



**Treasury Minutes on the
Twelfth, Fourteenth and Sixteenth
to Eighteenth Reports from the
Committee of Public Accounts
2004-2005**

- 12th Report: Helping Farm Businesses in England
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to HIV/AIDS
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**Presented to Parliament by the Financial Secretary
to the Treasury by Command of Her Majesty
June 2005**

TREASURY MINUTES DATED 29 JUNE 2005 ON THE
TWELFTH, FOURTEENTH AND SIXTEENTH TO
EIGHTEENTH REPORTS FROM THE COMMITTEE OF
PUBLIC ACCOUNTS, SESSION 2004-2005

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Twelfth Report

Department for Environment Food and Rural Affairs

Helping Farm Businesses in England

PAC conclusion (i): The Department should identify what further changes to the subsidy regime could be made... to encourage environmentally friendly farming or to improve the quality and marketing of farm produce. These could include...higher rates of modulation, some extension of the requirements of cross compliance or a different form of “national envelope” fully decoupled from production. [Also]...press for further changes to the revised Common Agricultural Policy subsidy regime.

1. The Department accepts this conclusion. The UK Government played a leading role in the major Common Agricultural Policy (CAP) reforms of 2003 and 2004 and will continue to be a leading advocate in Europe for further improvement. The Government will use its presidency of the EU to push for agreement to significant reform of the EU sugar regime. Following agreement of the EU Rural Development Regulation at Agriculture Council on 20th June, the UK, in its capacity as EU Presidency, will seek to secure agreement on an EU Strategy for rural development. This will be instrumental in developing future rural development programmes across the EU and ensuring there is a focus on agreed EU objectives, including those on biodiversity, water quality and climate change. The Government will also argue for significant liberalisation of agricultural trade in the current round of World Trade Organisation negotiations to bring benefits for consumers and wider economic benefits for developed and developing countries.

2. As regards higher rates of modulation, at the EU level the UK continues to argue for increased transfers of funding from Pillar one of the CAP (farm subsidies) to Pillar two (rural development). Such transfers are essential to meet existing and future land management objectives in the most effective way.

3. On the possible extension of cross compliance requirements, further legal requirements have to be introduced in 2006 and 2007. In addition, the Department will be considering whether further standards of Good Agricultural and Environmental Condition may be required in future years. Throughout the process of establishing cross compliance requirements the Department has worked closely with stakeholders to ensure that the EU requirements, environmental protection and farmer practicability are carefully balanced. We recognise that there is an important complementary role for agri-environment schemes such as the new Environmental Stewardship Schemes, which reward farmers for undertaking more demanding measures with a positive environmental benefit.

PAC conclusion (ii): The Department should put in place a rigorous inspection regime to enforce cross compliance attaching to single farm payments, including improved access to the countryside and preservation of rights of way...

4. The Department accepts this recommendation. Officials in the Department are working closely with the Rural Payments Agency (RPA) and relevant specialist agencies to establish a robust, co-ordinated, risk-based and cost-effective regime which minimises bureaucracy as far as possible and makes full use of existing expertise. We intend to build on current good practice, taking account of better regulation principles.

5. In accordance with the Council Regulation (EC) No 1782/2003, a minimum of one per cent of farms will be inspected across all cross compliance requirements, including on public rights of way. In addition, officers enforcing relevant existing legislation may report breaches to RPA for the purposes of cross compliance on an ad hoc basis. The penalty rate will depend on whether a breach was due to negligence or intent, its severity, permanence and extent, and whether the same breach has been identified previously. The framework for sanctions is set by EU Regulations and takes a graduated and proportionate approach.

6. On public access, the cross compliance requirement to meet aspects of public rights of way legislation (highlighted in the Committee report) is only one of a range of standards designed to deliver public goods. Other cross compliance requirements include measures to avoid damage to waterlogged soils, a new standard to protect stonewalls, and steps to reinforce existing rules such as for Sites of Special Scientific Interest.

PAC conclusion (iii): Farm business support should be targeted at those enterprises which need it most, usually smaller and intermediate sized farming businesses run by families and individuals, rather than large agribusinesses....

