



Treasury Minutes on the Thirty-fifth and Fortieth to Forty-third Reports from the Committee of Public Accounts 2003-2004

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TREASURY MINUTES DATED 15 DECEMBER 2004 ON
THE THIRTY-FIFTH AND FORTIETH TO FORTY-THIRD
REPORTS FROM THE COMMITTEE OF PUBLIC
ACCOUNTS, SESSION 2003-2004

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Thirty-Fifth Report

Department for Education and Skills

Early years: progress in developing high quality childcare and early education accessible to all

PAC conclusion (i): Public funding should be linked to evidence that providers are well-run.... Grants should be conditional on providers having a realistic business plan, showing they have assessed local demand and made reasonable estimates of their cash flows. The progress of government-funded provision in disadvantaged areas needs to be closely tracked so that resources can be transferred from providers which fail to attract business to those which are more successful.

1. The Department for Education and Skills (the Department) agrees with this recommendation. *Choice for parents, the best start for children: a ten year strategy for childcare*, published by the Department together with HM Treasury, the Department for Work and Pensions, and the Department of Trade and Industry on 2 December, stated that the Government's long-term ambitions required a transformation of the childcare infrastructure to secure high quality, sustainable, affordable childcare places. The document contains a commitment to consider the issue of support for business planning to improve efficiency and quality.
2. The Pre-Budget Report on 2 December created a Transformation Fund of £125 million a year from April 2006. This Fund will support investment by local authorities in high quality, flexible, affordable and sustainable childcare provision.
3. The Department agrees that in disadvantaged areas it is important to track progress and to ensure that the use of resources gives good value for money while meeting the needs of families for affordable, high quality childcare.

PAC conclusion (ii): The Department should set a target minimum number of places per 100 children at local authority level and move as quickly as resources permit to a position where no area has less than this.... [The] Department needs to watch the risk of neglecting... areas where supply is inadequate for reasons such as past patterns of investment.

4. A key aim of *the ten year strategy for childcare* is to make high quality, flexible and affordable childcare available to all families with children up to age 14, to meet their circumstances. The Government intends to bring forward legislation as soon as possible which will place a duty on local authorities to secure sufficient provision of childcare to meet local needs. The Department will work closely with local authorities and other stakeholders to develop the new legislative framework.
5. The number of childcare places per 100 children gives a broad indication of the scale of provision, but is not an appropriate basis for local targets. It does not measure whether this provision matches local need and demand, and it does not reflect key factors affecting choice of childcare such as quality, reliability and opening hours.

PAC conclusion (iii): The Department should develop its early years programmes for deprived children outside disadvantaged areas. There are pockets of deprivation in otherwise affluent areas and there is a danger that these people will be overlooked in a strategy focusing on the 20% poorest wards. For example, the Department should assess whether its pilot work in rural areas results in improved provision for deprived families.

6. The Department agrees with this recommendation. Over half of children living in poverty live within the 20 per cent most deprived areas; but this means significant numbers of deprived children live outside them. The Government's long-term aim is to ensure that children's centres services are available to all children in every community.

7. The Department has a target of delivering 2500 children's centres in the 30 per cent most deprived areas by the end of March 2008. The *ten year strategy for childcare* sets the goal of 3,500 children's centres – one in every community – by 2010. It also makes clear that local authorities will be able to consider how provision in areas with dispersed demand, like rural areas, can be supported to ensure the childcare offer is maintained. The new statutory duty on local authorities to secure sufficient provision of childcare (see paragraph 4, above) will apply across the country and not just in the 20 per cent most deprived areas.

8. The National Evaluation of Sure Start provides information about rural areas, and a separate report on the 'mini' Sure Start programmes (29 of which are in rural areas) will be published in spring 2005.

PAC conclusion (iv): School premises are an under-used resource but many schools have been reluctant to provide childcare. Schools are well-placed to meet unmet demand for childcare in deprived areas, in London and particularly outside normal working hours. There is scope for planning in childcare provision when new schools are built and the Department needs to assist existing schools to make their premises available. This may require action to improve marketing, provide administrative support, and deal with the cost of alterations.

9. The Department agrees with the recommendation. Schools are a valuable resource and asset which need to be properly used to benefit the local community. The Department wants all schools to become extended schools in time, providing services such as childcare, out of school activities, study support, adult and family learning opportunities and health and social care. The *ten year strategy for childcare* announced that by 2010 all parents with children aged 5 to 11 will be offered affordable school-based childcare on weekdays between the hours of 8am to 6pm, all year round. Half of all parents will be able to enjoy this service by 2008. By 2008 a third of secondary schools will be open from 8am to 6pm providing a range of activities for 11 to 14 year old pupils and by 2010 all 11 to 14 year olds will be able to engage in these activities after school and in the holidays.

10. Funding has been made available over the current spending review period to help support local authorities and schools in developing along these lines. The funding is used to support schools to develop a sustainable model and overcome any barriers they face that may prevent them from developing extended services, including administrative support and alterations to buildings.

11. In some cases, schools will also join up with children's centres and with childminders to make an offer of integrated support, including childcare, for younger children. For 3 and 4 year olds, many schools will want to adapt their provision of nursery education to deliver extended hours and greater flexibility. Furthermore, as part of the Department's vision to rebuild or refurbish every

secondary school to a modern standard – *Building Schools for the Future* – plans for new build schools will show how schools intend to provide wider services for children, young people and families.

PAC conclusion (v): There should be a specific strategy for early years provision in London given the high costs of provision, shortages of suitable land and buildings, complex planning processes, and high living costs.

12. Because of the high cost of childcare there, people in London will benefit particularly from the increases announced in the Pre-Budget Report in the limit of the childcare element of the Working Tax Credit (to £300 a week – £175 for one child – from April 2005) and in the maximum proportion of costs that can be claimed (from 70 per cent to 80 per cent from April 2006).

13. In addition, the *ten year strategy for childcare* announced that, from 2005, the Department will work with the Greater London Authority on a £5 million pilot to test a range of approaches aimed at ensuring that working parents on lower incomes have access to good quality, affordable childcare. Local authorities covering the 30 per cent most disadvantaged areas of London (based on the 2004 Index of Multiple Deprivation) will be invited to submit proposals to run pilots. There will be ongoing careful evaluation to ensure that lessons are learned to address wider affordability and sustainability issues across London.

PAC conclusion (vi): The Department should be able to show that childcare has become more affordable for all and remains so. Free early education and the childcare element of the working tax credit were introduced to help families, especially those on low-incomes, afford childcare. More research is needed to assess the impact of these initiatives on the affordability of childcare across the country and whether cost remains a barrier to take-up. Support which increases demand for childcare places needs to be balanced by sufficient increased supply to help control the price.

14. In the *ten year strategy for childcare* the Government committed to families being able to afford flexible, high quality childcare that is appropriate to their needs. For a couple family earning £34,000 a year, with both parents working and typical childcare costs for two children, the reforms to the childcare element of the Working Tax Credit announced in the Pre-Budget Report reduce the proportion of childcare costs they pay from 85 per cent to 75 per cent, a saving to them of £700 per year. Building on this first step, the Government's long-term ambition is to reduce further the proportion of childcare costs paid by families, making childcare increasingly affordable.

15. The *ten year strategy for childcare* also announced an increase in the entitlement to free early education and childcare for 3 and 4 year olds to 12¹/₂ hours a week for 38 weeks a year from 2006; and to 15 hours a week for 38 weeks a year by 2010 (with some children benefiting from the latter increase as early as 2007). These measures mean that high quality childcare will become more affordable for all. As mentioned in paragraph 13 above, the Department will also be working with the Greater London Authority from 2005-06 to test a range of approaches aimed at improving the accessibility and affordability of good quality childcare for parents on lower incomes.

PAC conclusion (vii): The Government should re-examine the choices available to parents of very young children.... The Department should work with the Department for Work and Pensions and the Treasury to examine whether there is genuine choice for parents between returning to work and looking after a child at home, taking into account the research evidence on the benefits of parental care.

16. The Government accepts that there can be too little genuine choice and flexibility for parents of very young children about the balance between their family and working lives and that parental care and the home environment have most impact on child development. Consistent one to one care in the first year of a child's life is particularly valuable.

17. The *ten year strategy for childcare* therefore commits the Government to an extension of paid maternity leave to nine months from April 2007, with a goal by the end of the next Parliament of twelve months paid maternity leave with the right for the mother to transfer a proportion of her maternity pay and leave to the father. There is also a commitment to consulting with employers on extending the right to request flexible working to parents of older children.

PAC conclusion (viii): Ofsted should adopt a risk-based approach to inspections of early years providers.... A risk-based approach would involve more frequent inspections for poorer-performing providers and longer intervals between inspections for better-performers. This would ensure resources are targeted at high-risk providers while minimising the burden of inspections on others.

18. The Department welcomes this recommendation. Currently the Office for Standards in Education (Ofsted) aims to inspect newly registered providers within seven months of them starting to care for children. They also inspect more frequently where concerns are raised and an early inspection is warranted.

19. The current two year programme of early years inspections will finish at the end of March 2005. As a result of a public consultation in September 2004, Ofsted has announced certain features of the early years inspection framework that it will operate from April 2005. It is intending to use the same four point grading scale that will be used for school inspections, and a reporting format that will enable inspectors to identify sub-standard provision and assess the extent to which the service contributes to children's well-being. Ofsted will also carry out no-notice inspections on all group daycare providers; and childminders will be given very short notice, to ensure their availability at the time of the inspection.

20. The Department will consult on regulations which set out the maximum period between inspections, likely to be three years, and Ofsted is working on risk based criteria, so that poor quality settings are inspected more frequently. Looking further ahead, as the Department develops and consults on the new legal framework for regulation and inspection of early education and childcare announced in the *ten year strategy for childcare*, it will continue to ensure that inspection is proportionate to risk.

PAC conclusion (ix): The Department should bring best practice in developing the childcare workforce to the attention of local authorities and their partners. The best performing local authorities work in partnership with colleges and the voluntary sector, to provide training opportunities for potential childcare workers as well as existing staff, and monitor staff training in detail. Lack of appropriately trained staff is a serious threat to the sustainability of the early years programme and the problem is particularly acute for certain types of provision, such as for children with disabilities.

