack of continuity in the Department's strategy to promote ethnic minority employment has reduced its effectiveness. Between 2002 and 2006, a series of pilot projects to increase ethnic minority employment were trialed but not continued or rolled out nationally. It is not clear whether the lessons from these pilots have been incorporated into the Department's wider focus on disadvantaged groups. The Department needs a longer-term, clearly articulated strategy to support ethnic minority employment, which is more consistently implemented and monitored against key milestones.

7. Over the past ten years the Department has used pilot programmes extensively to draw on and develop expertise and test out different ways of achieving desired outcomes. Action Teams for Jobs, Ethnic Minority Outreach and the Ethnic Minority Flexible Fund were all designed as pilots to test new ways of working. Lessons from these and other pilots have been used in developing the Department's new devolved, area-based suite of programmes.

8. The Department's shift in strategy to an area-based approach was first announced in *A new deal for welfare: Empowering people to work.*[13] This publicly signalled a move to devolving responsibility to achieve greater impact from funding and work with partners at central and local level. One of the key aims was to "deliver a significant improvement in employment rates among those of working age, with a particular focus on the most disadvantaged especially people from minority ethnic groups."

[13] *A new deal for welfare: Empowering people to work* Cm 6730, January 2006

9. The Department will continue to evaluate its programmes and will feed the lessons learned into future developments. The Department has also set up a number of forums to enable providers to share 'best practice' as they develop and improve the support they provide. The Department will continue to explore new options in order to achieve its PSA targets in the most effective and efficient way.

PAC Conclusion (4): Only seven of the fifteen City Strategy Pathfinders have specific targets aimed at reducing ethnic minority employment gaps. As a condition of funding, all City Strategies for areas with significant ethnic minority populations should include measurable targets to demonstrate their impact in tackling the employment gap.

10. The Department agrees with the Committee that, where appropriate, City Strategy pathfinders should include targets for raising ethnic minority employment rates. For example, the Birmingham, Coventry and Black Country pathfinder has a target to reduce the gap between the employment rate for people from ethnic minorities and the white population by 1.3 percentage points per year. 13 of the 15 consortia have now agreed targets on ethnic minority employment: the exceptions being the two pathfinders in Wales, whose ethnic minority population is less than one per cent. DWP will continue to challenge the Pathfinders, where they feel this is necessary, to include more detail on services and targets for ethnic minorities.

11. DWP will also continue to monitor Pathfinders performance to ensure their boards are broadly representative of the communities they seek to help, and have the skills on the board to deliver effective community engagement that empowers those being helped.

PAC Conclusion (5): Jobcentre Plus's personal advisers do an impressive job in helping ethnic minorities find employment, but they need better support from Jobcentre Plus. Despite considerable training opportunities and dissemination of good practice, personal advisers often do not have sufficient time or incentives to make use of these important aids to their work. As part of its performance management process, Jobcentre Plus should set a minimum amount of time that personal advisers need to spend on training and accessing good practice, and reflect this in the personal advisers' workload.

12. The Government welcomes the Committee's recognition of the excellent work carried out by Jobcentre Plus personal advisers. Jobcentre Plus supports a very diverse group of people who have a wide and varying range of needs. It works closely with external partners in the development of training products and in the direct training of advisers to ensure that they are able to provide all of their customers with the best advice and service possible.

13. Jobcentre Plus has streamlined paperwork and improved the management of adviser diaries to allow personal advisers to be able to spend the time needed to use their knowledge and expertise in helping people into work. Adviser resource is costed on the basis that 70 per cent of their time will be deployed directly on customer interventions and 30 per cent on other aspects of their role, including learning and development. Jobcentre Plus allows an equivalent of five days on average, per year, per adviser for learning and development.

14. Every Wednesday local offices remain closed for one hour, which provides time for information sharing on new local and national initiatives and the exchange of good practice. There are also several virtual discussion groups on the DWP internal intranet that advisers are encouraged to use. These are useful forums in which to raise issues with peers and share best practice. Advisers have the flexibility to use this as required.

PAC Conclusion (6): The scaling back of outreach activity by Jobcentre Plus increases the risk that the hardest to reach unemployed ethnic minorities will become more isolated. The ending of Ethnic Minority Outreach in 2006 reduces the ability of Jobcentre Plus to engage with economically inactive ethnic minorities and help them get closer to the labour market. Outreach provision should reflect the needs of the local community and is best assessed locally. Jobcentre Plus managers should report periodically to district managers on their outreach activities and the extent to which they have met local needs.

15. The Department agrees that outreach activity should reflect the needs of the local community. Jobcentre Plus managers have been given the flexibility to undertake outreach activity where this is appropriate to suit local circumstances. Additionally, a network of regional and district external relations managers aims to build relationships with all sections of the communities they serve. This includes engaging customer representative groups to ensure services are delivered in a way that is accessible and appropriate to their diverse customer base, and collaborating with voluntary sector partners.

16. One example of continuing outreach activity are the Partners' Outreach for Ethnic Minorities programmes running in London; Leicester; Birmingham; Bradford and Manchester. All of these programmes use outreach activity as their clients, non-working partners in low-income households who are not claiming key benefits[14], have no reason to be in contact with Jobcentre Plus or other central or local Government organisations where they might be contacted centrally.

17. The nature and scale of Jobcentre Plus outreach activities varies from District to District to complement local programmes and in line with the needs of the communities. The network of external relations managers (ERMs), who report directly to District Managers, work to build relationships with all sections of the communities they serve and keeping their senior managers up to date with progress is an integral part of their role. The relationships that ERMs develop are regularly reviewed using the Jobcentre Plus 'Partnership Lifecycle' model which provides a framework for developing, managing, and evaluating partnership work, focusing upon its value to Jobcentre Plus (and wider government) business objectives.

PAC Conclusion (7): Discrimination remains a major barrier to employment. Jobcentre Plus should independently assess ethnic minority awareness of its procedures for reporting suspected cases of discrimination. The Department should also explore the possibility of encouraging employers to obtain a recognized 'Kitemark' certifying that they are an equal opportunities employer.

[14] Jobseekers Allowance individually or as part of a Joint Claim; Incapacity Benefit; and Income Support.

18. The Government agrees with the Committee that discrimination remains a barrier to employment. Jobcentre Plus staff are trained to challenge any employer who appears to be behaving in a potentially discriminatory way when using their vacancy service. Additionally, if a customer reports to Jobcentre Plus that they have suffered discrimination, staff will advise them of their rights, provide details of how to access the Employment Tribunal Service (ETS) and signpost to the Equality and Human Rights Commission (EHRC) if the customer requires further advice or guidance.

19. In autumn 2008 Jobcentre Plus will be introducing written guidance for customers, as part of its Job Kit. This will explain to customers what to do if they feel they have been discriminated against when looking for work. Following the introduction of the guidance, Jobcentre Plus will explore including a question on awareness of discrimination reporting procedures in its two yearly customer satisfaction survey.

20. DWP is also working with colleagues in the Government Equalities Office (GEO) to develop effective ways to strengthen the current discrimination laws. This includes considering the NEP Business Commission on Race Equality recommendation to include equality conditions within public contracts.

21. The Commission proposed a kitemark as a useful standard in itself, but also as a simplified way for Government suppliers to demonstrate that they complied with conditions relating to equality in public contracts. The GEO, the Department for Business, Enterprise and Regulatory Reform (BERR) and the EHRC will be considering the feasibility of this proposal. This assessment will include seeking the views of senior business leaders.

PAC Conclusion (8): The quality of some New Deal training needs to improve, in particular, English language teaching for Speakers of Other Languages. Despite the need for high quality English language training, Jobcentre Plus has not addressed the shortcomings it has identified in the quality of training provided. The Department needs to satisfy itself that all its contracts with English language training providers specify appropriate teaching standards and that, where these are not met, penalties are imposed. The Department should set out the results of this review and the overall quality of teaching achieved in its Annual Report.

22. The majority of publicly funded English for Speakers of Other Languages (ESOL) provision is procured by the Learning and Skills Council (LSC) in England, and the equivalent bodies in the Devolved Administrations. Where there have been reports that ESOL provision is of variable quality, LSC already have their own procedure for managing performance by providers – the Framework for Excellence.

23. New Deal Prime Contractors may arrange to deliver their own ESOL courses if there is a customer need outside of that delivered by the LSC. New Deal Prime Contractors are inspected by Ofsted, including any ESOL provision they either directly deliver or subcontract out. Inspection reports have not identified any trends in this being consistently poor provision. Where New Deal Prime Contractors refer customers to LSC funded provision, Ofsted has indicated that this might not always be the right provision for the customer. Prime contractors are then required to take relevant action which is monitored through the DWP Contract Management process.

24. DWP contract managers monitor quality of Prime Contractor provision including those of subcontractors. If performance falls below required levels they work with the Prime Contractors to draw up a performance improvement action plan. Progress is monitored on a regular basis and if quality consistently continues to fall below standard contracts can be terminated.