7. The Department accepts that support to rural businesses should be prioritised. Historically, schemes have been designed on the basis that once eligibility criteria and objectives have been established, Government's role is to select the best value for money projects from among applications submitted. This has been effective up to a point; but the more targeted and outcome-based approach announced in Rural Strategy 2004 demands more involvement and dialogue with those customers identified as a priority for assistance (many of whom will be located in economically lagging areas) to help them develop imaginative and effective ways of using public funds to best advantage. We will work with stakeholders, delivery organisations, and others (including the voluntary and social enterprise sectors) to achieve that, while ensuring that the Department's funding is: allocated fairly; targeted on achieving real public benefits as effectively as possible; and comprehensible for customers.

PAC conclusion (iv): Under current schemes, 80 per cent of the Department's funding is allocated to grants for capital projects but the Department's own evaluations suggest these grants are of questionable value. Loan guarantees...would help promote a culture of entrepreneurship and potentially at lower cost to the taxpayer. The Department should change the emphasis of its grant schemes from capital grants to the provision of advice and facilitation.

8. The Department agrees that advice and facilitation have a key role in improving skills and business performance; and that capital grants are not always the most effective form of Government support. A key strand of the Rural Strategy 2004 is about provision of better advice to rural businesses, including farmers. The Department is working with the Small Business Service (SBS) and the Regional Development Agencies (RDAs) to ensure that, as changes are made to the Business Links network, it is geared up to meet the needs of all rural businesses.

9. In 2004-05 the Department provided an additional £2 million to the Business Link network to support projects designed to look at different approaches to increase the uptake of business advice in economically underperforming rural areas. Those projects are being evaluated and the results will be disseminated to RDAs. The Department is also working with the SBS and East Midlands Development Agency on a pathfinder project in the Welland (a rural area taking in parts of Leicestershire, Lincolnshire, Rutland and Northamptonshire), which will test various approaches to improving access to business support for rural businesses. It will also look at ways

of making the services provided to business by local, regional and national government more coherent. The results of the pathfinder will be available in summer 2006 and will inform discussions between the Department, SBS and the RDAs about the operation of Business Link in rural areas.

10. This is in addition to the specific advice that will be available to farmers to help them with the decisions they will need to make as a consequence of the CAP reform package, announced on 2 December 2004 (see paragraph 14 below).

11. There remains a case for capital grants for investment in certain circumstances to help reduce the risks incurred by farmers as they redirect their business. At the same time, the UK has a well developed credit market and the UK agricultural sector has a strong aggregate balance sheet. The Department will reflect and seek views from stakeholders on the rationale for capital grants as it prepares the successor to the current England Rural Development Programme.

12. Agricultural businesses are already able to take advantage of the current Small Firms Loan Guarantee Scheme (SFLGS) administered by the Department of Trade and Industry. In 2003-04 only 35 loans were guaranteed to businesses in agriculture (out of approximately 6000 from all sectors), amounting to less than one per cent of the total provided. Further research is needed to determine whether further loan guarantees would promote an enhanced culture of entrepreneurship within the agriculture industry. However, evidence suggests that farmers do not have notable difficulty in accessing credit. In 2003, the latest year for which firm figures are available, bank loans and overdrafts made up over half of UK agriculture's total liabilities of £9.47 billion, with total liabilities in 2003 amounting to nine per cent of total assets, which stood at £113.6 billion. The Graham Review of the SFLGS found that the operation of a loans guarantee scheme does not come cheaply and pointed out that 'contrary to the perceptions of many, SFLG costs the taxpayer considerable amounts of money (around £60 million last year [2003-04]), driven by the high default rate on SFLG loans (which average around 30-35 per cent).

PAC conclusion (v): Good practice from other countries suggests high quality business advice and support, and assistance to farmers in applying for support, is most beneficial in promoting change and diversification. The Department should develop quickly proposals for a Farm Advisory Service...required by 2007...[and] also consider whether schemes might include making direct approaches ("cold calling") to those businesses most likely to be in need of advice and facilitation.

13. The Department recognises the importance of business advice in helping farmers respond to change and become better connected to the market. On 2 December 2004, Ministers announced that the Department would continue to fund specialist business advice for farmers for 18 to 24 months after the Farm Business Advice Service (FBAS) came to an end on 31 March 2005. FBAS will be succeeded by a new service which will be launched in September 2005 and which will focus on helping farmers consider the business implications of the Single Payment Scheme. Delivery of the new programme will be managed on a regional basis but there will be national monitoring and quality control. The time-limited programme will run until the end of March 2007. From that time, farmers will be able to access advice through mainstream business support services operated by the Regional Development Agencies.