21. The Department fully agrees with the need to bring best practice in workforce development to the attention of local authorities and their partners. The *ten year strategy for childcare* contains a commitment to radical reform of the early years and childcare workforce through a new qualification and career structure. Proposals will be published for consultation in early 2005 as part of the children's pay and workforce strategy. The Children's Workforce Development Council will play the lead role in taking forward the long-term programme of reform.

22. The Department also agrees with the Committee about the importance of appropriately trained staff to the sustainability of early years' provision. That is why it has given local authorities £129.9 million for workforce development over the two years, 2004-06, and why it is working closely with the Learning and Skills Council, Jobcentre Plus, and the sector to ensure local training provision meets the needs of both potential early years workers and the sector itself.

23. The Sure Start Unit continues to promote opportunities for working in the sector through its childcare recruitment campaign. The campaign seeks to provide positive images of a skilled, imaginative, and competent workforce, where more men, people from ethnic minorities, older people and people with disabilities have the opportunity to make a real difference to the future attainment of children and the lives of their families.

PAC conclusion (x): The Department should assess the extent of unregistered childminders and the barriers to registration.... The Department should take action to overcome barriers to registration, for example by providing better information about the funding and training available to registered providers.

24. The Department agrees with this recommendation. It notes, however, that assessing the extent of unregistered childminders is a near impossible task, as most will be unwilling to admit that they are not registered with Ofsted for fear of losing their business.

25. The Department is taking action to overcome barriers to registration. Examples include:

- providing childminders with start up grants and funding for training, advertised in Sure Start Unit and National Childminding Association (NCMA) publications and websites;
- rolling out the Support Childminder Scheme to all local authorities, to give prospective and new childminders the opportunity to receive the support of an experienced childminder who acts as a 'mentor', helping them through registration and setting up their business; and
- issuing revised guidance to local authorities on their duty under Section 79V Part XA of the Children Act 1989, introduced by section 79 of the Care Standards Act 2000, to provide information, advice and training to childminders and providers of day care. This will include guidance and good practice examples on supporting prospective childminders through the Ofsted registration process, from their initial expression of interest until registration, and beyond.

26. The *ten year strategy for childcare* emphasised the Government's commitment to ensuring that childminders and other home-based childcare workers are able to access professional support and development opportunities through children's centres and other providers. A new childcare partners model will be introduced, building on both childminder networks and associate models, enabling childminders and approved childcare workers to become partners with local centre based providers, providing places on their behalf.

Fortieth Report

Home Office

Youth offending: the delivery of community and custodial sentences

PAC conclusion (i): Of the 7% of young offenders sentenced to custody, eight out of ten re-offend, despite planned expenditure of £283 million on providing custodial sentences. Short periods of custody are unlikely to make an impact on offending behaviour, nor help offenders gain the educational qualifications often necessary for a change in lifestyle. If re-offending rates are to be reduced, custodial and non-custodial elements of sentences, and rehabilitation during and on completion of sentence, need to be better integrated by the Youth Justice Board. The Youth Justice Board should review the ability of custodial establishments to tailor education programmes to meet the needs of those offenders serving short sentences.

1. The Home Office accepts the Committee's conclusion.
2. Juveniles who are sentenced to custody are the most serious and persistent young offenders. A research study on the detention and training order¹ found that most offenders had more than 10 previous convictions by the time they received their custodial sentence. They are therefore the most difficult group to turn round, particularly within the constraints of a short custodial sentence. That is why the Home Office and the Youth Justice Board (YJB) have developed, and continue to develop, the range of non-custodial options available to the courts.
3. However, there will always be occasions when courts consider short custodial sentences to be necessary, and YJB accepts that more needs to be done to meet the educational needs of those offenders. YJB, the Department for Education and Skills (DfES) and the Learning and Skills Council (LSC) have jointly designed a new specification for juvenile learning and skills. This requires education providers to take into account the specific needs of individual offenders, including sentence length, in planning their courses. Each offender will have an individual learning plan which will set out learning objectives, taking into account the offender's assessed needs and what is achievable in the time available. YJB, the LSC and the Offenders Learning and Skills Unit at DfES are now developing the prototype delivery system for this. It will be in place in three regions by September 2005 and in the rest of England by September 2006.
4. Wider developments in unit accreditation and the 14-19 curriculum will also assist, by making it possible for young people to collect units of learning that can count towards a qualification, rather than having to complete the whole programme of study in a short period.
5. The Youth Justice Board recognises the need better to integrate the custodial and non-custodial elements of the sentence. The Board is currently piloting an electronic sentence management system in two young offender institutions (YOIs) and with feeder youth offending teams (YOTs). The system will make it easier for YOIs and YOTs to share information effectively and for a common assessment process to inform sentence planning. YJB has also developed a *Key Elements of Effective Practice* strategy which sets out what research has shown to be most effective in tackling the risks associated with offending. To support the strategy, YJB has introduced a quality assurance framework to enable YOTs to assess their

¹ Hazel, N., Hagell, A., Liddle, M., Archer, D., Grimshaw, R., and King, J., *Detention and Training: Assessment of the Detention and Training Order and its impact on the secure estate across England and Wales*. Youth Justice Board, 2002

level of compliance with effective practice and to put in place improvement plans where appropriate. YJB has already issued guidance to YOTs on effective resettlement, as a *Key Elements of Effective Practice* guidance note in November 2003. As part of a rolling programme, YJB will use its effective practice quality assurance process to evaluate how well YOTs are carrying out resettlement activity. This work is due to start in spring 2005 for completion in the summer of 2006. Work is also being undertaken with the Prison Service to develop a jointly-owned performance indicator between YOIs and YOTs relating to resettlement.

6. YJB is also leading a programme to improve substance misuse services across the custodial estate. In November 2004 it published a national specification for substance misuse for juveniles in custody which includes the following:

- the recruitment of over 80 new staff by April 2005;
- the establishment by March 2006 of new facilities within units to support early intervention and treatment;
- the development, by May 2005, of resettlement and aftercare programmes in 50 YOTs to provide intensive support for young people leaving custody. This could include continuing support for up to six months after the end of sentence.

7. More generally, YJB is leading on the development of a national juvenile resettlement plan, on which more details are given below (paragraph 12).

PAC conclusion (ii): If community sentences are to be a credible alternative to custody, they need to be administered effectively, and consistently across the country. The Youth Justice Board has introduced an Intensive Supervision and Surveillance Programme which requires offenders to attend for 25 hours per week compared to the 2 hours normally required for Supervision Orders. Over half the offenders on the new programme, however, fail to meet the Programme's requirements, and around a quarter are re-sentenced to custody. The Board should identify why some offenders fail to complete the Programme, and review differences in the way Youth Offending Teams manage offenders on the Programme.

8. The Home Office accepts the Committee's conclusion. There is a difficult balance to be struck between the need for offenders to complete the programme and the need for strict enforcement to maintain the programme's credibility as a robust alternative to custody. YJB recognises the need to get this balance right.

9. The initial evaluation of the Intensive Supervision and Surveillance Programme (ISSP)² analysed completion rates. The report noted that, bearing in mind the risk profiles of the young people on ISSP, the intensity of the programme and the strict enforcement, an overall completion rate of almost 50 per cent could be seen as positive. However, YJB agrees that the rates need to be improved. The research identified characteristics of individual ISSP schemes which appear to be consistently associated with better completion rates. These include committed leadership, well-integrated delivery, and well co-ordinated electronic and tracking arrangements. YJB will be investigating further the models of best practice.

² Moore, R., Gray, E., Roberts, C., Merrington, S., Waters, I., Fernandez, R., Hayward, G., and Rogers, R., *ISSP: The initial report*, Youth Justice Board, 2004

10. YJB has prepared an improvement plan to respond to the findings of the evaluation report and will set a target to improve the completion rate beginning in 2005-06. YJB held a conference for ISSP managers in October 2004 and is running a programme of seminars of practitioners. It will also use a continuing quality assurance process and consultant support to implement the action plan and address differences in the way the scheme is delivered.

PAC conclusion (iii): Effective rehabilitation is critical to reducing re-offending rates but Youth Offending Teams face difficulties in placing young offenders back into education, employment or suitable housing. A more joined up approach is needed between the Home Office, the Department of Health, the Department for Education and Skills, the Office of the Deputy Prime Minister and local authorities. Incentives should be put in place, for example, by offering continuing Youth Offending Team caseworker support to educational establishments, and through establishing shared targets and goals.

11. YJB and all the relevant Government Departments accept the crucial importance of education, employment and accommodation in securing an offender's rehabilitation. And we also accept the need to do more to meet young offenders' needs in these areas. The new performance indicator referred to in paragraph 5 is designed to focus attention on these different areas of activity.

12. For this reason, YJB, in conjunction with the key Government departments (including Home Office, Department of Health, DfES, the Office of the Deputy Prime Minister and the Welsh Assembly) and agencies, is developing a national juvenile resettlement action plan to provide a joint policy steer and better co-ordinate resettlement activity on the ground. YJB has begun a regional juvenile resettlement mapping exercise which will inform the content of the action plan and be completed by December. The action plan itself is due to be published in April 2005.

13. At the same time, a separate cross-government reform programme for offender learning is currently underway. YJB is working closely with the DfES and the LSC to ensure that the reforms impact in the most positive way on the juvenile sector. The overall aim is to ensure that offenders are identified, assessed and placed into mainstream school or college placements if they are not ready for employment. This will involve close collaboration at a local strategic level between YOTs, Local Education Authorities and local LSCs, and between schools, colleges and training providers at an operational level. In addition, the PLUS strategy, which was piloted in 2001 and went live in 2003, is targeting literacy and numeracy skills and is an example of a cross-departmental project involving the Home Office, DfES, the Arts Council for England, LSCs and the YJB. Similar initiatives are being developed with equivalent organisations in Wales.

14. YJB is also funding enhanced education, training and employment engagement services in 60 YOT areas, including a group in Wales and many in partnership with the Connexions Service, with a view to increasing rates of participation amongst the highest risk groups of offenders. The funding provides additional personal advisers to work directly with young people, mentoring staff to assist young people to reduce barriers to attendance in education, and strategic staff to work between the youth justice and education sectors. Oxford University is evaluating this programme. A preliminary report is available³ and the second and third reports are due in April 2005 and April 2006.