Thirty Fifth Report

Department for Communities and Local Government (DCLG)

Housing Market Renewal: Pathfinders

1. The Department for Communities and Local Government (the Department) welcomes this report by the Public Accounts Committee examining the progress made in promoting the sustainable regeneration of neighbourhoods covered by the housing market renewal pathfinder programme; community engagement and support; and the Department's oversight of the programme. The Department agrees with the Committee's conclusion that the overall success of the housing market renewal programme will depend on a holistic approach in which local economic performance, employment opportunities, community safety, access to public amenities and transport are addressed alongside improving housing stock. The Department will be working with the Homes and Communities Agency (HCA), Housing Market Renewal Partnerships, and regional partners to ensure that appropriate links are made between these various factors.

2. The Department also agrees with the Committee's conclusion that neighbourhood regeneration is more likely to be sustained if local communities are actively engaged in decision-making, and will continue to encourage the market renewal pathfinders to develop robust community engagement strategies, including through involvement in master planning and design.

PAC Conclusion (1): The overall success of the Housing Market Renewal Programme in addressing the problems of low demand housing in the North of England and the Midlands will depend on local economic performance, employment opportunities, community safety, access to public amenities and transport being addressed alongside improving housing stock. In transferring oversight of the programme to the new Homes and Communities Agency, the Department should require that pathfinders' physical regeneration plans align with broader plans to address the sustainability of neighbourhoods.

PAC Conclusion (2): The Programme has refurbished over 40,000 homes, acquired and demolished 10,000, yet built only 1,000 new homes, creating a risk that demolition sites, rather than newly built houses, will be the Programme's legacy. Revitalising pathfinder neighbourhoods is a long-term project, with the acquisition of properties under Compulsory Purchase Order, for example, typically taking five to six years. The Department should provide greater certainty and clarity over future objectives, funding and governance of the programme, in order to foster confidence amongst local communities and developers.

PAC Conclusion (4): The success of the efforts made by pathfinders to restructure housing markets in their areas depends on a co-ordinated regional approach to planning housing growth. Plans to increase the targets for numbers of new homes in the North and the Midlands could fuel the migration of people out of pathfinder areas, hindering the impact of pathfinder interventions. The Department should clarify how HMR is expected to align with regional housing strategies.

3. The Housing Market Renewal programme was established as a long-term solution to deep-seated problems. The National Audit Office's findings clearly show that the areas chosen for intervention have outperformed other areas with problems of low demand on a lesser scale outside the programme. The Department therefore remains committed to supporting ongoing housing market renewal activity in contributing towards the regeneration and transformation of deprived areas. The recent announcement of a further £1 billion of funding over the three years 2008-11 signifies this long-term commitment and is intended to help Pathfinders, developers and communities plan ahead with greater certainty.

4. Early work by the partnerships has helped to strengthen understanding of local housing markets, and through this, pathfinders have come to understand much more about the links with other programmes in their areas and the importance of looking in conjunction at the range of issues the Committee identifies. The Department is encouraged by this work and is determined that it should continue. The creation of the HCA, which will assume operational responsibility for the programme in December 2008 to support the Department's strategic role, will strengthen capacity to address housing market and wider social and economic conditions in the round.

5. In taking forward the Sub-National Review's proposal for the development of new regional strategies and the proposals contained in the July 2008 consultation "Transforming Places; Changing Lives: A Framework for Regeneration", the Department will expect the HCA to develop a range of integrated housing and regeneration programmes in partnership with local areas which support economic development and connect homes to job opportunities.

6. As the programme moves into its next phase, it is clear that different places continue to face different challenges, and HMR partnerships will need to take account of recent and ongoing changes in their local housing markets and tailor their programmes accordingly. In some cases, market renewal areas are increasingly close to areas experiencing or forecasting growth, and in these circumstances it will be important to bring these developing programmes together. This connectivity is reinforced in Government proposals, which encourage local authorities to pursue growth strategically in partnerships across boundaries and ensure that housing and regeneration policies are mutually reinforcing. In other places, low demand problems remain more deep-rooted, and further work to address wider economic circumstances may be necessary.

7. HCA and regional and local partners will be able to develop the most appropriate strategies for these different circumstances. This should be informed by indicative regional regeneration priority maps produced in 2009 as proposed in "Transforming places; Changing Lives: A Framework for Regeneration".

PAC Conclusion (3): After five years and an investment commitment of some £2.2 billion, the gap in demand in housing between pathfinder neighbourhoods and surrounding regions has started to close but the Department is unable to assess whether this is due to pathfinder-led interventions or wider market factors. The Department should enhance its performance management framework to draw on a wider range of socio-economic indicators already being developed by a number of individual pathfinders. These include indicators relating to, for example: residents' satisfaction, levels of crime and social disorder, residents' investment in properties, educational facilities and attainment, rates of employment and worklessness, and income rates.

8. Since the programme began, the Department has collected a range of data from pathfinders on their performance, including the numbers of refurbishments, new build, demolition and acquisitions, and has continued to monitor house price and vacancy data. This has recorded real results, and, as the National Audit Office's report found, indicates that the programme is having a positive impact. Additional investment from a range of Departments is supporting improvements in schools, health services, community facilities and transport, helping to increase confidence in these areas.

9. The Department has begun to consider a wider range of indicators as part of the assessment process informing annual funding allocations and agrees that it would now be appropriate to review the current set of performance measures to simplify these and reduce the overall number, yet also bring in some new measures to reflect the overall change in a place. The Department will work with pathfinders and the HCA set-up team over the coming months to agree, by March next year, a new, meaningful but streamlined set of measures to monitor future performance.

PAC Conclusion (5): Neighbourhood regeneration is more likely to be sustained if local communities are actively engaged in the decision-making. Pathfinders' intervention proposals should take account of the views of existing residents of an area's problems. Proposed interventions should be clearly explained to local communities, and community support reappraised regularly as plans develop and change.

PAC Conclusion (6): The needs of those who wish to remain in an area should not be overlooked in developing more mixed and sustainable communities. The Department should require pathfinders to monitor existing residents' housing options and demonstrate that those who wish to remain are offered appropriate options

PAC Conclusion (7): The average shortfall between the compensation received by existing residents under a Compulsory Purchase Order and the cost of a suitable alternative property is £35,000, with the risk that existing residents are priced out of the housing market altogether. The Department should work with pathfinders, developers and private sector financial institutions to identify ways in which the affordability gap might be bridged, for example through encouraging shared ownership and equity loan schemes.

10. Since the start of the programme, pathfinders have made considerable progress in developing community engagement strategies and already have an extensive range of consultation, advisory and financial assistance mechanisms in place. Independent assessment of their performance in relation to community cohesion, consultation and support is carried out by the Audit Commission as part of the Department's established monitoring regime. Measures to consult and involve residents include public meetings, workshops, opinion surveys and newsletters. Residents are increasingly involved in master planning and design work, and in helping to bring forward and lead proposals for the redevelopment of their neighbourhoods.

11. Pathfinders have developed strategies to engage difficult to reach groups, as, for example, in Urban Living's (Birmingham/Sandwell) Housing Education initiative aimed at involving young people in plans for their area. The Department agrees that this work is essential if regeneration is to be successful and will continue to encourage pathfinders to look at ways of further developing these approaches.

12. Pathfinders have also worked hard to improve their strategies to support residents who may have to move as a result of redevelopment programmes. They provide a range of advice and support, including discussing options open to those who may have to move, which in some instances may include moving to new build within the redevelopment. A variety of financial assistance is also available, including a range of equity loan products and low cost home ownership initiatives aimed to help people purchase a home who would otherwise be unable to purchase a property outright on the open market.

13. Private finance is supporting equity loans in some cases and work is in hand to develop this further. Partners in Action in Oldham/Rochdale, for example, pioneered the use of equity loans, including measures to cap the amount repaid by residents on sale of their homes so that the repayment would not exceed what they would have paid out if they had taken out a typical mortgage. The Department expects pathfinders to continue to take these responsibilities to their communities very seriously, and, with HCA, will continue to support pathfinders as they look at new approaches to address problems of affordability.

PAC Conclusion (8): The application of existing rules for Value Added Tax may encourage developers in pathfinder areas to demolish and rebuild rather than refurbish. Much of the cost of new construction is zero-rated whilst most refurbishment work is standard-rated at 17.5 per cent. The Department should explore with Treasury whether there is a case to utilise any scope within the European Union Value Added Tax Directive to apply a lower rate of Value Added Tax for the provision, construction, renovation and alteration of housing where part of a funded social policy.

14. Policy on Value Added Tax is a matter for the Chancellor of the Exchequer, and there are currently no plans to make any amendments to the rules in this area.