14. The Department is developing proposals for a Farm Advisory System based around the Whole Farm Approach and electronic Whole Farm Appraisal that will form part of a comprehensive and flexible tool for farmers to access a range of advice and training, targeted to meet their needs through the use of data held on their

farm. The system will help promote changes in behaviour in the farming community through helping farmers to understand and take ownership of issues around material flows and on-farm processes relating to the environment, food safety and animal health and welfare. In order to help farmers meet the needs of modern, high quality agriculture, the system will be accessible through a choice of interfaces, including an option of face to face advice.

15. The Department has noted the Committee's recommendation that it considers various methods, including direct approaches for targeting those businesses most likely to be in need of advice and facilitation, and will explore possible ways of achieving this further with industry. The Department will also consider the lessons from other Member States given as examples in the National Audit Office's report – although most of these are based on high levels of expenditure, or in some cases on industry-led cooperative mechanisms.

PAC conclusion (vi): The Department's support for farming should be framed more directly around the need to improve the supply chain from food producer through to consumer. In particular, it should encourage the development of local partnerships through making grants available to co-operatives, and by providing funds to encourage the development of local farming support and self-help networks amongst the local supply chain.

16. The Department accepts this recommendation and is already supporting a range of initiatives and grant schemes which aim to improve the efficient operation of the food chain and the processing and marketing of agricultural products within it, and to support collaboration and co-operation between farmers and between farmers and the rest of the food chain. These include the Agriculture Development Scheme, the Rural Enterprise Scheme, the Processing and Marketing Grant (all grant schemes), and support for the Food Chain Centre, English Farming and Food Partnerships, and the Red Meat, Dairy and Cereals Industry Forums. The Department will take account of the Committee's recommendation in taking forward the restructuring of the Department's existing agricultural grant schemes.

PAC conclusion (vii): Running costs can range up to nearly half of scheme costs. The Department believes that they will be reduced by around 40 per cent with more modern Information Technology support, and reductions...from new fast tracking procedures. The Department should rationalise the number of support schemes...simplify the application processes and streamline its administration of schemes, to reduce costs and make more funds available for front line support.

17. The Department accepts this recommendation and has action in hand to implement it. In response to Lord Haskins' recommendations on funding in the Rural Delivery Review, the Department reviewed its funding arrangements for rural areas. As a result, the Secretary of State announced in July 2004 with the Rural Strategy that the Department will streamline the funding support it provides from its current plethora of schemes and programmes to a funding framework based on three major flexible funds with delivery devolved as much as possible. Through this process unnecessary complexity will also be removed.

18. The running cost figures mentioned in the report relate to 2002-03 when the schemes were relatively young and necessarily include the costs of promotional work and guidance to applicants. The highest running costs are incurred in the assessment of applications and, as shown in Figure one of the Committee's Report, an alternative calculation based on the administration cost of each grant approved, as opposed to total grant claimed, shows that running costs ranged between four per cent and 13 per cent. Applying this calculation to all applications reduces these

figures further to a range of two per cent to six per cent.

19. The Department is implementing a programme of action to streamline administration of schemes and reduce costs. This is against a background in which the Department is seeking to achieve a range of complex outcomes via schemes to support farm businesses through the England Rural Development Programme (ERDP). As a consequence a high degree of administration is required. The costs are exacerbated by the need to satisfy European Commission financial controls and monitoring, as the schemes are co-financed by the EU. The programme of action has a target of a 40 per cent improvement in productivity of processing applications and claims, to be delivered in annual increments by 2007-08. This figure is based on a model which details the benefits which are likely to accrue. To cut costs further, a number of additional initiatives have been implemented, including a fast-track appraisal process for small-scale projects. The costs of delivering the ERDP schemes do not come from the EU co-financed budget, so the savings achieved through these measures will not directly influence the amount of money available for projects, but will improve efficiency and reduce running costs.