³ Haslewood-Polsik, I., Cooper, K., and Roberts, C., *Keeping Young People Engaged Project: Interim evaluation of good practice in developing re-engagement capability for education, training and employment*, Youth Justice Board, 2004

15. YJB, in consultation with the Office of the Deputy Prime Minister, DfES and the Home Office, are developing an Accommodation Strategy for young offenders. This will include work with partners at national, regional and local level to:

- support families and young people to enable young offenders to remain in the family home wherever possible and appropriate;
- develop the range and accessibility of accommodation and support available to young offenders;
- address the issue of bed and breakfast accommodation with the aim, in the long term, of ensuring that young offenders are not placed in unsupported bed and breakfast accommodation;
- outline a more strategic approach to the role of the YOT housing officer.

Following a snapshot survey of YOTs this year, YJB are now taking forward more detailed research into the housing needs of young offenders. This should be completed by July 2005.

16. On targets, discussions are underway with the LSC that will result in a partnership agreement and a more coherent target-setting system shared between the youth justice, further education sectors and the Connexions Service. Completion is scheduled for spring 2006.

17. Maintaining engagement in education, training and employment beyond the end of a court order is critical. There would be significant resource constraints to offering continuing YOT caseworker support as a standard function but, in cases where there are outstanding needs at the end of an order, it is important for a variety of agencies to maintain their involvement. The project outlined in paragraph 14 for enhanced education, training and employment services includes continuing support from personal advisers.

PAC conclusion (iv): The average cost of custodial places varies significantly between providers, but no research has been undertaken as to their relative effectiveness. A Secure Training Centre place (run by private contractors) costs £164,750, and a Local Authority Secure Children's Home place costs £185,780, reflecting staffing ratios of 4 staff to 8 youngsters. A place at a Young Offender Institution run by the Prison Service costs £50,800, with a ratio of around 4 staff to 60 youngsters. The Youth Justice Board should commission research into each option's cost effectiveness in terms of re-offending rates and the welfare of the young person; establish a strategy for the nature of custodial place provision and its geographical spread; and carry out an opportunity cost analysis of steadily moving part of the custodial places into effective community surveillance and supervision.

18. The Home Office accepts the Committee's conclusion. YJB will commission a two-phased research study into the effectiveness of different types of custodial provision. An initial feasibility study will determine the best approach to measuring the effectiveness of the three types of establishments which cater for children with different needs and different age ranges. The second phase will examine the outcomes of effective practice, reviewing and evaluating regimes. The feasibility study will start in February 2005. The main study will start in May 2005 and be completed in summer 2006.

19. In November YJB published for consultation its strategy for the secure estate⁴. The consultation period ends on 28 February 2005. The strategy sets out the assumptions and principles on which YJB will develop the juvenile secure estate and the steps it intends to take in the next three years to deliver these within the available resources. YJB's commissioning plans over the next three years are based on the following premises:

- all boys under 15 and all girls under 17 will continue to be held in secure training centres (STCs) or local authority secure children's homes (LASCHs);
- 17-year-old girls will remain in Prison Service accommodation but will be housed in dedicated units separate from adult women;
- the Board will explore the development of "intermediate" units for the minority of older boys who require more intensive staff support than can currently be provided by young offender institutions but who cannot be appropriately accommodated with younger children in STCs or LASCHs.

20. As far as geographical spread is concerned, the strategy notes the desirability of holding young people as close as possible to their community ties. However, with the estate as it is currently configured, YJB recognises that this cannot be fully achieved and has concluded that this aim is of less importance than ensuring that young people are placed in institutions with regimes that best meet their individual needs.

21. There is a particular concern about Wales, though, in that the overwhelming majority of Welsh juveniles currently in custody are held in establishments in England. YJB are considering options for the development of juvenile secure accommodation in Wales, in consultation with the Welsh Assembly Government.

22. The ISSP evaluation referred to above included an analysis of the costs of ISSP but YJB recognises the need to do more work to compare costs relative to custody. This will be carried out in 2005-06.

PAC conclusion (v): Variability in the range and content of programmes delivered across the custodial estate impairs the ability of Youth Offending Teams to address the needs of young offenders. The Youth Justice Board should aim to deliver core programmes across all establishments, with some establishments addressing specialist needs. Youth Offending Teams and Prison Service staff should enhance mutual understanding of these programmes through, for example, staff exchanges and joint performance discussions and assessment of achievements.

23. The Home Office accepts the Committee's conclusion. YJB recognises the importance of consistency across the secure estate. The service level agreement with the Prison Service and the contracts with STCs and LASCHs are the main mechanisms for ensuring that core programmes are delivered. The effectiveness of core programmes is assessed against the Key Elements of Effective Practice.

24. YJB has also developed a new standardised monitoring framework for the juvenile secure estate. The framework provides an end-to-end view of the performance of secure establishments, and focuses secure establishments and YOTs on the delivery of YJB priorities and expectations for an effective regime for young people.

⁴ *Strategy for the Secure Estate for Juveniles*, Youth Justice Board, 2004

25. To help to ensure core elements of consistency, YJB has introduced the National Specification for Learning and Skills and the National Specification for Substance Misuse for Juveniles in Custody that set out the key requirements that should be met.

26. YJB and the Prison Service will use joint regional training plans to support mutual understanding of core programmes and effective practice. The sharing of good practice will be managed using the regional human resources consortia referred to below (paragraph 36) and through YJB's regional performance management structure. Staff exchanges will be encouraged as part of joint in-service training and through shadowing organised on a regional level by the YJB's human resources consortia.

PAC conclusion (vi): The Youth Justice Board should work more closely with courts to plan the number of custodial places likely to be needed, and to enhance the Court's confidence in community sentences. The proportion of young offenders sentenced to custody varies significantly across the country. These variations may reflect a lack of suitable custodial places in some areas or a lack of confidence in, or knowledge of, community sentences delivered locally.

27. The Home Office and YJB accept recognise the need to work closely with courts. A number of initiatives are already in place with the aims of enhancing courts' confidence in community sentences and of achieving greater consistency in the proportions of young people sentenced to custody in different areas. The main elements of the approach are as follows:

- at a national level, YJB is developing strategic relationships with key groups (including Crown Court judges, district judges, the Magistrates' Association, the Justices' Clerks' Association, the Judicial Studies Board and the Sentencing Guidelines Council) to convey significant messages about community and custodial sentencing;
- in addition, every six months YJB publishes information showing the relative use of custodial and community sentences in each YOT area, highlighting regional variations to inform local practice;
- at a local level, YJB is encouraging YOTs to develop local strategies to communicate with courts on issues such as the promotion of robust community sentences. Following a project in ten high-custody areas, YJB has issued advice to YOTs about how to develop a communication strategy, and will be offering support in implementing this;
- a series of regional events took place in July 2004 to help YOTs to improve practice in relation to the use of custody.

28. YJB is also undertaking a sentencing review study to explore with courts the factors that apply in sentencing young people to custodial or community sentences. The aim is to inform YOT practice in their work with courts. The study should be completed by June 2005.

29. On the specific issue of planning the number of custodial places likely to be needed, YJB recognises the need to improve its modelling capability. It is doing this by:

- recruiting specialist staff to help with data analysis and forecasting;
- liaising more closely with Home Office statistical staff; and
- as the Committee suggests, liaising more closely with the courts and the Sentencing Guidelines Council.

PAC conclusion (vii): The Youth Justice Board needs to have a better grasp of the activities of Youth Offending Teams, so that national policies on youth justice are applied more consistently at the local level. Some Youth Offending Teams are reluctant to recommend custody in any circumstances. The Board should take action where teams fail to comply with grant conditions, including withholding grant payments where merited.

30. The Home Office accepts that national policies need to be applied more consistently at local level. The Home Secretary, on the advice of the YJB, sets the national standards for youth justice. It is a condition of the YJB grant to YOTs that YOTs comply with these standards and with the Board's performance management framework (about which more details are given below). YJB reserves the right to withdraw grant from under-performing areas and has done so on occasions in the past. In spring 2005 the Board will review compliance with national standards across all YOTs.

31. YJB has introduced a regional performance monitoring framework. In the current year YJB has set 13 performance indicators for YOTs (and 8 performance indicators for secure establishments), most of which set out the key features of interventions most likely to reduce reoffending. They are monitored quarterly. In addition, the YJB regional managers, the national manager for Wales and YJB monitors conduct qualitative assessments. These elements combine to form the comprehensive performance monitoring system which provides reliable benchmarking information in order to identify where practice and performance needs to be improved. The monitoring system also enables regional managers, the national manager for Wales and YJB monitors to provide appropriate support to individual YOTs. In the case of a YOT with persistent and ingrained poor performance, YJB will employ a graduated system of intervention that can include the Board directly prescribing the improvements required where support and assistance has not led to sufficient improvement.

32. YJB shares the Committee's concern about the reluctance of some YOTs to recommend custody in any circumstances. The former Chief Executive wrote to all YOTs on 3 February 2004, emphasising that, when custody is the only appropriate disposal, their advice to the courts should set this out explicitly so that recommendations can be made to inform sentence planning while the young person is in custody.

33. The YJB performance improvement programme is addressing issues related to the use of custody, and is focusing attention on pre-sentence report practice, gatekeeping and monitoring to ensure appropriate sentence proposals are put to the court.

PAC conclusion (viii): The Home Office and the Youth Justice Board need to take action to help Youth Offending Teams fill front line vacancies. Vacancy rates amongst front line staff, which were 6.5% in September 2003, must impact adversely on the effectiveness of Youth Offending Teams, and hence on the success of their work with young offenders.

34. Whilst recruitment is more difficult in certain geographical areas and for certain posts such as full-time and senior practitioners, the overall YOT labour market picture compares favourably with similar sectors.

35. But the Home Office and YJB accept the Committee's conclusion that more needs to be done in this area. YJB has developed a human resources and learning strategy which aims both to improve recruitment and retention of staff and to increase the diversity of the youth justice workforce. It aims to do this by attracting staff from local communities or non-traditional groups to work within the sector.