PAC Conclusion (9): Pathfinders should ensure their plans do not threaten the distinctive historical character of neighbourhoods. It is important that heritage is seen as a positive asset in regenerating many of these areas. Pathfinders, with English Heritage's help, are now required to make assessments of the housing heritage in their areas. The Department should not approve demolition proposals that are not part of a wider study of landscape and townscape.

15. The Department and the pathfinders fully recognise the importance of heritage assets within the housing market renewal areas, and are keen to use these to lead regeneration wherever possible, as they have already done in many cases, for example in Nelson, Lancashire where the pathfinder redesigned an earlier local authority scheme to bring about a heritage-led regeneration. English Heritage's Model Brief provides guidance for pathfinders on the appropriate content of heritage appraisals. This ensures that the heritage, townscape and local distinctiveness of place is understood ahead of the drawing up of plans and proposals. The Department will expect pathfinders to continue to take this guidance fully into account in all appropriate situations.

16. In addition, pathfinders work closely with the Commission for Architecture and the Built Environment – for example through Design Task Groups – to ensure that high quality design and place making are at the forefront of the programme. The Department and HCA will continue to expect that pathfinders, in future business plans, will continue to set out clearly how they intend to recognise and reflect the heritage in their areas.

Thirty Seventh Report

Ministry of Defence (MOD)

Ministry of Defence: leaving the Services

1. The Ministry of Defence (the Department) welcomes this report by the Public Accounts Committee (the Committee) in which it examined the process and wider considerations of leaving the Services. The Department is pleased that the Committee noted the overall success of the resettlement programme with only five per cent of those Service leavers (SL) looking for work still unemployed at the six months post-discharge point and that the majority of Service leavers are generally very satisfied with the resettlement support received.

PAC Conclusion (1): Early Service leavers are most vulnerable to social exclusion, yet the majority of the Department's resettlement support is directed at those with longer service histories. The Department sees resettlement support as a reward for service and as an aid to retention, but the many longer–serving Service leavers will secure civilian employment and accommodation without any assistance. The Department should develop and introduce additional targeted measures for Early Service Leavers and others most in need. It should do this on the basis of better evidence on the effectiveness of existing assistance.

2. The Department believes that a robust and effective system of resettlement provision is a fundamental pillar of personnel support, a manifestation of the Armed Forces' commitment to being an employer of first choice and a proper reflection of the transition issues that can arise for those who have given a substantial return of service. It is therefore perhaps not surprising that the majority of support is directed at those with longer Service histories. Nevertheless, the Department acknowledges the specific requirements of Early Service Leavers (ESLs) many of whom will not have entered productive service at the point of leaving and is keen to do what it can to improve support for these groups.

3. This year the Department has introduced mandatory resettlement interviews and advice for ESLs in the course of which those vulnerable to social exclusion are identified and given the option of being put in touch voluntarily with further specialist support from the Soldiers, Sailors and Air Force Association (SSAFA) or the Royal British Legion. Competency standards to assess for vulnerability to social exclusion were promulgated by the Department in Joint Services Publication (JSP) 575 in December 2007.

4. Where post-discharge accommodation arrangements have not been made, or not deemed firm enough, assistance in the form of signposting to the SPACES programme is provided and briefing material is given where appropriate. The Department is also in consultation with a charity, the Regular Forces Employment Association (RFEA) over a new project to provide more tailored support for certain groups of ESL. A Mentoring Trial, involving 100 vulnerable ESLs discharged from training, including a control group, will measure outcomes 6 months after entry into the trial. A second phase has recently been initiated to assess the same intervention for individuals leaving the Services following an operational deployment and assessed as vulnerable.

5. The outcome of this trial, including an assessment of the impact of mentoring on ESLs, will determine the way forward and any subsequent targeting of groups. The Department will be in a position to evaluate the first phase of the pilot over the next few months but a full evaluation will not be possible until around the end of 2009.

PAC Conclusion (2): First line resettlement support is weak and poorly monitored within the Army even though it is the principal assistance for early Service leavers and crucial for other Service leavers to get through to other resettlement activities. The Department should instigate its planned improvements to training for first line resettlement staff and for better quality assurance measures, and seek feedback from Service leavers to assess whether performance has improved by the end of the year.

6. The Army is currently undertaking a comprehensive review of all first line resettlement training in response to recommendations in the NAO report of July 2007. A Training Needs Analysis is identifying costings for training of Army first line resettlement staff against training options identified in September 2008. Quality assurance guidelines for first line resettlement provision were issued in January 2007 and these will be updated as part of the first line training review. Army first line resettlement delivery is also now formally considered as part of a range of unit performance reporting measures. These include the extant Annual Assessment of a Unit process in Germany along with the Support Infrastructure Management process, which will apply to all Army units from April 2009. Once the new first line training measures are in place at the end of the year, feedback on the impact of improvements will be sought from Army Service Leavers.

PAC Conclusion (3): the Department has reduced the number of forms the Service Leavers must complete to obtain the resettlement support to which they are entitled but the system needs to be streamlined further. The Department should look at the process from the point of view of Service Leavers, particularly those with lower educational attainment who have been heavily reliant on administrative support throughout their service careers, with the aim of reducing bureaucracy to the absolute minimum.

7. Through the combination of several resettlement administration forms effective from 1 January 2008, the Department has achieved a 20 per cent reduction in resettlement documentation. However, much resettlement activity involves attending training and briefings away from the normal place of work and there is a consequent requirement to record travel and subsistence costs. Proper stewardship of public funds dictates that no further paper-based process revisions are possible without unacceptable risk of loss of control and financial accountability.

8. The Department has begun the process for placing much of the administration of resettlement on the Joint Personnel Administration (JPA) IT system. This will further reduce bureaucracy, make it simpler for Service Leavers to access resettlement services, reduce time lost in passing paper documents, and assist in governance of first line resettlement support.

PAC Conclusion (4): Some Commanding Officers have not made it easy for Service leavers to attend resettlement in a timely fashion. The demands of frontline operations, including in Iraq and Afghanistan, as well as other military tasks, are vital, but prioritising them to the exclusion of other planning has prevented or delayed some Service Leavers in starting their resettlement. Notwithstanding operational demands, the Department should require Commanding Officers to give resettlement due priority and management attention. It should determine a reasonable length of time for Service leavers to spend in the United Kingdom at the end of their career, taking into account current operational commitments for particular branches, and ensure that all Service leavers get the necessary time for resettlement. The Department should also require all first line staff to encourage individuals to draw up realistic resettlement plans, taking into account likely deployments up to two years ahead of departure dates.

9. The Department agrees that the Commanding Officer has a key role in the resettlement process. Following the publication of the NAO Report in July 2007, Commanding Officers are briefed on their responsibilities for resettlement in a dedicated briefing on the Commanding Officers' Designate Course and it is now mandatory for all Service Leavers to have a resettlement interview.

10. The Department agrees that first line staff have an important role in encouraging individuals to draw up realistic resettlement plans which take account of likely deployments. First line resettlement staff have a key role to play in resettlement planning in terms of advising on time lines, unit commitments and entitlement in the broad. It is expected that this will be a key area of the training improvements identified for Army first line resettlement staff.

11. Even with judicious planning, operational commitments can impact on individual resettlement preparation. To mitigate this, for Afghanistan and Iraq, it is now Army policy that those with up to five years service should have a minimum of 4 months residual service following return from operations and those with more than five years service, should have six months. Should operational reasons preclude this, there is the option to defer resettlement activities and, in some cases, with the individual's consent, to extend service. All Operational Theatre Education Centre Staff and the Unit Education Officers who accompany Battlegroups are trained in providing resettlement advice.

PAC Conclusion (5): Attendance at Career Transition Partnership is very high across the board but within some groups such as junior ranks, the percentage is lower, as are satisfaction levels. The Department should identify why other ranks have lower attendance at Career Transition Partnership and why other ranks are less satisfied with some courses than officers.

12. Career Transition Partnership (CTP) attendance and satisfaction rates are high; indeed the contract is designed to incentivise the provider to achieve high customer satisfaction ratings. However, the Department accepts that, for some groups, rates are lower. To this end, resettlement interviews are now mandatory and forms, which are completed at initial second line resettlement interviews require Service Leavers to sign to confirm that they have been briefed on all aspects of resettlement. A guidance note on resettlement entitlement is also included in the Service Leaver's Information Pack issued by the Service Personnel and Veterans Agency (SPVA) at the 9 months pre-discharge point and is also posted on the SPVA website.

13. Other than awareness, attendance and satisfaction rates will differ for a variety of external reasons including realism of aspirations, appropriateness of courses attended and operational commitments. The Department will now investigate why other ranks have lower attendance and satisfaction rates with some courses than officers. This will be completed by December 2008. In the course of evidence to the Committee, the Department also briefed on the plan to raise the Individual Resettlement Training Costs Grant. It has not yet been possible to make this affordable due to the pressure of other priorities within the existing budget. The Department is returning to the matter in the current planning round.