PAC conclusion (viii): Regional Development Agencies' (RDAs) experience of urban regeneration and sustainable development will not be sufficient to help smaller rural farm businesses to respond to the challenges of Common Agricultural Policy reform, nor may Agencies be sufficiently locally based to understand local priorities. The Department should work with the Agencies to put in place adequate expertise and understanding of the social and economic issues facing farm businesses and rural communities when the Agencies take over responsibility for some farm business support schemes in April 2005. The Department should retain a role in evaluating progress and promulgating good practice so that effective local initiatives are shared quickly across the country.

20. The Department agrees with the recommended actions but does not accept the conclusion on which they are based. We agree that it is vital that RDAs continue to develop their expertise in dealing with rural businesses and communities. RDAs already have a significant role in achieving economic and social regeneration in rural areas and there are already some good examples of RDA-led programmes benefiting farm businesses and wider rural communities across England. But the Department agrees that RDAs' focus on the needs of rural communities needs to be strengthened and this will be addressed through the new RDA Tasking Framework, (accompanied by additional funding from the Department). This requires RDAs to deliver against three key Department public service agreement (PSA) targets:

- PSA 1 – sustainable development
- PSA 4 – rural productivity and access to services
- PSA 5 – sustainable farming and food

This will include a requirement for RDAs to report their outputs on a rural/urban basis, to provide better evidence of RDA impacts in rural areas for the first time. The RDAs will be held to account through the new system for RDA performance management announced by the Chancellor as part of Budget 2005, which will consist of an independent assessment, conducted by the National Audit Office, based on last year's Initial Performance Assessment (IPA) of the London Development Agency (LDA).

21. Delivery plans for the Sustainable Farming and Food Strategy were developed by Government Offices and Regional Development Agencies in each region during 2003-2004. Each region was given the flexibility to adopt an approach that was

suitable for them, allowing them to set the priority actions that would deliver most benefit to their individual region. In order to develop these they brought together regional steering groups, comprising farming representatives, members of environmental groups, local health and food bodies, businesses and other stakeholders, with the responsibility of setting the regional priorities for farming and food.

22. From January 2007 our intention is that RDAs shall take delegated responsibility for the successor England Rural Development Programme socio-economic measures, as announced in Rural Strategy 2004. They will also be responsible for the delivery of farm business advice as part of their mainstream business support services and this is part of the Department's drive for farming to be treated more within the economic mainstream. The Department will be involving the RDAs in the management of the new farm business advice programme to be launched in September 2005. And April 2005, RDAs have had a greater role in the direction of the current grant schemes delivered by the Rural Development Service.

23. With regard to sharing best practice, the Department is exploring this with regional partners through the development and implementation of regional SFF plans, which are tailored to regional priorities and therefore adopt different approaches to delivery and taking initiatives forward. We are currently working with regional colleagues to identify the most effective mechanisms for sharing best practice between the regions.

PAC conclusion (ix): Experience in New Zealand shows that the transition from subsidy to a market-led farming industry is likely to be difficult but nevertheless worthwhile. Farm-based businesses need high quality support to help them through this transition....The Department should bear this experience in mind when setting up its new subsidy regimes and in the design of its farm business support schemes....

24. The Department agrees. The next two years will be crucial for the farming industry and we recognise that farmers will need support through the transition to decoupled support payments. The Department is to continue funding specialist farm business advice for a further period now the Farm Business Advice Service has come to an end. The new advice programme will focus specifically on the business implications of the new Single Payment. It will help farmers think about the viability of their farms as businesses and consider options such as diversification, restructuring and collaboration. It will be managed on a regional basis by the Department's Rural Development Service and will be targeted on the sectors and locations within each region which most require help to adapt to change. The new programme will be linked to a range of other technical advice which the Department will be providing to help farmers adapt to the environmental standards imposed by reform of the CAP.

Fourteenth Report

Department for International Development

Responding to HIV/AIDS

PAC conclusion (i): Some countries with lower HIV prevalence rates attract priority status in preference to still poor countries with higher prevalence rates. A balance has to be struck between developmental and humanitarian factors, and between bilateral and multilateral responses. The Department should devise clear criteria to help strike those balances in practice.

1. While the Government agrees that a balance must be struck between developmental and humanitarian factors, and between bilateral and multilateral responses, this needs to be seen in the context of overall resourcing of HIV and AIDS, and not just DFID's activities and funding.