36. As part of the strategy, between April and November 2003 YJB set up regional human resources consortia, led by YJB regional advisers who ensure the implementation of the strategy and develop a collaborative regional approach to workforce planning and profiling. YJB will update its national review of vacancy levels amongst front-line YOT practitioners by January 2005 and facilitate efforts to recruit staff as part of wider workforce planning.

37. A central pillar of the strategy is the Youth Justice National Qualifications Framework which is a flexible series of qualification that will give practitioners the skills to deliver effective services. The qualifications framework provides recognised national qualifications that are transferable across sectors. YJB currently has a target to help 80 per cent of youth justice worker to gain the Professional Certificate in Effective Practice (Youth Justice) or the equivalent under the National Qualifications Framework by March 2006.

38. In addition, YJB is developing a new volunteering strategy to build on the already significant contribution which volunteers and mentors make to work with young offenders.

Forty-first Report

Office of Government Commerce (OGC)

Improving departments' capability to procure cost-effectively

PAC conclusion (i): Departments should appoint a Commercial Director with an appropriate professional qualification, who has responsibility and oversight for all commercial dealings with the private sector. He or she should be a member of, or report to, the department's management board, as is the case in five departments including the Department for Work and Pensions. For smaller organisations this function should be assigned to a designated board member, as part of their responsibilities.

1. The Office of Government Commerce (OGC) agrees with the recommendation. In July 2004 the OGC Supervisory Board approved a paper calling for all organisations to have a Commercial Director at or reporting to Board level, with appropriate skills and experience. Smaller organisations may share such an individual. The Commercial Director should be present for all Management Board discussions on strategic, business planning and commercial arrangements.

2. OGC Skills Development Centre is working with Cabinet Office on the Professional Skills for Government programme that aims to provide clear career development routes to board level.

PAC conclusion (ii): Departments need to make clear to their executive agencies and non departmental public bodies the importance of adopting good procurement practice. Agencies and non departmental public bodies are less likely to apply OGC guidance and good practice, risking poorer value and missed opportunities for savings. Where such risks materialise, departments might wish to make compliance with good practice a condition of funding.

3. OGC agrees with this recommendation. The OGC Supervisory Board have agreed that the commercial activities of Agencies and non-departmental public bodies (NDPBs) should fall within the professional oversight of the departmental Commercial Director, who should be in a position to assure the Permanent Secretary that appropriate standards operate and sufficient skilled resource is available.

4. Every department should have its own procurement and delivery procedures, based on best practice but adapted to meet specific needs, and policies that define who should use the procedures and when. Departments can validate their procurement and delivery procedures by comparing their approach against the relevant workbook(s) in the OGC Successful Delivery Toolkit. This identifies both what needs to be done and points that may require further consideration.

5. The OGC view of compliance is that a department should routinely comply with best practice guidance. OGC acknowledges, however, that there could be circumstances where a department might depart from this approach: this may be because the guidance does not cover their specific needs or that they have a different, but equally effective, approach to meet a need.

6. Departments are responsible for the actions of their agencies and NDPBs and are best placed to assess their need for compliance with best practice. Again the same principles should apply: comply or explain deviation. Departments should consider compliance with best practice as a condition for funding but will need to have the skills and capabilities to make the assessments. For example, a department may well have adapted OGC's best practice to its own needs and should be aware of any further adaptation that its agencies and NDPBs would require before applying the sanction of withholding funding.

7. The roll-out of Centres of Excellence will also enable Departments to embed best practice further within agencies and NDPBs.

PAC conclusion (iii) Departments should check whether the information systems underlying the savings data they submit to the OGC are sufficiently robust and well documented. The savings submitted should be verified by internal auditors, as is the case in, for example the Department for Work and Pensions and the Department for Transport, so that reasonable assurance is gained about their reliability.

8. The OGC agrees with this recommendation. For 2003-04, all savings data submitted has been confirmed by departmental finance directors and, in many cases, the finance directors have in turn gained assurance from their internal auditors. OGC will continue to require this assurance in future.

PAC conclusion (iv): The OGC should demand early action from departments in response to poor Gateway reviews, in particular where successive reviews suggest projects are going wrong and taxpayers' money is at risk. While accountability for major procurement projects rests with individual Accounting Officers, the OGC should consider engaging the Treasury's authority to control expenditure as a lever against departments who choose to proceed in the face of successive 'red' or 'amber' warnings.

9. The Government reaffirms its view that it is not for OGC to run projects for departments, since to do so would dilute the accountability of the Accounting Officer. It is the responsibility of Departmental Accounting Officers and programme and project Senior Responsible Owners to ensure that Gateway Review recommendations are considered and that guidance and best practice is followed.

10. The creation of Centres of Excellence in departments and the challenge role they fulfil for programmes and projects, already provides a route for following up Gateway Review recommendations and reporting this to the senior management of departments. Also, as part of the Gateway process, at the subsequent Gateway review stage the review team note the progress made by the project team in addressing and implementing the earlier recommendations.

11. OGC already has the power to escalate issues to Permanent Secretaries whenever appropriate. Two consecutive red Gateway reviews trigger a letter from OGC's Chief Executive to the Permanent Secretary of the department, copied to the Cabinet Secretary, bringing it to their direct attention. The letter identifies the circumstances which caused the two red reviews and highlights the importance of identifying and addressing the risks to successful delivery at the earliest possible stage. This escalation ensures that the Permanent Secretary is made aware of the situation and is in a position to take whatever action he or she deems suitable.

PAC conclusion (v): Lessons learned from savings achieved so far should be promulgated to other parts of the public sector. If as proposed, the remit of the OGC is extended to cover procurement across the public sector as a whole, the OGC should make sure that the lessons learned from its work in central civil government are extended to a wider range of bodies, particularly the National Health Service.

12. The OGC agrees with this recommendation. OGC has a programme for engagement with departments and the wider public sector. The teams involved will provide the channel for conveying lessons learned to the sectors, including the National Health Service. OGC's best practice is validated internally and by using feedback from customer user groups.

13. OGC is currently discussing approaches to procurement with the NHS to compare the benefits of each method and identify where there are necessary differences. OGC is collecting case study material, from a range of public sector organisations, for publication in the Successful Delivery Toolkit so that it is available widely in the public sector.

PAC conclusion (vi): Departments should be able to demonstrate how deviations from OGC-sponsored approaches have secured better value for money. There should be a presumption in favour of using OGC-established procurement routes, particularly for routine and low value items. Where departments make other arrangements they should be able to demonstrate clearly the reasons for doing so, and how better value has been secured.

14. OGC disagrees with the Committee. Public sector organisations should not be forced to use OGC's products and services. Departments should consider value for money when making their own arrangements, but should not have to go through a bureaucratic process to demonstrate they have achieved this.

15. It is not possible for the OGC to supply departments with every service that they require. The use of frameworks is influenced by the complexity of the requirement, rather than the value of the transaction. Complex and department-specific requirements are more likely to require detailed negotiations of terms and conditions and are therefore not suited to standard terms offered under framework agreements.

16. OGCBuying.solutions' aim is to provide products and services that meet the needs of departments. Although there is still a lot of work to do, the amount of public sector spend using OGCBuying.solutions' frameworks has increased from £1 billion in 2001/2 to £2 billion in 2003/4. This figure continues to rise.

17. OGCBuying.solutions has a substantial marketing and account management function. They are responsible for increasing the use of products and services and to feed back customers' comments and requirements.

PAC conclusion (vii): Greater use should be made of the Government Procurement Card. The card offers simplified purchasing, reduced transaction costs, speedier delivery and reduced stockholding, while a sound audit trail provides information about what was bought, from whom and how much was spent. At present, only 6% of departmental spending is via this route and for non departmental public bodies the figure is only 3%.

18. The OGC agrees that greater use of the Government Procurement Card (GPC) should be made for appropriate purchases. OGC is committed to promoting the use of the GPC further via a number of routes including:

- Offering advice and guidance to GPC using organisations in order for them to make best use of the card to reduce transaction costs.
- Running More User Groups & Knowledge Forums offering organisations the opportunity to share best practice and experience.
- Further promotion of online benchmarking tools to show the potential efficiencies of switching from traditional methods of lower value procurement to GPC.
- Negotiating with suppliers to offer discounts at point-of-sale.

19. However, it should be noted that the GPC is designed for purchasing of low value goods direct from the supplier and therefore should never account for a high proportion of an organisation's spend.

PAC conclusion (viii): Departments can secure further value for money gains by use of mini-competitions within the S-Cat and GCat arrangements. In using catalogues such as S-Cat and GCat, departments should be aware that they may secure keener prices by running mini-competitions, rather than simply accepting the price set by individual suppliers.

20. The OGC agrees with this recommendation.

21. Customers are advised about the use of mini-competitions both in the guidance literature OGC issues and when contacting OGC directly. Guidance for S-Cat and GCat recommend the use of mini-competitions where the requirement is complex, diverse or technically difficult. The guidance only recommends going straight to one supplier where the requirement is simple, straightforward and of relatively low value – where the potential savings do not justify the time spent.

22. OGC is heavily promoting the use of electronic reverse auctions within the S-Cat and GCat arrangements, as another way of creating competition between suppliers.

PAC Conclusion (ix): Departments should make their procurement processes and policies accessible to small and medium-sized enterprises. These suppliers may be able to offer better value for money through increased competition, local supply lines, and greater flexibility and innovation. In particular, when framework agreements within S-Cat and GCat are due for renewal, departments should publicise this effectively, using their links with bodies such as the Department for Trade and Industry's Small Business Service to make sure that as wide a range as possible of suppliers have the opportunity to compete.

23. OGC agrees with this recommendation and, in response to the Better Regulation Task Force (BRTF) and Small Business Council (SBC) report *Government: Supporter and Customer?*, is doing a lot of work to encourage effective competition, by making the government marketplace more attractive to suppliers of all sizes.

24. The OGC has recently compiled a progress update, charting the action that has been taken during the past twelve months to implement the recommendations. Work is well in hand on implementation. For example, recommendation 1 proposed that a “Supplying Government” web portal project should be run, with the aim of advertising lower value contracts from across the whole public sector in one place. The new website will be launched in Summer 2005 and we expect this to help small and medium sized enterprises (SMEs) compete for and win government contracts.