PAC Conclusion (6): Unemployment is significantly higher among Early Service Leavers than among other Service leavers. The Department believes much of this problem lies with those Army trainees who have failed basic training and came to the Army with poor basic skills and few qualifications, and would in any case struggle to gain employment. It also thinks that many Early Service Leavers may have returned to full time education. The Department has been working with the Department for Work and Pensions to try to identify the full extent of the problem of unemployment amongst Early Service Leavers. The Department should determine more accurately the numbers that remain unemployed six months after discharge, it should also identify the risk factors due to the individual's background and service experience, and then decide if it can do more to support those most likely to be unemployed.

14. The Department agrees that ESLs, particularly those who join the Services with few skills or qualifications, and do not complete basic training, face particular challenges in obtaining employment. All ESLs are interviewed by appropriately trained individuals, an assessment of vulnerability to social exclusion is completed and an audit trail of the process is retained. The ESL picture is complex and many go into training or education to gain more skills and qualifications to help them get employment.

15. There are two strands to current work to build a picture of the ESL outcomes. Firstly, and with the prior agreement of the Service leaver, the Department for Work and Pensions (DWP) is asked to tell the Department if the ESL is in work at the three and six month point after leaving the Armed Forces. Working in conjunction with DWP and HM Revenue and Customs (HMRC) to determine if the ESL is in employment, the Department is able to identify numbers of SL who have registered/paid tax and, from this, numbers employed at the six-month post-discharge point. This is being completed on a six-monthly basis and in this way a profile of post-discharge employment fortunes of ESLs is being built. Initial indications show approximately 50 per cent in employment within six months of discharge.

16. Secondly, a CTP and Regular Forces Employment Association (RFEA) qualitative study to identify risk factors and how these might be addressed is being undertaken. This latter study will be used to identify risk factors due to individual backgrounds and Service experience and identify additional support for those most likely to be unemployed. These two studies will contribute to the wider understanding of ESL employment outcomes.

PAC Conclusion (7): A minority of Service Leavers do not have accommodation when they leave but have experienced difficulty in getting some local authorities to accept their responsibilities to assist them in finding housing. Part of the problem relates to the lack of a 'local connection' to the area where the Service leaver had served but, in other cases, local authorities were simply reluctant to assist Service Leavers without them being evicted from Service housing. The Department should work with the Department for Communities and Local Government to identify, which local authorities insist that Service Leavers are evicted, and then enforce the guidance forbidding such practices. It should also estimate the likely pattern of demand on local authorities following the granting of local connection to identify where problems may emerge, and project this analysis forward to the introduction of 'super garrisons'.

17. Local connection can be a factor in the current allocation of social housing and previous legislation prevented Service personnel from establishing a local connection with the areas in which they were serving. The Housing and Regeneration Act, which received Royal Assent earlier this year, removes this provision in England and Wales, which will improve access to social housing. Scottish Ministers are also consulting on changing legislation so that Armed Forces employment/residence constitutes a local connection for the purposes of homelessness legislation in the same way as civilian employment/residence. The Department is working with the Department for Communities and Local Government to address the problem of local authorities who do not take account of statutory guidance, and do not accept a Certificate of Cessation to occupy Service family accommodation and insist on a possession order before providing housing assistance. These initiatives were highlighted in the Service Personnel Command Paper, which was published in July 2008.

18. The Department also supports the recommendation that it should estimate the likely pattern of demand on local authorities following the granting of local connection to identify where problems may emerge and project this forward to super garrisons. Super garrisons can bring increased obligations to house personnel as a result of change to local connection legislation; this is but one of the aspects of the wider impact of super garrisons. Planning with the relevant regional and local authorities is ongoing.

PAC Conclusion (8): The Department provides good support to serving personnel looking to buy their own home, and to single Service leavers who need accommodation on discharge, but the take up of these services is low. The Department should refer more of its single service leavers to the services provided by the Single Persons Accommodation Centre for the Ex-Services (SPACES), especially those whom it has identified as most vulnerable to social exclusion. The Department should do more to encourage home ownership early in the careers of serving personnel or prior to discharge by:

- **further raising of awareness among Service leavers and serving personnel through advertising the Department's housing briefings;**
- **training the first line to encourage personnel to consider their future housing needs;**
- **monitoring the impact of the schemes introduced to promote home ownership and considering expanding the use of Long Service Advance of Pay to include buy to let properties; and**
- **exploring with the financial sector possible savings schemes which could help Service personnel.**

19. The Department's Continuous Attitude Surveys reveal that for many Service personnel the need to finance and secure somewhere to live after they leave is a very real concern. Awareness and encouragement of home ownership is effected through the Joint Services Housing Advisory Office's (JSHAO) monthly newsletter, programme of road shows to units and garrisons and the portal on the MOD website. In addition, the JSHAO conducts a data capture exercise, which will identify where housing help for single Service personnel is most required. Housing is included in the second line resettlement checklist, but the Department agrees that there is a first line-training requirement to encourage personnel to consider future housing needs. The nature of this training will be determined by findings from the ongoing survey of Army first line training needs and implemented across all three Services by the end of the year.

20. As regards the monitoring of the impact of home ownership schemes, data is already available for commercial providers, Key Worker Living Programme (KWLP) and also for take up of Long Service Advance of Pay (LSAP). However, without significant change to the management of schemes and additional cost, it is not feasible to separate out data for Service Leavers and some schemes, eg Key Worker Living Programme (KWLP) and Long Service Advance of Pay (LSAP), are specifically not intended for Service Leavers. Focus on Service Leaver take-up is therefore too narrow, for schemes designed both to aid retention and facilitate transition to civilian life.

21. Regarding the expansion of LSAP to include buy to let properties, it should be noted that there is some provision to sub-let by refund of legal costs within the Services allowances package if the Service person is reassigned to a new duty station. Finally, regarding the conclusion that savings schemes to help Service personnel get on the property ladder should be explored with the financial sector, the Prime Minister announced that a £20 million pilot scheme to promote home ownership for Service Personnel would be launched in 2009 by MOD. This will be based on shared equity or rent-to-buy principles.

PAC Conclusion (9): The Department has introduced new provision for the mental health support of veterans suffering as a result of active service on operations but has done little to advertise the provision to veterans. The Department should do more to raise awareness of the new provision and to remind veterans of the support available. It should monitor take-up of assessment from St Thomas' available from November 2007, and of the additional guidance and support provided to GPs. The Department should also strengthen its screening for potential risk of mental health problems when Service Leavers have their final medical, and should use this opportunity to alert Service Leavers to the support available to them following discharge.

22. The health departments, the NHS and MOD and the Combat Stress charity are working together to pilot a new culturally sensitive mental health service at six sites across the UK. These pilots will run for two years, be NHS led and provide evidence-based interventions. There is little robust information on UK veterans' mental health and the pilots will collect data on demand levels and the range of interventions required, while independent evaluation will ultimately allow roll out of the best practice service. The small complementary St Thomas's service was designed primarily for veterans who do not have access to the pilot services. Eligibility is based on having operational service since 1982. The service is limited to assessment only with telephone or written advice for civilian clinicians who will be responsible for treatment.

23. Effective publicity for the new arrangements is essential and needs to target veterans and their representatives, civilian health professionals and administrators and thirdly, the in-service community, especially those around service termination. Different communications methods are being trialed including leaflets and posters, articles in health, in-service and veterans' publications and information on web sites. Opportunity is being taken to speak at meetings and conferences, eg health professional development events or veterans' gatherings and there is good evidence that personal support / encouragement to individual clients is effective in helping them access facilities. At the pilot sites and St Thomas's, the clinicians have invested time and effort using local knowledge and media to pass the word on within their communities.

24. From November 2007 to mid August 2008, 71 new cases have been seen and fully assessed at St Thomas's, 25 are yet to be seen but have appointments while, from mid 2007, there have been 116 information/advice telephone calls. Demand for the service is increasing with time, reflecting the communications initiatives undertaken.

25. To introduce a health-screening programme for psychological problems requires evidence that effectiveness and benefits outweigh risks and costs. There is no simple gold standard screening tool for psychological disorders. Rather screening relies on self-reported symptoms. These are normal in 20-30 per cent of the population at any one time so 'screen-positive' people do not all have significant diagnosable clinical disorders. The very suggestion that there is a problem can be damaging to some clients and discovery of 'screen-positives' always leads to further screening/investigation and a need for increased resources. In UK military populations, studies show that high initial response rates to screening drop off markedly when positive subjects are invited for further professional help. Screening is viewed as stigmatising with adverse effect on career prospects both during and post service.

26. While present evidence does not support the introduction of routine psychological screening, the Department and single Services are firmly committed to action to support good mental health in serving personnel and veterans. Led by the chain of command, the approach is firstly to prevent symptoms and illness. This is done by raising awareness of stress and its effects, developing peer support and building resilience. Where problems do occur, the aim is early detection and referral for effective evidence-based interventions, providing help that is confidential and encouraging a culture in which personnel are comfortable to access help.