2. The UK has therefore been at the forefront of efforts to embed the 'Three Ones' concept at country level; this is to develop one agreed AIDS Action Framework for each country; one national AIDS authority; and one agreed country-level monitoring and evaluation system. These efforts to achieve greater coherence and coordination should deliver better AIDS programmes, including in the high prevalence countries where DFID does not have an in-country presence, and also the kind of balance which the Committee has identified. Within this context, DFID's bilateral efforts will continue to be concentrated on its Public Service Agreement (PSA) countries (16 in Africa and 9 in Asia). In other countries, DFID will primarily work through the multilateral agencies such as the Global Fund to fight AIDS, TB and Malaria, UNAIDS, WHO, UNICEF and UNFPA, all of which receive substantial support from DFID, to have a significant impact on the epidemic.

3. DFID believes that this overall approach, including the criteria for prioritising bilateral work, should respond to the needs of all countries. However our monitoring and risk management procedures, including the work of our central HIV/AIDS team, are also designed to identify countries where further action may be required.

PAC conclusion (ii): Many multilateral institutions supported by the Department devote little of their budgets to HIV/AIDS. Of the £1.4 billion the Department gave to multilaterals in 2002-03, only an estimated £57 million was used on HIV/AIDS, despite the impact of the epidemic on achieving global poverty reduction goals. The Department has made no special efforts to change their priorities. It should use its funding of multilaterals as a lever for change.

4. DFID has integrated AIDS objectives into the Institutional Strategy Papers of the major institutions with which we work. In this context, we pay particular attention to institutions that demonstrate the greatest effectiveness, are significant funders or have a coordination or technical role to play in tackling AIDS. These include the Global Fund, the EC, the World Bank, UNFPA, UNICEF and WHO. UNAIDS is also a key partner.

5. DFID accepts that European Commission (EC) spending on HIV and AIDS has been too low. However this is set to increase in future, with over €1 billion committed for spending on HIV/TB/malaria for the 2003-2006 period. The EC also supports the Global Fund to Fight AIDS, TB and Malaria. The Government is actively involved in negotiations for a new 3-year Commission Programme for Action on AIDS, TB and Malaria, encouraging it to allocate resources to the better programmes.

6. The evaluation of “Taking Action; the UK strategy for tackling HIV and AIDS in the developing world”, planned for 2006, will look hard at trends in multilateral programming for HIV and AIDS, and will make clear recommendations for future UK support.

PAC conclusion (iii): Only an estimated £19 million of the almost £1 billion the Department provides to the European Union annually is spent on HIV/AIDS. The Department should enlist the support of other European Union Member States to strengthen the European Union’s response to HIV/AIDS. With the Foreign and Commonwealth Office, it should identify and work with other sympathetic Member States to secure a change in priorities, enlisting the support of new Member States in particular. Changed priorities need to be reflected in the next seven-year budget framework, which must be in place before 2007. The Department should be prepared to reduce or withdraw support to the European Development Fund where it has evidence that funding would be used ineffectively.

7. As indicated in the response to the previous recommendation, DFID accepts that European Commission spending on AIDS has been too low. However it is set to increase. AIDS (and other poverty diseases such as TB and Malaria) will be a priority for the UK’s EU Presidency, with the focus on international coordination, financing and maintaining momentum on HIV prevention. DFID hopes to ensure that the EC and other Member States play a leading part in global delivery and financing efforts. To this end, the UK has been working with the Commission and Member States on a new 3-year Programme for Action, as indicated above. We are pleased that the new Programme (agreed May 2005) reflects key UK interests, and that it:

- reflects the ‘three ones’ approach;
- adopts a multisectoral approach, including action to meet the needs of orphans and vulnerable children (OVCs);
- ensures a coherent Commission-wide approach, including prioritising the needs of women, young people and vulnerable groups.
- commits to HIV prevention and directs resources towards sexual and reproductive health and rights services.

8. Negotiations on the next European Development Fund have yet to be concluded. However the Government continues to see the European Development Fund as the most effective EC instrument for targeting poverty. DFID will be seeking further commitments on improved effectiveness as part of the current replenishment negotiations.

PAC conclusion (iv): Women and girls may have limited power to protect themselves against infection, and lack access to sexual and reproductive health services or education. The Department should identify country by country those most vulnerable to the disease and say how it intends to reach them. Appropriate responses could include meeting the educational and care needs of HIV/AIDS orphans; supporting the development of laws to protect vulnerable groups; and actively supporting voluntary sector responses to the disease.