25. OGCbuying.solutions has introduced a Supplier Zone on its website to provide advice and guidance to potential suppliers. The site contains the Framework and Managed Services Programme, which includes details on the expiry dates of current frameworks including S-CAT and GCat (both due to expire in 2006) and a wide range of valuable support resources. All future framework competitions will also be advertised on the Supplying Government website when it goes live.

PAC Conclusion (x): If departments are to realise the many potential benefits in developing electronic procurement systems, they need to make a careful appraisal of the costs, benefits and practicalities of developing them. In particular, they should be aware of similar initiatives in other departments, so that wasteful duplication is avoided, and good practice lessons are learned. The Department for Work and Pensions and the Office of the Deputy Prime Minister, for example, are developing separate e-procurement systems to reduce the processing costs of procurement. The gains so far achieved by the Office of the Deputy Prime Minister have, however, yet to meet the expectations of its business plan.

26. The OGC agrees that it is important, where both possible and desirable, to avoid duplication in electronic procurement processes. There is an overarching e-procurement strategy for the whole of Government, to which departments are committed. The strategy has sought to put in place infrastructure that enables easy access to e-procurement services such as e-auctions and e-sourcing, which are, or will soon be, available through OGCbuying.solutions frameworks. Departments can use these services without setting them up for themselves.

27. Different departments are at different stages of maturity regarding deployment of e-procurement. OGC provides a tool to enable departments to assess their maturity and thereby to put plans in place to implement e-procurement. OGC has published best practice guidance on e-procurement (including on the business case and on how to realise the required benefits) to help departments avoid pitfalls. OGC also facilitates events that enable departments to exchange information and learn from each other

PAC conclusion (xi): Departments need to develop reliable and up-to-date information to secure better control over their procurement spending. Departments should know how much is spent, with whom, and on what goods and services, as well as the transaction costs of procurement. Departments should get to grips with maverick spending in particular – where staff use unauthorised buying arrangements or suppliers who are not approved – as they risk losing value that could otherwise be achieved through established procurement arrangements.

28. The OGC agrees with the recommendation. It is for departments to implement appropriate arrangements to monitor and analyse expenditure to ensure that proper use is being made of current contracts with approved suppliers and that staff follow published procurement procedures.

29. In response to demand from departments OGC is procuring an online, electronic marketplace service under a project called 'Zanzibar'. This will open up the government marketplace, help capture management information, and facilitate improved control over procurement spend.

PAC conclusion (xii): Departments should have the means to satisfy themselves about the financial and operational reliability and resilience of key suppliers, and their associated supply chains. Currently, just 17% of departments, agencies and non-departmental public bodies analyse the strength of their suppliers' and their associated supply chains, and only 26% hold information on the proportion of individual suppliers' turnover that their procurement spending represents.

30. OGC agrees and is encouraging departments to utilise supply intelligence information on key suppliers, which it maintains.

31. There is a framework agreement with Dun and Bradstreet to provide financial reports to public sector bodies. OGC also has extensive financial knowledge of the key suppliers to government, which is available to all public sector bodies. This includes key supplier turnover and the portion of turnover, which relates to the public sector.

PAC conclusion (xiii) Departments need to increase the numbers of professionally qualified procurement staff. Just 23% of all designated procurement staff have a Chartered Institute of Purchasing and Supply or other procurement qualification, and the rate of progress to develop a fully professional procurement service has been slow.

32. OGC agrees with this recommendation. A strategic review of the Government Procurement Service (GPS) is underway.

33. We propose that departments carry out a skills audit of procurement staff to determine, in detail, whether staff have the skills and experience equivalent to the recognised formal qualifications.

34. Many staff across government hold the Certificate of Competence in Purchasing and Supply, which is accredited by the Chartered Institute of Purchasing and Supply (CIPS) as equivalent to its Graduate Diploma Foundation Stage qualification. Departments are working towards a target of 75 per cent of key-designated procurement postholders holding the CIPS Graduate Diploma Professional Stage qualification and being recognised as members of the Institute (MCIPS), or having other appropriate equivalent skills or qualifications.

35. The OGC Skills Framework and Skills Passport can be used to benchmark experience and skills against formal qualifications.

36. Part of the GPS remit is to promote best practice in professional development. We are working to develop relevant and up-to-date professional development products for use by GPS members. We will work with Cabinet Office on the Professional Skills for Government programme in this area.

Forty-second Report

Department for Education and Skills

Department of Health

Department for Transport

Increased resources to improve public services: a progress report on departments' preparations

PAC conclusion (i): The three departments need to gain assurance that their delivery partners have sufficient capability and capacity to deliver services effectively. All three deliver services indirectly through a network of agents and partners and, if they are to identify and manage the risks of delivering through such partners, each department needs to undertake regular appraisal of their partners' strengths and resilience, and to secure a clear view of the constraints and opportunities they face. The Department for Transport, for example, relied on Railtrack to deliver upgrades to the West Coast Mainline but mismanagement led to serious cost and time overruns.

1. All three departments accept the Committee's recommendation.
2. The Department for Education and Skills (DfES) delivers many of its programmes through partners and agents such as Non-Departmental Public Bodies, contractors, voluntary organisations, further education colleges, higher education institutions, local education authorities and schools. It gives a high priority to ensuring that its partners are able to deliver effectively.
3. DfES is currently examining its delivery strategy to ensure that it is compatible with the *Five Year Strategy for Children and Learners* published in July as Cm 6272.
4. DfES is moving to a fundamentally different relationship with its partners. In future it will become the strategic leader of the system rather than a deliverer of services. DfES will ensure there is sufficient capability and capacity in the delivery chain, and monitor progress against agreed high level objectives, rather than trying to micromanage the system.
5. DfES monitors how well programmes are delivering their objectives by holding regular meetings with partners and agents and analysing performance reports. The aim is to identify potential failure at an early stage so that appropriate corrective action can be taken.
6. The Department of Health (DH) considers it essential that its delivery partners can deliver services effectively and that performance is monitored regularly. With regard to IT contracts, DH has established a contestable framework for delivery of the National Programme for IT, organised through five regionally-based 'Clusters', to ensure there is no dependence on any one supplier organisation providing all the resources. Regular meetings are held with suppliers to ensure early identification of any issues and that schedules are not interrupted. These include planning, progress monitoring, dispute resolution, risk management, and sharing of good practice. Under the terms of their contracts, suppliers are required to work together to address any issues that are identified and supply senior resources to support work in the programme.

7. Contracts for the provision of Treatment Centres by the independent sector are monitored regularly throughout the procurement process. This process has been developed to allow the provider, NHS and DH to review any suggested deficiencies whether generated by the provider or by the NHS and to determine an agreed action plan for resolving the underlying issues.
8. Responsibility for assessing the performance of NHS trusts and primary care trusts lies with the independent Commission for Healthcare Audit and Inspection (the Healthcare Commission).
9. NHS Foundation Trusts are accountable to Monitor (the regulator of NHS Foundation Trusts) who oversees their performance against their terms of authorisation and legislation. Monitor has powers to intervene if it believes that an NHS Foundation Trust is breaching its terms of authorisation.
10. The Department for Transport (DfT) sits at the heart of a network of delivery partners, regulatory bodies and transport providers. The nature of the relationship between DfT and these organisations varies widely and the level of direct control DfT can exercise differs from case to case. The following examples show how DfT or its agencies are working to ensure that delivery partners have sufficient capacity and capability.
11. In the past the construction industry has suffered from a lack of commitment to forward programmes. The improved forward planning provided by the Transport 10 Year Plan and Spending Reviews allows suppliers to recruit and develop the resources they will need. To support forward planning, the Highways Agency (HA) has set up a Supply Chain Management team that meets regularly with key suppliers, both individually and as a group in the form of supplier communities. The HA has also introduced better supplier selection procedures to assess capability of suppliers and uses a new Capability Assessment Tool (CAT).
12. The main aim of the CAT is to establish suppliers' management approach and suitability for delivering the HA's projects and services. It makes the HA's requirements transparent and helps suppliers align themselves with the HA's desired way of working. Sixty firms covering contractors, consultants and other supply chain companies have completed assessments. The results will be used to inform the future selection of tender lists for new major projects and maintenance services.
13. On rail, SRA Directions and Guidance describes how Ministers expect the Strategic Rail Authority (SRA) to deal with investment decisions and letting and management of franchises. These require the SRA to obtain Secretary of State's approval for certain actions, including publishing of strategies and letting of franchises. The SRA Directions and Guidance have been revised to clarify how the SRA should discharge these responsibilities during the period before the legislation proposed in the July 2004 White Paper, *The Future of Rail*, comes into force and the SRA will be wound up. The new Directions and Guidance stress the SRA's role in supporting and facilitating the transfer to the new structure proposed by the White Paper.
14. Network Rail has taken all rail infrastructure maintenance work in house to enable it to exercise a greater degree of control over cost and quality. Delays have fallen by an average of 21 per cent in the first three contract areas to be taken back in-house. Infrastructure renewal work is still contracted out but new contracts provide Network Rail with a greater degree of control.

15. Local transport authorities are required to provide Annual Progress Reports detailing the progress made towards meeting their targets and objectives. DfT has engaged with authorities, particularly those assessed as 'weak', as part of challenging and assisting local authorities to improve their delivery of local transport.

PAC conclusion (ii): The departments should work to simplify complex delivery chains and financing mechanisms, and establish a direct link between funding and the specific improvements in service quality they expect the resources to deliver. Schools for example, are funded through many channels including the Department, local authorities and the Learning and Skills Council. By aligning more closely increased funding to specific objectives and targets for improved service quality the departments will be in a stronger position to gauge whether resources are being used effectively.

16. The three departments agree with this recommendation.

17. DfES has already taken action to make the funding arrangements for schools simpler, fairer and transparent and is planning further action. At present central government funding for schools is mostly paid through the Revenue Support Grant and channelled through the Office of the Deputy Prime Minister to local education authorities.