Thirty Eighth Report

Department for Business, Enterprise and Regulatory Reform (BERR)

Nuclear Decommissioning Authority: taking forward decommissioning

1. The Department for Business, Enterprise and Regulatory Reform (the Department) welcomes the report made by the Committee of Public Accounts. This Government is the first to rise to the challenge of dealing with the nuclear legacy and remains committed to delivering effective and efficient clean up and decommissioning of the UK's civil nuclear legacy. It was always known that dealing with the legacy would be costly and that costs would be likely to rise in the short term as the Nuclear Decommissioning Authority (the NDA) progressed its understanding of the work involved. Establishing the liability for all the sites in the NDA's portfolio is an ongoing and unprecedented process. It is a sign of success that the NDA has been able to deliver a baseline liability figure against which to measure future performance.

2. The Government fully agrees with the Committee that plans for decommissioning should be already in place for new nuclear power stations before they are built, and aims to ensure this through the regulatory framework now being put in place by the Energy Bill.

PAC Conclusion (1): In 2007, the estimated undiscounted cost of decommissioning civil nuclear sites reached the enormous sum of £61 billion, yet despite many attempts at estimation this figure is likely to rise even further. It has been all too easy for successive governments and the industry to push these costs onto future taxpayers. The Nuclear Decommissioning Authority is now faced with trying to get to grips with the legacy of this repeated deferral and the massive challenge of cleaning up these sites, which contain waste, the exact nature of which is not known in some cases.

3. The NDA is succeeding in providing greater clarity in estimating the cost of decommissioning civil nuclear sites. Whilst there remain some areas of uncertainty, notably the high hazard ponds and silos at Sellafield, the NDA has certainty about the majority of the task ahead and the associated costs. Although some costs may still rise in the short term we continue to expect that overall costs will come down in the longer term as competition drives innovation and efficiency.

4. The NDA has provided for the first time, in its 2007-08 Annual Report and Accounts, a baseline against which to measure future performance. For its 19 sites this estimates a £44 billion[15] liability after discounting and other accounting adjustments (compared with £37 billion in 2006-07).

[15] The £44 billion includes the cost of the geological disposal facility.

PAC Conclusion (2): Between 2005 and 2007, estimates of decommissioning costs expected to be incurred by sites between April 2008 to March 2013 rose by 41 per cent. Uncertainty around costs far into the future is understandable. But uncertainty over the escalating costs of work due to be carried out imminently is difficult to justify. The Nuclear Decommissioning Authority should publish alongside any future estimates the likely range within which future costs may fall.

5. One of the first tasks of the NDA was to develop and implement across its estate a comprehensive and standardised approach to nuclear decommissioning cost estimating and to drive improvement in the quality and content of the plans. It was this approach, along with the inclusion in the plan of previously excluded activities, that has seen an increase in both long and short term plans. The NDA is committed to establishing a more stable baseline for costs for both near term and long-term projects and during the three years of operation, as the maturity of life-time planning has increased, so the rate of increase in costs in the near term has reduced.

6. Estimates are expected to come down as the benefits of competition are introduced progressively, and over much of the estate short term cost should no longer be vulnerable to unexpected cost increases. The NDA has a range of estimates in line with normal industry practice that are used to develop the contractual arrangements for programme delivery by the NDA's contractors and to measure contractor performance. This information is commercially sensitive and its publication would be detrimental to the aim of bringing increased stability to the Nuclear Liability Estimate.

PAC Conclusion (3): With this track record of rising costs it is surprising that the Authority only reviews the process of estimating decommissioning costs by its site licensees, but not the details of costs themselves. The Authority has procedures to ensure estimates are prepared on a consistent basis across its sites, but needs to put in place better arrangements for challenging the underlying cost estimates themselves, for example, by taking forward its plan to commission a validation of site estimates.

7. The Department agrees with the Committee that it is important to ensure that arrangements are in place to challenge the basis of the costs underpinning the planning process. To this end the NDA is continuing to strengthen its capability to scrutinise and challenge the Site Licence Companies Lifetime Plans, using independent specialists. Initially these specialists had concentrated on the integrity and robustness of the estimates supplied by the Site Licence Companies but more recent reviews have been structured to include the development of fully independent review of the underlying estimates on representative sample of individual projects and will continue in the future. This approach follows the model developed by the US Department of Energy to validate cost estimates.

PAC Conclusion (4): It is even more surprising that, in 2006-07, around a third of the Authority's expenditure on its sites went to meet support costs. Site support costs, including engineering support, human resources and procurement services, amounted to £826 million. The Authority should benchmark support costs between sites and encourage greater use of shared services to deliver efficiency savings. It should also expect bidders for future contracts to achieve efficiencies in support services.

8. The Department agrees with the Committee. The NDA is working with sites to identify the opportunity for the identification of opportunities for reducing fixed costs, including the use of benchmarking processes and are encouraging greater use of collaborative procurement to deliver efficiency savings. Driving efficiency is the key reason for competing the contracts to manage sites. Working with both the incumbents and new private sector contractors the NDA expects to deliver real cost savings within the fixed cost base and ensure that available resources are increasingly focussed on priority work areas activities.

9. The NDA has already identified a number of collaborative procurement initiatives and these are being actively pursued on an estate wide basis. An example of this is the delivery of a single contract across the estate for the supply of electricity to the sites.

PAC Conclusion (5): Changes made by the Authority at short notice to some sites' planned programmes have increased costs to the taxpayer. As a result of changes to decommissioning plans, the Authority has had to provide £31.6 million to its sites to cover the costs of early contract closure, as well as staff training and redundancy. The Department, working with the Authority and HM Treasury, should examine the arrangements for planning and resourcing the Authority's work. Improved arrangements could include making better use of year-on-year flexibility and building reserves to provide a buffer against unexpected demands.

10. The funding model has been appropriate since 2005 when the NDA was established. However after more than three years the time is now right for the Government to review the current funding model to consider whether there are changes that could better enable NDA's funding to be managed effectively while maintaining the right incentives and controls. It has been agreed that the Department working with the NDA will review options with Treasury in advance of the next spending review.

PAC Conclusion (6): There are significant variations in performance across the sites being decommissioned. Working with the new parent bodies, the Authority should identify further ways of strengthening the supply chain for decommissioning work, for example by helping to train people and develop the required skills. The Authority should use the parent body competitions to sharpen the commercial incentives in its contracts and drive efficiency improvements.

11. The Department agrees with the Committee that there are significant variations in performance across the estate and agrees that it is important that the NDA seeks to tackle these variations and spread best practice. The competition process requires bidders to submit comprehensive supply chain and skills development management plans. These submissions are assessed as part of the evaluation process. The implementation and effectiveness of these plans will form part of the Parent Body Organisation (PBO) incentive scheme and will be monitored to ensure delivery of value for money across the supply chain.

12. The NDA played a key role in the development of the National Skills Academy for Nuclear (NSAN) as part of its wider skills, training and innovation strategy to meet the needs of the nuclear industry both in the long and short term.

13. Both the Low Level Waste Repository and Sellafield Site Licence Companies Management and Operations contracts have also been restructured as a direct result of the PBO competitions with specific focus on improvements to the fee earning mechanisms with a bias towards actual and therefore auditable efficiency gains. Since much of the sites' efficiency relies on the performance of the supply chain, the fee mechanism is a very effective tool to ensure that performance is improved throughout the supply chain.

PAC Conclusion (7): The Authority's charges for reprocessing nuclear fuel may have included inadequate allowance for the cost of decommissioning the related facility. When agreeing new contracts, the Authority should ensure that, at a minimum, charges are sufficient to provide a contribution to the estimated decommissioning costs of facilities and, where possible, cover the full cost it is likely to incur in delivering the service.

14. The Government does not anticipate any new contracts for reprocessing services at THORP, but fully agrees that if any such new contracts were agreed that any charges for reprocessing should include a contribution that covers the decommissioning costs incurred in delivering the service.

15. In the absence of any proposals to reprocess spent fuel from new nuclear stations, the Government has concluded that any new nuclear power stations that might be built in the UK should proceed on the basis of a once-through cycle, with spent fuel disposed of as waste. We are not currently expecting any proposals to reprocess spent fuel from new nuclear power stations.

16. The Framework set out in the Energy Bill requiring operators to have an approved Funded Decommissioning Programme in place before construction can begin currently only applies to new nuclear power stations. However, the Energy Bill gives Ministers a power to extend the clauses in the Bill to certain other types of nuclear installation that are connected with the generation of electricity. Should energy companies come forward with proposals to develop other nuclear installations and facilities, such as a new reprocessing plant, the Secretary of State can decide that those installations should be included within scope of this legislation.