9. DFID agrees with these concerns, many of which are reflected in the new UK Strategy paper on HIV and AIDS which includes commitments to:

- Prioritise women, young people and vulnerable groups, and focus on human rights;

- Tackle the parallel epidemics of stigma and discrimination that increase vulnerabilities to HIV and prevent effective action on AIDS;
- Ensure that we spend at least £150 million over three years on programmes to meet the needs of orphans and other children, particularly those in Africa, made vulnerable by HIV and AIDS;
- Provide £80 million to the United Nations Population Fund (UNFPA) over the next four years to support its HIV prevention, sexual and reproductive health work with women.

10. In individual countries we support the work of governments and other stakeholders to identify vulnerable groups and prioritise action to reach them. This includes pressing for the inclusion of marginalised and vulnerable groups in national plans, and ensuring monitoring arrangements are in place to address the needs of these groups. DFID supports some highly specific activities (for example, condom distribution to vulnerable groups) and other broader work to address the factors that lead to vulnerability (for example rebuilding the systems that deliver health services, education and legal frameworks). This range of activity is essential for a comprehensive response to AIDS, which includes sexual and reproductive health as a cornerstone of AIDS programmes.

11. The UK has also signed up to the UNICEF-led 'Framework for the protection, care and support of orphans and vulnerable children (OVC)'. We are supporting UNICEF through our Southern African regional programmes and in other affected countries such as Zimbabwe.

12. Other examples of DFID support for OVC targeted programmes include:

- South Africa, where DFID is spending £15m on projects that will impact directly and indirectly on OVCs, including training for care givers and a stigma-reduction programme working with local church parishes;
- Rwanda, Zambia and Zimbabwe, where DFID is providing funds through NGOs to support vulnerable children;
- Malawi, Ethiopia, Sierra Leone and Kenya, where DFID is instigating or supporting projects aimed at access to justice and access to health services in prisons;
- India, where DFID has provided £28 million for the National AIDS Control Organisation (NACO), which has supported programmes providing condoms and HIV prevention training to vulnerable groups, such as migrant fishermen and women;
- Bangladesh, China and Nepal, where DFID programmes are also supporting work with high risk and vulnerable groups;
- the Caribbean, where DFID is supporting regional efforts to raise awareness of the need to tackle stigma and discrimination.

PAC conclusion (v): The Department should examine why the prices of antiretroviral drugs vary across the developing world and help to negotiate reductions. Drug prices have fallen for developing countries, but only half as much in some countries as in others. The Department should identify developing countries who are seeking to manufacture generic AIDS drugs, and those who could supply them to other developing countries, and provide technical, legal and administrative support as necessary.

13. DFID agrees with this conclusion. The Government has been involved in negotiating cost reductions both by working with pharmaceutical companies and by examining opportunities for direct production. There has been considerable success in reducing the price of antiretroviral (ARV) drugs. A combination of increased levels of donor financing, generic competition and offers from research-based pharmaceutical companies has led to a drop in the price of first line ARVs of as much as 98 per cent over the last four years. At the end of 2004 720,000 people in developing countries were receiving antiretroviral therapy, an increase of approximately 75 per cent from a year earlier.

14. The degree to which prices of both branded and generic medicines has fallen varies. There is more that can be done by individual companies to ensure more people have greater access to their medicines, and DFID continues to work with these companies. In March 2005 DFID published a new framework document building on best practice in the pharmaceutical industry that seeks to increase access to medicines in developing countries. In addition, the UK is increasing its international development assistance, including that used to rebuild the systems that deliver health services and purchase of medicines.

15. It is important to recognise that medicine prices are made up of a number of costs, including local taxes, wholesaler and retailer mark-ups. Some of the variation can be attributed to these costs, and DFID is supporting developing countries, the World Health Organisation (WHO) and others to improve the domestic context in which medicines are procured and distributed.

16. Careful consideration is required before investing in local production as a strategy to increase access to medicines. Few developing countries have the necessary technical, regulatory, financial or export capacity to produce high quality drugs at volumes sufficient to support low prices. However, DFID is working with countries such as Ghana, and with other international stakeholders, to inform decision making on where investment in local manufacturing is a viable and cost-effective strategy.