18. The Government announced in the *Five Year Strategy for Children and Learners* that it intended to introduce a new dedicated Schools Budget guaranteed by national Government and delivered through local authorities. It is intended that there will be guaranteed three-year budgets for every school from April 2006, geared to pupil numbers and aligned to the school year, with a guaranteed minimum per pupil increase each year for every school. DfES also proposes a new Single Standards Grant from April 2006 in order to rationalise further standards-related funding streams. Consultation on all these proposals will begin early in 2005.

19. DfES is carrying out an ambitious programme of work to further improve the evidence on which resources are distributed so that service quality can be raised. It is looking at what the impact of changes in the level and mix of resources is on pupils with different characteristics and from different backgrounds. For schools, DfES is offering new benchmarking facilities that will allow them to compare their costs with other schools in similar circumstances and with similar characteristics to identify where resources could be targeted more effectively. This is being backed up with additional help and training to schools so that they can make the full use of their resources.

20. In April 2003, DH allocated funds directly to primary care trusts (PCTs). For 2004-05, PCTs are in control of around 80 per cent of the NHS budget. DH ensures that the investment being made in the NHS is spent effectively through:

- giving PCTs maximum flexibility in the resources available to them so that they can ensure that resources are spent in the most efficient and effective way depending on local circumstances;
- introducing Payment by Results will provide a transparent, rules based system for NHS care;
- by setting a small number of challenging, but affordable and achievable, national targets;
- asking the NHS to achieve annual efficiency savings;
- backing this up with performance management by Strategic Health Authorities (SHAs).

21. The Government has recognised the complexity in the delivery chain in the rail industry. The White Paper *The Future of Rail* committed the Government to implement the required changes to streamline the fragmented industry structure and to promote clear lines of responsibility and accountability. This will ensure that money is spent where it is most needed, not wasted through poor management.

22. *The Future of Rail* comprised the following core elements:

- Government to take charge of the key strategic rail decisions;
- Network Rail to be the single point of responsibility for performance;
- track and train to be bought closer together;
- London, Scotland, Wales and the Passenger Transport Authorities to be given more power over rail decisions;
- the independent Office of Rail Regulation to be responsible for safety, performance and cost.

PAC conclusion (iii): Departments need to be satisfied that expenditure on higher salary levels is genuinely needed to attract more skilled or highly qualified staff. Otherwise additional resources for service improvement can tend to leak away into higher pay without matching productivity improvements.

23. The departments recognise that pay increases must be realistic, affordable and fully justified.

24. In January 2003 the Government, employers and most school workforce unions entered into a national agreement which featured a series of phased reforms to help schools raise standards of achievement of all their pupils and tackle teacher workload issues. The agreement recognises the contribution that better trained support staff can make to a more efficiently run school allowing teachers to concentrate on those professional activities that directly support pupil achievement.

25. Teachers' pay in England and Wales is based on recommendations made annually by the independent School Teachers' Review Body (STRB), established in 1991. The Government has undertaken to implement the statutory recommendations of the STRB unless there are clear and compelling reasons to the contrary.

26. With regard to the NHS, the Agenda for Change pay reform has been designed to deliver a variety of improvements to the NHS including improvements in service delivery, participation benefits through better recruitment and retention of staff, and improved patient access. The Early Implementer sites that have been testing the new pay system, have seen a variety of improvements in all three areas and there is sharing of the good practice. National roll-out sites are considering carefully the benefits that can be delivered through pay reform with a view to ensuring that they can be achieved widely across the NHS. The consultant contract has been introduced to reward those NHS consultants who do most for the NHS and to secure real changes in the way that patient care is delivered. Similarly the new general practitioner contract means they will be rewarded for the work they do and have freedom to design primary care services to meet local patient needs with a premium on the quality of services general practitioners provide.

27. Most front-line transport staff are employed by the private sector and salary levels are therefore not within the direct control of the Government. Within DfT itself, salary levels are monitored. Incorporated within this is the collection of both public and private sector market force evidence and ways of introducing further control as well as flexibility into the pay systems. While addressing recruitment and retention pressures, especially in specialist areas, it is recognised that salary levels must be realistic and subject to affordability.

PAC conclusion (iv): The Departments of Health and Education need to balance devolving responsibility for service delivery to the local level with not letting wider service improvement be jeopardised by pockets of poor or failing performance. In devolving responsibility departments seek to respond to the demands and expectations of service users at the local level. They need, however, to retain sufficient leverage, including contingency plans, so that they can take prompt action to deal with unacceptable variations in service quality.

28. DfES and DH agree with this recommendation.

29. As part of the proposals in the *Five Year Strategy for Children and Learners*, DfES intends to strip out unnecessary bureaucracy in schools, give teachers and headteachers more confidence, and treat different schools differently – challenging those that underperform and intervening in schools causing concern where it is necessary, but being less directive with those that perform well. This means a single annual review (less often for high performing schools) conducted by a ‘school improvement partner’; a new inspection regime with shorter, sharper inspections and a stronger role for school self evaluation.

30. DfES already has a range of policies which are designed to challenge and support local education authorities to prevent school failure and tackle it where it occurs. The majority of failing schools recover and sustain their recovery.

31. The policy of devolution from DH means that Strategic Health Authorities (SHAs) have the specific role in engaging those providing services. DH becomes involved where there is a clear failure in local service provision which requires central engagement.

32. The Healthcare Commission’s performance assessment will identify unacceptable variations against the national standards and targets set out in *National Standards Local Action*. SHAs will intervene if the performance assessment identifies any such variations. For NHS Foundation Trusts, the independent regulator, Monitor, will take up any issues.

PAC conclusion (v): The Department of Health needs to engage with those delivering services directly to the public to identify and tackle the reasons for any unacceptable disparities in service quality. They need to understand the reasons why the quality of services provided by some delivery agents is better than that provided by others, for example the variability in the quality of services delivered by GP practices. Where disparities are unacceptable departments need to incentivise, provide support and, where necessary, penalise delivery agents to bring up their level of performance to that of the best performers.

33. DH agrees with this recommendation, and is using various levers to incentivise good performance and identify and deal with poor performance. These include:

- PCTs enforcing the statutory requirements, for example around health and safety, contained within all primary medical services contracts – General Medical Services (GMS), Personal Medical Services (PMS), Alternative Personal Medical Services (APMS) and PCT Medical Services (PCTMS);
- incentivising quality through the Quality and Outcomes Framework (a voluntary incentive scheme covering the vast majority of GP practices);
- encouraging clinical audit, including through the highly successful ‘collaborative’ format;
- a contractual requirement that premises are both suitable for the delivery of services and sufficient to meet the reasonable needs of patients;
- a contractual requirement that any medical practitioner performing services under the contract participates in an appraisal system approved by the PCT;
- a contractual requirement that the contractor must have an effective system of clinical governance;
- a range of sanctions up to and including contract termination where a contractor is found to be in breach of their contract;
- performance management by Strategic Health Authorities;
- intervention by the Recovery and Support Unit, where necessary.

34. All contractual routes have a strong financial incentive to take part in use the Quality and Outcomes Framework (QOF). The QOF is a key driver in raising standards of care. It consists of a number of evidence-based quality indicators in four domains: clinical, organisational, patient experience and additional services. All contractors can expect an annual contract visit from the PCT, to verify achievement and agree aspirations for the following year.

PAC conclusion (vi): In addition to international comparisons the three departments should make use of the information on the performance achieved by their equivalent organisations in Scotland, Wales and Northern Ireland. Devolved arrangements have now been in place for several years providing an opportunity to examine whether new approaches are proving to be effective in delivering better quality services.

35. The departments recognise that there is in merit in comparing performance between countries.

36. DfES is open to considering evidence of high performance and best practice wherever it is demonstrated, be it within the UK or further afield. It is committed to broadening the evidence base available by continuing to participate in international comparison studies such as the Organisation for Economic Co-operation and Development’s programme for international student assessment (PISA) and the International Association for the Evaluation of Educational Achievement’s trends in international mathematics and science study (TIMSS). Unfortunately there was insufficient voluntary participation of English schools in PISA 2003 to allow international comparisons to be made and therefore only results for Scotland and Northern Ireland could be reported on 7 December. Similar

difficulties with participation rates in England were experienced with the 14-year-old TIMSS population and the comparability of the data was qualified. However, data for the 10-year-old population was fully reported and is fully comparable with other countries, including Scotland.

37. DH is willing to consider new approaches that provide effective delivery of better quality services from wherever. DH views benchmarking as an important aid to performance improvement and encourages the NHS to assess their own performance alongside that of others. However, comparisons with other countries of a similar size with similar health systems rather than the rest of the UK, tends to generate more useful information.

38. As far as DfT is concerned the three devolution settlements are very different and devolution of transport functions is not a clear cut matter. For example, the road safety PSA target applies to Great Britain and it is essential that England, Scotland and Wales work closely together as some mechanisms to deliver the target are devolved. Best practice knowledge and statistical evidence is therefore shared in the course of bilateral contacts.

PAC conclusion (vii): The three departments need to simplify the complex web of performance targets and develop productivity measures which provide an accurate and meaningful picture of service delivery performance. For example the Department for Education and Skills measures productivity in a way that does not reflect the extent of improvement in educational quality. For instance, productivity can be increased by making class sizes larger regardless of any impact on pupil attainment.

39. DfES and DH agree that there is a need to develop a more accurate measure of productivity.

40. The measure of productivity described above is not a measure used by DfES. The measure of implied productivity for total government activity given in the interim Atkinson report is, however, in part based on a measure of education output which is defined in terms of the volume of pupil numbers. There is an adjustment for quality, but this is a fixed adjustment, year-on-year. DfES believes that any measure of education productivity should itself be based on a measure of output which better reflects changes in quality and, if possible, captures the full range of a school's activities and outcomes.

41. DfES is collaborating with the independent review of the measurement of government output and productivity for the national accounts led by Sir Tony Atkinson. The interim report stated that the review would explore measures of quality based on pupil progress and the quality of teaching as measured in Office for Standards in Education (Ofsted) inspections. In addition it supported the investigation into the valuation of the output of the education system by considering its impact on earnings. The final report of the Atkinson Committee is expected in January 2005.