PAC Conclusion (8): The Department is unable to provide complete assurance that the costs of decommissioning new nuclear power stations will not fall back on future taxpayers. The Department should ensure that there are robust arrangements to ensure that operators of new stations make adequate provision. The level of contribution made by operators to the independent decommissioning funds should be based on prudent estimates that should be updated regularly. The Department must also learn the lessons of British Energy by ensuring that it regularly monitors risks to taxpayers. Before giving the go-ahead to new sites, the Department should be confident that operators can make arrangements to meet all future decommissioning costs.

17. The Government has been clear from the start that operators of new nuclear power stations – not taxpayers – must meet the full costs of decommissioning and their full share of waste management and disposal costs and that operators will have to have secure financing arrangements in place to meet these costs.

18. The Government fully agrees with the Committee that plans for decommissioning should be already in place for new nuclear power stations before they are built. The framework the Department is putting in place through powers in the Energy Bill will require operators of new nuclear power stations to develop a Funded Decommissioning Programme – to demonstrate how they will decommission the nuclear power station and manage and dispose of the waste and how they will fund such activities – and to gain the approval of the Secretary of State for this Programme before construction of the station can begin.

19. Funded Decommissioning Programmes will be subject to regular review and the Secretary of State can require modifications to Programmes if they no longer represent a prudent means of ensuring that the operator will meet their liabilities.

Forty Second Report

Department for Culture, Media and Sport (DCMS)

Preparing for Sporting Success at the London 2012 Olympic and Paralympic Games and Beyond.

1. The Department for Culture, Media and Sport (DCMS) and UK Sport welcome this report by the Public Accounts Committee in which it examined the Department's and UK Sport's preparations for sporting success at the London 2012 Olympic and Paralympics Games. As the PAC notes, the Department and UK Sport are investing significant sums of public money into elite sport. Team GB's performance at the Beijing Olympics and Paralympics has demonstrated the early impact of this funding and supports the overall approach that we are taking. Nevertheless, a number of future challenges have been highlighted by the Committee, including raising sponsorship from the private sector. The Department and UK Sport welcome the Committee's recommendations, many of which are being taken forward. These will help to ensure that the UK maximises its sporting success in 2012.

PAC Conclusion (1): The Department has yet to begin raising the £100 million it needs from the private sector to fund elite sport, even though we first raised concerns about the size of this challenge nearly two years ago. The Department plans to start its fundraising after the Beijing 2008 Games, although it could not say what it had to offer to attract private sector donors, or provide any guarantees that the money would be raised. The Department should work with its advisors to develop firm proposals for how it will attract private sector donors and in what timeframe it would be realistic to obtain firm commitments.

2. Since Lottery funding was first introduced in 1997 to support directly our Olympic and Paralympic athletes we have seen a significant increase in lottery and public investment – £69 million for Sydney, £84.8 million for Athens and £265 million for Beijing.

3. With the additional £200 million of Exchequer investment announced by the Chancellor in March 2006, we have seen a tripling of Government and Lottery investment for our elite athletes in the four years since Athens and a further increase in Exchequer and Lottery funding will be realised for London.

4. At the time of the Chancellor's announcement he challenged the private sector to match Government investment, with £100 million.

5. Since then the Department has worked to gain an understanding of the complex sports sponsorship environment, the position of key stakeholders within it, and the associated rights ownership. This has involved working with key partners, including UK Sport and Fast Track, to agree the basis for a fundraising package and we expect to enter the revenue-raising phase of this project shortly.

6. While the current economic conditions make this task more challenging, the outstanding success of Team GB has given the best possible platform from which to move forward with our fundraising proposals; in the first instance based around the 'Medal Hopes' scheme announced on 20 August 2008. This scheme will enable businesses and individuals to help realise the potential of those athletes on UK Sport's World Class Performance Pathway.

7. Full details on this scheme, and the other initiatives being developed, will be announced in the autumn.

PAC Conclusion (2): UK Sport is due to give sports the first £20 million of the money to be raised from the private sector during 2008-09, but it has yet to receive funds to enable it to do so. If the Department cannot raise the full £100 million or it is raised too late, then the Great Britain teams' medal chances at the London 2012 Games could be harmed. UK Sport should identify what action it will take in the 2008-09 financial year to address any shortfall, including how individual sports will be affected. In developing its contingency plans, it should seek to protect the funding of those sports most likely to win medals at the London 2012 Games.

8. The Department, with UK Sport, ensured that the budget profile for 2008-09 did not impact upon medal outcomes at Beijing. However, the Department acknowledges that aligning the timescales for raising revenue with the London Olympic cycle has meant that the £20 million profiled for 2008-09 will not come directly from private sector funding. This does not, however, downgrade our commitment to raising the full amount from the private sector.

9. We stand by our commitment to give our elite athletes the best possible preparation for London 2012 and are working closely with UK Sport to ensure that funding allocations provide certainty as early as possible so that athlete preparations are not affected by the profiling of funding.

10. DCMS and UK Sport accept the Committee's recommendation and UK Sport has already acted upon it. Prior to the start of the 2008-09 financial year, it undertook contingency planning to ensure that it had identified what action it would need to take should any shortfall in private funding become apparent, including how individual sports would be affected.

11. In June 2008, UK Sport published its ten guiding Principles for Investment for the 2009-13 Funding Cycle. These reaffirmed the 'no compromise' principle for investment, whereby resources will be targeted primarily at those sports and athletes most likely to win medals at London 2012. Following the Beijing Olympic and Paralympic Games, UK Sport is reviewing performances by each sport and discipline. This, along with information taken from the ongoing Mission 2012 review process on the future medal potential of each sport, will inform funding decisions over the period 2009-13.

12. UK Sport's Board agreed, at their meeting on 1 October, their contingency plans should there be a shortfall of private funding. These will then be enacted if required at the December meeting of the UK Sport Board, after which sports will be given confirmation of the funding that they will be receiving from March 2009 onwards.

PAC Conclusion (3): Concerns about what funding will be available have created uncertainty for the sports governing bodies, making it harder for them to plan ahead on the basis of firm financial commitments. After the Beijing Games in 2008, UK Sport should share with sports its contingency plans in the event of a shortfall in funding. To help sports to plan up to London 2012, it should discuss with each sport how its funding might be affected, based on up-to-date assessments of how much of the £100 million will be raised.

13. DCMS and UK Sport accept the Committee's recommendation and are acting upon it, as outlined above. UK Sport has already communicated with sports governing bodies the principles under which its 2009-13 investment principles will be taken and the timetable that will be followed. It also includes agreeing with the sports the key performance indicators, including medal targets for London 2012 that will be set against that funding.

PAC Conclusion (4): The Department and UK Sport's medal table goals at the London Olympic and Paralympic Games in 2012 are demanding and UK Sport acknowledges that meeting them will require a step change in the performance of athletes. The Beijing Olympic and Paralympic Games later this year will provide a key indicator of progress towards UK Sport's medal table goals for the London 2012 Games. UK Sport should within six months of the Beijing Games, publish an action plan setting out how it will address any weaknesses in the performance of the Great Britain teams. It should set out clearly what impact its assessment of performance at Beijing has on the medal targets set overall, and for individual sports for the London 2012 Games. UK Sport should also make clear the consequences of any changes it makes to targets on its funding allocations.

14. DCMS and UK Sport agree with the Committee that Beijing has provided a key indicator of progress towards UK Sport's medal table goals for the London 2012 Games. UK Sport has already communicated with sports governing bodies the principles that will guide the decision making process for its investment in the London Olympic cycle 2009-13. Included in this is the statement that UK Sport will conduct a mid-cycle review of sports performance, review whether funding levels are appropriate and make adjustments accordingly to both its sport-by-sport allocations and medal targets for London 2012.

15. In the Autumn, UK Sport will conduct performance reviews with all sports as part of its ongoing Mission 2012 performance review process. Together with the medal success at the Games, the information from that process will help determine the future potential of each sport and therefore the level of investment received. UK Sport will publish the findings of the Mission 2012 process in December 2008. It will in the same month publish the confirmed funding for each sport for the 2009-13 and their proposed medal target for London 2012.

16. UK Sport believes that the publication of its investment principles, Mission 2012 review findings and funding allocations and medal targets for London 2012 represents sufficient information to satisfy the Committee's request for an action plan. The concern about creating a wider, more detailed document is the information it might provide to other countries, thereby reducing our competitive advantage.

PAC Conclusion (5): Following our 2006 Report, UK Sport has agreed a broader range of targets to measure its own performance, all of which it has comfortably exceeded, indicating that the targets set were not sufficiently stretching. The performance targets UK Sport has agreed with the Department are set at the level of 75 per cent of the targets it sets for individual sports. We do not consider that agreeing targets at 75 per cent of the level it sets for others is satisfactory as an indicator of UK Sport's own performance. In the new Funding Agreement covering the period April 2008 to March 2011, UK Sport and the Department should agree targets for UK Sport at the same level as the aggregate of the targets for individual sports.