42. DH is working with the Atkinson Review and with York University to develop a productivity measure that better captures what is being achieved in the health service, in particular, to capture improvement in the quality of care provided.

43. The Office for National Statistics (ONS) public sector productivity measures look at services provided directly by the Government, but much of transport policy is delivered through the private sector. The ONS therefore produces no productivity measures for transport. Instead, the DfT uses three kinds of measure to assess the productivity of its interventions:

- Benefit/Cost Ratios (BCRs): these measure outcomes per unit cost input and therefore avoid the sort of problems encountered in the example from the education sector. BCRs represent a standardised way to present the monetised expected net benefits of a transport scheme, relative to its cost. They are produced for all major transport investments across a wide range of spending and are the result of a very detailed and rigorous appraisal process. They demonstrate high productivity of investment.
- PSA targets: these are strictly a measure of outcomes only and not productivity *per se*, but the targets reflect Government's key productivity objectives. For example, the revised PSA target for rail focuses on the delivery of significant performance improvements for users through the improvement of punctuality and reliability of rail services.
- Achieving efficiency savings.

44. The BCR forms part of the DfT's New Approach to Appraisal (NATA) process which assesses proposed transport schemes against the Government's five objectives for transport: environment, safety, economy, accessibility and integration. A wider range of impacts than those reflected in the BCR is therefore taken into account in the appraisal, including impacts on environmental emissions, landscape, community severance and regeneration.

45. The irreversible nature of many transport projects (building a road for example) means DfT places a very high importance on ensuring appraisals provide as robust and accurate assessments of the expected performance of transport schemes as possible. This was made clear in the White Paper of July 2004 *The Future of Transport: a network for 2030* which stated: "... DfT has developed, and will continue to improve, appraisal techniques that ensure that only projects offering the best value for money secure public funding."

46. In addition to appraisal, post implementation evaluations are carried out to monitor the extent to which the expected benefits materialise. For example, all Highways Agency road schemes in the Targeted Programme of Improvement (TPI) undergo Post Opening Project Evaluation which compares what was expected with what actually happened.

47. Targets have been a positive force in driving forward improvements. In the NHS, for example, faster access to treatment for cancer has been achieved by setting new waiting time targets for diagnosis and treatment at all stages in the care pathway. Cancer death rates have fallen by 10 per cent in less than six years. DH, however, are now moving away from central target setting and are reducing the burden of national targets on the NHS and social care by two thirds, from 62 targets in the last three year planning round to 20 in the next three years. Greater emphasis is being placed on local organisations setting local targets to meet the needs of their population.

48. The Healthcare Commission assesses NHS organisations' performance against the national priority areas and in the future, the priorities and targets that they have identified locally. The Healthcare Commission is looking to improve the way it measures performance across the NHS. The Commission is consulting on a new assessment methodology which will come into force from April 2005. The assessment will include performance against Standards for Better Health which requires NHS organisations to take account of the quality and safety of all their services.

PAC conclusion (viii): Departments should share information on their plans to increase delivery capacity more widely among key suppliers. Departments can find themselves competing for suppliers particularly in the construction industry when both the Department of Health and the Department for Education and Skills have significant building programmes. The Department of Health, for example, has a capital investment programme in modern buildings and equipment totalling some £15 billion over the next three years. Without careful management there can be an inflationary impact on the cost of construction for all departments.

49. The departments agree that there is a danger that a limited number of contractors bidding for public sector contracts could result in higher prices.

50. In the DfES school building programme the creation of inflationary pressures is a key risk and one that is proactively managed through Partnership for Schools (PFS), a Non-Departmental Public Body created on 1 April 2004. Through performance measures, PFS are tasked with managing market and capacity issues (both supply and demand side) in the delivery of the 'Building Schools for the Future' programme.

51. PFS has conducted intensive research into the market capacity of the national and regional construction industry and has not so far found that there are particular demand pressures, although it recognises that the market could quickly change. Ongoing consultation with the sector will ensure that capacity will grow in a coordinated manner, without triggering inflationary pressure.

52. Standardisation of the procurement process is aimed at encouraging competition by reducing bid costs and continuously improving the process through feedback and consultation. The work of PFS will be aligned with other Government initiatives impacting on the construction industry

53. DH recognises that aligning demand with supply is a balancing act. If demand from departments outstrips supply, there is a risk that poor value for money might result due to lack of competition and the private sector could pick and choose the projects they want to bid for. However, to reduce the building programme could be counter productive as bidders may be compelled to scale back their capacity to match the flow of projects. DH, therefore, tries to model demand and supply and ensure that projects which go to market are demonstrably needed and deliverable.

54. The market for construction projects can be segmented into small/medium/large, and it is only the large projects sector (capital value of, say, over £100 million) where the market is limited. Even then, DH is still getting the required minimum two bidders for projects currently being advertised. There is no evidence of supply side problems for sub £100 million projects, and indeed the area where DH has most overlap with DfES, on NHS LIFT projects (primary care, relatively small projects), mirrored in education by the Building Schools for the Future programme, there is a thriving market with some new entrants DH has not previously seen.

55. The Highways Agency (HA), in addition to the work described in paragraphs 11-12 being undertaken by its new Supply Chain Management team, has implemented a new procurement strategy based on the development of long-term partnering relationships supported by performance measurement to ensure continual improvement. This is vital in delivering its significant programmes of work and managing the upward pressures on budgets. In addition, future plans are shared with the supplier communities through the HA's website and other internet collaboration tools. Forward plans are also discussed regularly at supplier conferences.

56. DfT's Driver, Vehicle Operator Group is embarking on a major transformation of its business over the coming years, affecting and involving a range of suppliers, intermediaries and business agents across the delivery chain. The Group is developing long-term partnering relationships with its suppliers and intermediaries to support this fundamental transformation from paper to electronic delivery. For example, the Driver and Vehicle Licensing Agency has established a new PACT (Partners Achieving Change Together) contract with IBM/Fujitsu which not only incorporates IT services but which also tackles business improvement and new process development. The new arrangement provides greater flexibility and sharing of risks and ensures both parties have a stake in ensuring the relationship is successful.

Forty-third Report

Ministry of Defence

Major Projects Report 2003

PAC conclusion (i): The cost overruns and schedule slippages recorded in the Major Projects Report 2003 mean that the services will not receive the equipments they need when they have said they need them. Where cost and time overruns on individual projects are significant the Department should better understand and be able to explain the adverse effect on the future Equipment Programme and the operational capabilities which the Armed Forces will have to forgo.

1. The Department recognises the impact on operational capability of the cost overruns and schedule slippages recorded in the Major Projects Report 2003. The impacts of cost and time overruns with individual projects on the future Equipment Plan are well understood. With a finite defence budget any increase in cost, direct or due to delay, affects the funding available for that and other programmes. Whilst every effort is made to mitigate the impact to the front line, delays to the in service dates of new equipment and the consequential need to extend existing equipment in service clearly has potential implications for operational capability. Through its robust annual planning process, the Department determines, where necessary, which projects should be delayed, reduced in scope, cancelled or be extended to meet revised requirements and available resources, in order to optimise overall military capability. The planning process includes detailed discussions with front line customers and the Defence Logistics Organisation (DLO), and examines in detail the impact of all the options under consideration. We recognise that delivering complex, cutting edge equipment that will meet the future capability requirements of the Armed Forces in a timely manner is a substantial challenge. This challenge is being addressed through a programme led by the Minister for Defence Procurement to improve our acquisition processes across the Department.

PAC conclusion (ii): The Department has accepted a greater share of risk on the Astute and Nimrod projects, yet was unable to give firm assurances on timescales and costs. By the time of the next Major Projects Report the costs should be well understood, and the Department should clarify the implications of the risks they are assuming.

2. In February 2003, the Government announced that it had reached agreement with BAE Systems on a way ahead for the ASTUTE programme. A new structure for the contract was agreed which reduced risk, while placing new incentives on the company to perform. The Department increased its funding by around £430M (in cash terms) as against an increased contribution by BAE Systems of about £250M. This was exemplified by a share line price agreement for the design, development and construction of the First of Class, HMS ASTUTE. Following re-approval an amendment to the contract to enact the 'Agreement' was signed on 17 December 2003. This agreement incentivises the contractor to minimise cost. Agreement on prices and programme for the second and third submarines will not be in place until the risks have been mitigated via progress on HMS ASTUTE. So far the cost of HMS ASTUTE is close to the target cost and the uncertainties in the cost estimates for the first 3 of the Astute Class are reducing. Control of time and cost has been improved since the agreement through:

- Quarterly three point estimating of HMS ASTUTE design, production and trials schedule, conducted jointly between the department and BAE Systems.
- The joint implementation of state of the art risk management tools and processes within the department and BAE Systems.
- The implementation of an Earned Value Management System enables high visibility and timely management of the project cost and schedule baselines including improved management of risk.
- The establishment of Anchor Milestones. Any prediction of late achievement of milestones is highlighted and the subject of correspondence between the Chief Operating Officer in BAE Systems and the Chief of Defence Procurement.

3. Recent experience shows a trend of decreasing risk exposure overall. The priority for risk management is nuclear safety. The lessons of Devonport D154 are being included in risk management plans.

4. The Department has already borne a significant element of risk on the Nimrod MRA4 programme. The restructuring of the contract has made a commitment to full production contingent on the achievement of design maturity and the agreement of a acceptable production prices.

5. The Agreement, which was reflected in a Contract Amendment in February 2004, also gave BAE SYSTEMS an incentive to reduce costs by linking their profit to price, through a Target Cost Incentive Fee arrangement for design and development. The Agreement also stipulated the introduction of robust project control systems to ensure that the risks of delay and further cost increases would be effectively managed and these have been rigorously applied.

6. The Department will not commit to full production until the achievement of design maturity and the agreement of acceptable production prices.

PAC conclusion (iii): The Department has developed Technical and Integration Readiness Levels to help understand programme risk. Developing a constructive relationship with industry is central to successful project delivery. The Department should develop Commercial Readiness Levels to provide a quantified basis upon which to assess the strength of its relationships with industry on individual projects.

7. The Department is already working on the rolling out Capability Improvement Modelling to ISO 15504 (International Standards Organisation Technical Report 15504 is a method for determining capability using a standard Process Assessment method), which builds on the concept of Commercial Readiness Levels. This process will also link into the activities which the Department is undertaking on Key Supplier Management, Supplier Development and Industrial Capacity.

PAC conclusion (iv): The Department's policy is to spend 15% of the initial procurement costs of a system in the Assessment Phase. Yet it currently spends less than 5%. It should follow its own policy.

8. The Department acknowledges the Committee's conclusion. Whilst the figure of up to 15 per cent may provide a guide in respect of some projects our key aim is for projects to pass Main Gate with a level of risk that is acceptable to and clearly understood by the whole stakeholder community, irrespective of the amount of funds that this involves. This point will be reached through the investment of time and funding appropriate to each individual project based on its own unique

circumstances and risks, and not through rigid adherence to any fixed levels. The Department is taking steps in a number of areas to drive projects in this direction. These include focusing the Main Gate Business Case on the key programme risks and the measures proposed to deal with them; insisting on comprehensive plans and procedures to keep projects within their approvals limits; the Department will continue to use System and Technology Readiness Levels as indicators of potential areas of risk, and to provide further assurance that the correct level of maturity has been reached to justify a Main Gate submission. As the Committee will be aware, the Department has extended the Assessment Phase of the Future Carrier programme to ensure it is sufficiently de-risked – one example of this approach in practice. These measures will enable the Department to move to a position where sufficient resources are being invested before Main Gate to reduce risk to acceptable levels.

PAC conclusion (v): In a number of cases, such as the Astute submarine and the Support Vehicle, the Department and industry made poor decisions and committed to unrealistic programmes. The Department is in a long lasting relationship with many of its suppliers where success will only be achieved by establishing programmes which hold the prospect of securing a fair risk and reward balance. The Department and industry should explore how better to share information on costs, risks and potential opportunities for mutual gain to help both partners to structure deals appropriate to the circumstances of individual programmes.

9. The Department had previously recognised that optimistic estimating by project teams and industry was leading to the approval of unrealistic programmes. In response to this, the Department established a dedicated Risk Team in 2003 to provide direct support to projects to enable them to develop their estimating and risk management competence. The Department now has detailed guidance on how teams are to approach risk and estimating and how they should share this information with stakeholders, including contractors and industrial partners.

10. The application of this guidance is assured through: direct assistance with risk and uncertainty modelling in order to produce realistic and robust estimates; assessments of Risk Management & Estimating Process maturity; and specifically focussed training. The Department's Risk Management training courses are also available to industry.

11. The Department recognises the need to achieve a fair balance of risk and reward in its contracts and is addressing the means to de-risk and incentivise contracts through the 'More Effective Contracting' (MEC) strategy – that is intended to result in timely and affordable defence capability to the Armed Forces through staged contracts that are progressively de-risked. Risks will be measured against pre-defined technical or system maturity criteria, the achievement of which will be a pre-condition of proceeding to the next stage. The flexibility to exit the contract at pre determined points or to alter direction if the customer requirement ceases to exist, or changes, is a key feature. MEC also reinforces the importance of selecting pricing arrangements that properly reflect the prevailing risk to a project during its life cycle. For example, incentivised cost sharing arrangements will be the preferred pricing approach in the assessment and demonstration phases where risks may be at their highest, with firm or fixed prices more prevalent during manufacture. In addition, the Department is implementing a new mechanism under the modernised '2003 General Review of the Profit Formula for Non Competitive Contracts' that enables the baseline rate of profit to be adjusted according to the risk characteristics of types of work undertaken in contracts. This mechanism is designed to better align reward with different levels of risk and will be further developed as the Department and industry gain experience of applying it to individual contracts.

12. With regard to the Support Vehicle project, the Department recognises that a series of factors, including the lack of an Assessment Phase, resulted in an unrealistic programme. The requirement and associated risks are now better understood by both the Department and the preferred bidder and this experience is reflected in the revised programme.

13. The Preferred Bidder for the Support Vehicle project, Machine and fabrique Augsburg-Nurnberg Edward Richard Foden United Kingdom (MAN ERF UK), was announced by the Minister for Defence Procurement on 12 October 2004. The General Support Vehicles IPT are now undertaking contractual negotiations with them to define an extensive and robustly monitored demonstration phase to be followed by the manufacturing phase. Progress during these phases will be monitored against anchor milestones and will utilise an Earned Value Management approach. In conjunction with these controls, a risk management process that will provide a continuous review of risks will be undertaken jointly by the Department and the contractor.

14. The equipment will be introduced into service in 2007 and 2008 for cargo and recovery vehicle variants respectively.

PAC conclusion (vi): Experience on, among others, the Nimrod and Astute programmes, highlights that agreeing long-term fixed price contracts covering both development and production for complex defence equipment programmes is not workable.

15. The Department agrees with Committee's conclusion, particularly in regard to long-term, complex projects where there is significant risk.

16. The Department will continue to draw on best practice from various national and international industries in the public and private sectors and to benchmark its contracting structures and processes against other major procurement organisations.

PAC conclusion (vii): In the past, the relationship between the Department and its contractors has too often been characterised by an emphasis on what to do in case of failure and a culture based on the apportionment of blame. In agreeing future programmes the Department and industry should define commercial arrangements which provide a financial incentive to both parties to improve on cost, time and performance estimates, without setting targets which are easy to beat and so provide a false impression of success.

17. The Department agrees with the Committee's recommendation. As part of the Department's MEC initiative (see paragraph 11), the Department is in dialogue with industry to identify and develop innovative financial incentives to reward high performing suppliers who deliver projects against specified criteria for success.

18. Improving relationships between the Department and industry is a key element of the Department's Key Supplier Management (KSM) initiative, under which senior officials have been appointed to act as a focal point of contact with individual key defence suppliers. This is intended to lead to an improved understanding of important issues, and should help decision-making and forward planning on both sides. The recently implemented Supplier and Customer Performance Measurement (S&CPM) process will, in due course, result in a clearer picture of both company and the Department's performance, enabling the Department to address impediments to improved performance to mutual benefit.

PAC conclusion (viii): The definition of value for money in the Defence Industrial White Paper is broad and, in theory, embraces the concerns of government and industry. However, tensions and misunderstandings remain. In making future decisions it will be important for the Department fully to involve other government departments and industry from the outset in evaluating the full range of potential outcomes, including implications for industrial capacity and skills.

19. The Department agrees that it is important to consult with other government departments and with industry from the earliest stages of our projects. We make this clear in our guidance on how to implement the Policy which is freely available to all stakeholders. The definition of value for money that applies across the whole range of defence business is broad with every application needing to take account of the full context of the decision to be made. The factors that allow us to assess value for money are set out in the Policy with more detail being provided in our guidance. These factors encompass issues such as the impact on our industrial base. We will continue to be open and honest with all stakeholders to ensure that the basis of our decisions are well understood.

PAC conclusion (ix): Appointing Senior Responsible Owners to co-ordinate the delivery of major capabilities such as Carrier/Strike is sensible. As envisaged by the Department, however, the role seems to be without direct managerial or budgetary control. The Department should provide a clearer account of exactly how Senior Responsible Owners will fit into the procurement system.

20. Senior Responsible Owners (SROs) have been designated to take charge of programmes involving substantial change, significant complexity or demanding integration across boundaries. The SRO acts as the single point of accountability for ensuring that a programme meets its objectives and delivers the projected benefits, and his role in this process comes to an end when the change programme has delivered. SRO is a role fulfilled as part of a normal appointment. The only exception to this is the SRO for the Carrier Strike capability (SRO CS), which is full-time. The decision to establish a full-time SRO CS was driven by the complexity, cost and high profile of the programme that will introduce the Joint Combat Aircraft, operating from both land and sea bases, two new aircraft carriers and coordinate all the associated support.

21. Each SRO has to define success and the programme benefits, against which his accountability can be measured. The end-point for the SRO is the successful delivery of the benefit for which the programme was established. In terms of delivering a new military capability, this will normally be when the Full Operating Capability has been achieved.

22. For the delivery of new military capability, the SRO has to manage the co-ordination of all the Lines of Development (LODs)⁵ to ensure that they come together both qualitatively and quantitatively at the required time. Management of work within the individual LODs remains the responsibility of Top Level Budget holders, including the Chief of Defence Procurement (CDP) and the Chief of Defence Logistics (CDL), and they remain accountable to the Defence Management Board and the Accounting Officer for the delivery of their own programmes. Hence, the SROs exercise their influence and control through a variety of frameworks. Each case will be different and the nature of the relationships will form an important part of the SRO campaign plan, but the common factor is a universal recognition of the SRO's responsibility. Ultimately, a SRO acts with the full authority of, and on behalf of, the Defence Management Board and is therefore fully empowered in order that he or she can deliver the required capability.

⁵ Equipment, People & Individual Training, Collective Training, Force Structures, Sustainability and Concepts & Doctrine.

PAC conclusion (x): The Department should develop measures for the whole equipment lifecycle covering time, cost and quality issues. The measures which the Department is introducing to measure improvements in procurement performance focus mainly on the acquisition stage.

23. Since the Major Projects Report study, the Department has developed measures for the whole equipment lifecycle covering time, cost and quality issues. Projects are reviewed against 41 key performance indicators covering areas such as performance against key milestones, asset deliveries, expenditure against approved funding, commercial strategy, project risk, technology maturity as well as statutory requirements such as governance and safety.

24. These measures form the basis of the Project Review & Assurance (PR&A) process.

25. PR&A is a common project reporting and assurance mechanism rolled out across the Defence Procurement Agency (DPA), Defence Logistics Organisation (DLO) and Defence Communications Services Agency (DCSA). Project Reviews are attended by senior representatives from the DPA, DLO and/or DCSA (as appropriate) and the Equipment Capability Customer (ECC) alongside Integrated Project Team (IPT) personnel and Industry.

26. Early indications are that the revised PR&A process has introduced a new rigour and enabled increased attention to be brought to examine project performance, increased the interaction between IPTs and support groups, and more fully engaged senior personnel within the Acquisition community and individual projects. The potential for this, as one of a range of DPA Forward initiatives to improve project delivery is substantial although the real benefits will not be apparent until projects managed in this environment mature further.



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