17. The Funding Agreement 2008-11 agreed between DCMS and UK Sport includes medal targets for the Beijing Olympics and Paralympics set at 85 per cent of the aggregated target for each individual sport. The overall approach to targets will be reviewed by UK Sport and DCMS in light of the exceptional Olympic performances in Beijing.

18. The targets for the remaining years of the Funding Agreement will be confirmed following UK Sport concluding agreement with the sports on the key performance indicators, including medal targets for London 2012. DCMS and UK Sport will then agree the appropriate percentage level for UK Sport's overall targets for each year of competition bearing in mind PAC recommendations.

PAC Conclusion (6): The Department is aiming to secure a sustained improvement in sports participation before and after the London 2012 Games, but there is no conclusive evidence that winning Olympic and Paralympic medals influences levels of participation in the community. The Department has a target for two million more people to participate in a sport or physical activity by 2012. It should review existing evidence on how elite-sporting success impacts on sports participation and undertake new research where there are gaps in the evidence. In the light of this research, it should work with UK Sport and the home country sports councils to develop an action plan on how it will use sporting success at the London 2012 Games to improve levels of sports participation before, during and after the Games.

19. In June, the Government published their vision for making England a world-leading sporting nation. Around the same time Sport England published their new strategy for community sport. The plans focus on ensuring a substantial and growing number of people from across the community play sport and ensuring that talented people from all backgrounds are identified early, nurtured and have an opportunity to progress to the elite level.

20. A range of Government departments, including the Department of Health, the Department for Culture, Media and Sport and the Department for Transport will have a role to play in getting two million people more active by 2012. Sport England's new strategy aims to deliver sport's contribution – 1 million people doing more sport.

21. In addition, the Government also announced their legacy action plan for the 2012 Olympic and Paralympic Games, setting out how it is using the Games to deliver positive changes in lines with its five promises for 2012: promoting sport, regenerating east London, inspiring young people, promoting sustainability and business, tourism, jobs and skills.

22. DCMS has also recently issued an invitation to tender as part of our Joint Research Programme, the purpose of which is to more generally understand participation across all our sectors. The research will look into what drives people to participate, and why they value it, which may include – where research exists – determining to what extent elite sporting success encourages increased and sustained participation in sport. The first outcomes from the project will likely be available around the middle of 2009, with the possibility then to explore issues such as this in more depth at a later stage in the programme (post 2009).

23. UK Sport already seeks to conduct some of its own research, most notably its “Sporting Preferences” survey of the general public. This survey seeks to determine public responses and attitudes to Olympic and Paralympic sport, including likely impact on participation, and was carried out after Sydney 2000, Athens 2004 and also the Commonwealth Games in Manchester in 2002. The first part for Beijing was carried out in March. The follow up post-Beijing has started and results are due by early November.

PAC Conclusion (7): UK Sport believes elite athletes can act as role models and inspire young people from all walks of life to take up sport. It holds no data on the background of the 1,400 elite athletes it currently funds, however, and told us it did not consider the information to be relevant. We believe, on the contrary, that this information would provide a clearer picture of who is receiving public funding, and be a basis for identifying opportunities for the Department, UK Sport and the home country sports councils to work together to increase the socio-demographic spread of athletes in some sports, from grass roots to elite participation. In common with other lottery distributors, UK Sport should collect data on the socio–economic and educational backgrounds of the athletes it funds and we find the refusal to do so both unjustified and disturbing.

24. UK Sport does hold data on the background of the 1400 WCPP elite athletes it currently funds, including gender, age, ethnicity and disability and this detail is published annually through the UK Sport Annual Report. However educational background data has not previously been collected.

25. UK Sport monitors the equality profile of its WCPP athletes in line with the relevant legislation and its own equality policy statement. In addition, UK Sport works with national governing bodies to facilitate improved access to sport by different groups.

26. DCMS and UK Sport accept that information on wider socio-economic trends might be useful for wider sports policy purposes and will include a question on the educational background in the annual athlete survey which is sent to all WCPP athletes. This will provide a sample base for future consideration. This survey will take place in November 2008 with the final report to be published by March 2009.

PAC Conclusion (8): UK Sport is aiming to establish a world class system of support for elite athletes which will last beyond 2012. Its success in doing so will depend on its ability to work effectively in partnership with a range of other parties in the public, private and voluntary sectors. The Department should establish a steering group to co-ordinate the activities of all those seeking to deliver its sporting objectives before, during and after the London 2012 Games. The group’s remit should be to exploit opportunities for its members to work together on initiatives to maximise the sporting benefits and legacy of host nation status. A key objective should be to enhance the links between grass roots and high performance sport so as to make the most of the opportunity presented by the increased spending on both sports participation and elite athletes.

27. We announced in June 2008 plans to establish a new Sports Legacy Board, to be chaired by the Minister for Sport. The Board will help to drive the sporting legacy and ensure a coordinated and strategic approach to legacy activities and assessing opportunities to maximise the sport legacy. UK Sport, Sport England, the Youth Sport Trust, the British Olympic Association (BOA), Paralympics GB, LOCOG and other key stakeholders will be invited to join the group. The first meeting will be convened later in the Autumn and will look at, amongst other things, the lessons learnt from our Olympic and Paralympic athletes' performance in Beijing.

28. Health-related programmes and initiatives, which result in increased physical activity will be coordinated by the Department of Health (DH). DH and DCMS will work closely with other Government departments to ensure that there is effective coordination to achieve the two million more people active target announced in the Legacy Action Plan. Both Departments are key members of the 2012 Programme Board, which is responsible for the delivery of PSA 22 and the Legacy Action Plan and will oversee progress against the target.

29. These new Boards will work alongside the DCMS Olympic Programme Board, which meets on a monthly basis. It is jointly chaired by the Ministers for Sport and Culture. The purpose of the Board is to maximise the benefits of the 2012 games to DCMS sectors, including sport. The Board provides clear strategic direction to teams in taking forward specific Olympic delivery plans (notably under the PSA 22 and the Legacy Action Plan), in particular, by ensuring that key milestones are met and risks managed as well as providing accountability to Ministers and the DCMS Executive Leadership Team.

30. The Olympic Board is supported by a Stakeholder Management Group, which meets every 6 months. This group comprises of representatives of the key DCMS sectors, including UK Sport and Sport England, and is designed to ensure that the stakeholders are aware of the potential opportunities for their sectors presented by the 2012 Olympics and that they are clear on the methods of engagement and participation.

31. In addition, UK Sport's own Investment Principles for 2012 calls for the creation of a 2012 Performance Charter, outlining commitment of all stakeholders to the mission, bought in to by all parties. It believes such a charter would foster greater coherence, team-ship, openness and accountability across the system in support of our athletes.

Fiftieth Report

Department for Culture, Media and Sport (DCMS)

Progress in preparing for the Olympics at the London 2012 Olympic and Paralympic Games and beyond

1. The Department for Culture, Media and Sport welcomes this report by the Public Accounts Committee in which it examines the progress of preparations for the London 2012 Olympic and Paralympic Games.

2. The Committee has acknowledged that good progress has been made in preparing the Olympic Park site. Since the Committee's previous report in April of this year, the construction of the Olympic Stadium and the Aquatics Centre has begun ahead of schedule and two thirds of the whole site, over one million square metres in total, has been cleared. In all, over 190 buildings have been demolished. Over 100 columns have been constructed to support the west and south side of the Stadium and over 100 concrete piles drilled into the ground on the Aquatic Centre site. Piling work is underway on the Olympic Village site and over 9000 cubic metres of soil have been removed to prepare the platform for the International Broadcast Centre/Main Press Centre.

PAC Conclusion (1): Good progress has been made in preparing the Olympic Park site and construction has started. There has been slippage in the planned completion of some projects, including the Main Stadium and the Aquatics Centre, but on current estimates the construction programme is broadly on track.

3. Work on the Olympic Park site is progressing well. The Olympic Delivery Authority (ODA) has achieved all the milestones, which were due for completion by the commencement of the Beijing Games either on, or ahead of, schedule. Construction of Olympic Stadium started three months earlier than planned; work on the Aquatics Centre site was underway two months early; and the construction of the Olympic Village began on time. In addition, the ODA has exceeded its targets to date for reclaiming and re-using materials from demolition and site clearance.

4. The construction of the Olympic Stadium and the Aquatics Centre will take a little longer than originally planned but the work has started earlier than scheduled and both venues will be ready for test events, with the construction and initial overlay work completed, by the summer of 2011 in line with the original timetable. There will be no slippage in the overall completion dates as the ODA and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) will work closely to integrate the construction and overlay work.

PAC Conclusion (2): The Department and Olympic Delivery Authority could come under pressure to change plans and designs as legacy and security requirements are firmed up, and in the light of the Beijing Games. The more the 2012 programme progresses, the harder it will be to incorporate changes without generating additional costs and delays, and, possibly, squeezing out legacy requirements. The Department and the Olympic Delivery Authority should be clear about the cost and funding of proposed changes, their impact on the programme and the assessment criteria to be used.

5. The Department and the ODA have established rigorous formal change control procedures which require each proposed change to be scrutinised and costed, with the source of funding identified, and its impacts evaluated. The Government Olympic Executive represents Government interests on the ODA's formal Change Control Board. Before any funding can be released to cover proposed changes, the ODA must first consider the potential to cover the costs from savings either on the particular project itself or elsewhere on the programme and, only to the extent that this is not possible, by proposing a draw on contingency.

6. Contingency will be drawn down only where clear evidence can be shown for its need. Any application by the ODA for access to programme contingency will be subject to scrutiny by the Government Olympic Executive, and, if supported, the Olympic Projects Review Group, prior to approval by the Minister for the Olympics. In addition, any application by the ODA for access to the Funders' Group contingency will be subject to approval by the Ministerial Funders' Group.

7. The Home Office will deliver to Ministers an overarching costed security plan by the end of this year. The delivery of the costed plan will be rigorously managed to ensure compliance with the £600 million funding allocation, which is in addition to the ODA's £354 million budget for providing security during construction. Both these amounts are included in the public sector funding provision of £9.325 billion. The £354 million budget is subject to the normal project and cost controls. Security planning for individual venues and infrastructure on the Olympic Park has been progressing according to schedule. This has been informed fully by detailed advice from the police and security agencies thus minimising the risk that further changes are necessary in the light of the plan. Responsibility for in-venue security during the Games falls to LOCOG.

8. The ODA budget, announced in December 2007, includes provision for legacy transformation costs across the Olympic Delivery Authority's programme. Controls are in place to ensure that legacy issues are identified and examined on every project, and legacy requirements are being built into the design of the permanent venues and facilities. Initial legacy plans are in place for each of the five permanent venues and are being reviewed regularly. (The National Audit Office's report, *Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008*, table 12, page 31 refers).

9. In addition, extensive work is being undertaken, led by the Mayor and the London Development Agency, and involving the ODA, local authorities and the Government, to put legacy plans in place for the Olympic Park and adjacent areas. Community, private sector and voluntary sector engagement is well underway as part of the development of these plans, on which the Greater London Authority and the London Development Agency will undertake formal consultations during 2009.

PAC Conclusion (3): Despite the previous recommendations of the Committee, effective programme management arrangements are not yet in place. Three years after London was awarded the Games, the Department's programme planning and risk management arrangements are still not fully developed. The arrangements, which the Department now expects to be fully embedded by the end of 2008, should include:

- **A programme plan that brings together the key activities of the delivery organizations and identifies any overlaps, gaps or critical dependencies between different elements of the programme;**
- **Consolidated analyses of the risks identified by individual delivery organisations, with their significance rated on a consistent basis using common criteria, and clarity about the mitigating actions needed;**
- **Identification of risks beyond the control of the individual delivery organisations. There should be clear assessments of the likelihood of risks being realised and their potential impact. Mitigating actions should be identified, and responsibilities assigned;**
- **Regular and user friendly reporting of the more important risks (for individual organisations and programme-wide) to the Olympic Board, and records of decisions taken; and**
- **Documented protocols for keeping up to date the overarching programme plan and assessments of risks.**

10. The Government Olympic Executive has developed an overarching Programme Plan which brings together the plans and activities of the delivery organisations, enabling the identification of dependencies, overlaps, gaps, complexity and critical path activities, and thus exposing areas of risk. The first version of the plan was submitted to the Olympic Board in September 2008.

11. The Programme Plan will be used to monitor progress, and will be maintained and updated to reflect agreed changes and expanded as stakeholder plans are developed in further detail. This will ensure that performance across the programme is tracked and reported, and will enable the continual identification and management of risks.

12. The Government Olympic Executive has also developed a framework for programme-wide risk management. The framework will ensure that the processes for identifying and managing cross-programme risks use common and consistent criteria and ratings, while identifying and monitoring the actions to mitigate risk. These risk management arrangements will be fully embedded by December 2008.

13. The Government Olympic Executive has developed and implemented systems for identifying, analysing and managing strategic and cross-programme risks and issues. These are shared with the Olympic Board and the Olympic Board Steering Group through regular programme-wide progress reports, which also include significant risks and issues from the individual delivery stakeholders.

14. In addition, the roles of the Olympic Board and the Olympic Board Steering Group have been reviewed to enable better focus on effective governance of strategic and cross-programme risks and to support decision-making.

PAC Conclusion (4): As well as the preparations for the London 2012 Games, there are other publicly funded programmes aimed at economic regeneration of East London, making it harder to isolate the impacts of the Games. The Department should determine the evaluative methods and criteria it will use to assess the impact of the Games so there is clarity now about how the benefits will be evaluated later. The Department will need to take account of regeneration that would have occurred in East London without the Games, and disentangle the impacts of the Games from those of other regeneration activities.

15. The Department will ensure that evaluation is an integral part of the legacy planning process for the 2012 Games. The production of these evaluations will require co-operation between the Department and other bodies responsible for delivering the Games and their legacy. A working group has been established to co-ordinate the evaluation work across the Olympic family. Supporting this process, the Department will provide advice on suitable methods of evaluation, emphasising the need to clearly identify Games-specific impacts, including their impact on the regeneration of East London. This will incorporate guidance on how to determine which activities should be included in Olympic-related evaluation, and how to trace the links between Olympic activities and the impact on East London. The Department plans to have this advice available by the end of 2008.

PAC Conclusion (5): The Olympic Delivery Authority has reduced the number of homes at the Olympic Village after the Games from 4,200 to 3,300. The reduction will affect athletes and officials during the Games, and reduce the contribution of the Village to the development of new and affordable housing in East London after the Games. As work to achieve a commercially viable deal for the Village is continuing, the Authority should establish a clear baseline for the accommodation standards the Village should deliver in time for the Games and afterwards as housing stock.

16. The Olympic Village development will meet the International Olympic Committee's requirement to provide accommodation units sufficient for the numbers of athletes and officials who are required to be housed on the Olympic Park. There will be no reduction in the quality of the accommodation that will be left for legacy. The ODA is leading negotiations with the developer, liaising with the Government Olympic Executive, the Department for Communities and Local Government, the Housing Corporation, and the planning and building control authorities as appropriate to ensure that there is a clear baseline for the accommodation standards of both Games time accommodation and post Games housing stock.

17. There is no reduction in what can be developed long term for legacy since there will be scope to increase the volume of housing in legacy after the Games. Therefore there is no reason to conclude that there will be any reduction in the contribution to new and affordable housing. At least thirty percent of the units will be for affordable housing and the accommodation blocks that will contain the bulk of the affordable housing units are those that will be built first for the 2012 Games.

PAC Conclusion (6): To reimburse the £675 million to the National Lottery from land sales after the Games will require total sale revenues of around £1,800 million. In the light of the downturn in property prices and the house building market, the Department should reassess potential future revenues from land sales to see whether the assumptions about being able to reimburse the National Lottery hold good.

18. The Department has agreed a profit sharing arrangement for land sales after the Games, making provision for the receipts to be shared with the National Lottery. The current economic climate will affect the growth in land values in the short term. However, the bulk of the land sales are programmed to take place over an extended number of years beyond 2012.

PAC Conclusion (7): The Department has assured the Committee it will deliver the Games within the £9,325 million budget. Half the remaining £2,000 million contingency is earmarked for the Olympic Delivery Authority, and it is already clear that the remaining £1,000 million will have to be sufficient to cover a number of residual risks. A deal with the private sector for the Olympic Village has not been secured, security and legacy plans are incomplete, there are inflationary pressures, there is an increased risk of insolvency amongst suppliers and the Government is guarantor if there were to be a gap between LOCOG's revenues and costs. The Department should maintain up to date quantified assessments of the potential demands on the remaining contingency.

19. The Department remains firmly committed to staying within the £9.325 billion public sector funding provision. Together with the other funding bodies, it has put rigorous controls in place to ensure that no contingency is spent unless and until all other options to contain costs have been fully explored.

20. The Department monitors closely potential demands on contingency. It requires the ODA to update a quantified risk assessment of potential demands on ODA programme contingency on a quarterly basis. This risk assessment is then reviewed by all the funding bodies, also on a quarterly basis. In addition, there is a quarterly review of the risks borne by the Funders Group contingency and the adequacy of the funding available.

21. As stated in paragraph 6 above, contingency will be drawn down only where clear evidence can be shown for its need. Any application by the ODA for access to programme contingency will be subject to scrutiny by the Government Olympic Executive, and, if supported, the Olympic Projects Review Group, prior to approval by the Minister for the Olympics. Any application by the ODA for access to the Funders' Group contingency will also be subject to approval by the Ministerial Funders' Group.

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