PAC conclusion (vi): Between 1997-98 and 2002-03, only 1 per cent (£3.6 million) of the Department's country-level HIV/AIDS expenditure was used to support developing countries' efforts to reduce the impact of HIV/AIDS on the community as a whole. The Department should give higher priority to mitigating the wider social and economic impacts of the epidemic. It plans to work with others to provide adequate nutrition, but should also take steps to address the impact which AIDS has on household poverty and the capacity of public services.

17. DFID agrees that it is important to mitigate the wider social and economic impact of the epidemic. Much of DFID's expenditure in this wider area is covered by budget and sector support (e.g. on education), and falls outside its country level HIV and AIDS expenditure. DFID also seeks to ensure that national and local authorities' own strategies integrate HIV and AIDS. In this context, DFID supports the work of the UN Economic Commission for Africa, which has set up the Commission for HIV/AIDS and Governance (CHGA). CHGA is examining the social and economic impact of AIDS on governance and is due to report later this year. DFID also supports the African Union Commission (AUC) through multi-year core funding. The AUC has identified control of AIDS as one of their Priority Programmes within their Strategic Plan (2005-2007).

18. DFID is also working on mitigation through its country programmes:

- in Malawi the UK is providing £100m to rebuild the systems that deliver health services to the poor, including implementing an emergency human resource programme. This programme aims to double the number of doctors, nurses and other key health staff in Malawi over the next six years;
- in Ethiopia, DFID is coordinating volunteer efforts to help fill human resource gaps, by funding organisations at country level that provide expertise, including VSO;
- in Kenya, DFID is helping the health service to redeploy existing staff according to need. This will result in the recruitment of additional staff to deal with anti-retroviral services;
- in Nigeria, DFID is promoting efforts to examine the impact of HIV and AIDS on Nigeria's macroeconomic development.

19. Social protection strategies and safety nets are also being proposed and carried forward in a number of countries, including Ethiopia, Ghana and Tanzania. These schemes have important benefits for children affected by AIDS, including orphans and other vulnerable groups.

PAC conclusion (vii): The recruitment of health workers from developing countries into the National Health Service threatens those countries' efforts to maintain a sustainable response to HIV/AIDS. Arrangements to prevent active recruitment of skilled health workers from developing countries, without the agreement of those countries, should be tightened. The Department of Health's Code of Conduct, which is intended to control such recruitment, is not well-monitored and does not apply to indirect recruitment via the private health sector. The Department should work with the Department of Health to establish effective monitoring of the Code's implementation and explore its extension to cover indirect recruitment.

20. The Government shares these concerns. The NHS does not actively recruit from any country that does not wish to be recruited from, including countries in sub-Saharan Africa. The UK is the only developed country to implement and review systematic policies that prevent the targeting of developing countries in the international recruitment of health care professionals.

21. NHS recruitment is governed by the Code of Practice for International Recruitment of Healthcare Professionals. The Code is underpinned by the principle that developing nations who are experiencing shortages of healthcare staff should not be targeted for recruitment. In addition, the Department of Health has brokered an agreement for the Code to apply to major independent healthcare recruitment agencies. The NHS leads the way in the ethical recruitment of healthcare professionals and has worked with DFID to draw up a list of countries from which it does not actively recruit. These include all countries in sub-Saharan Africa and the Caribbean. The NHS will only contract private recruitment agencies that are signed up to the Code of Practice.

22. The UK has a Memorandum of Understanding with the Philippines and recruitment agreements with Spain and India. These countries have indicated that they have a surplus of healthcare professionals and are content for the UK to recruit. The NHS is strongly encouraged to use these channels for all its international recruitment activity outside the European Economic Area. The use of government-to-government agreements to manage migration of health workers is commended by the World Health Assembly (Resolution 57.19). Where national contracts are signed

to increase capacity in the NHS, compliance with the Code of Practice is a contractual obligation for all independent sector providers. The migration of healthcare professionals is a reality in the world today. The international migration of healthcare professionals is not one way. There is a long standing tradition of many health professionals coming to the UK from overseas who may return to their home countries after developing new skills.

23. The Department of Health has developed an effective system to monitor the Code's implementation. Responsibility for monitoring activity against the standards of the Code of Practice and for maintaining the website of Code Compliant agencies lies with NHS Employers. There are 216 recruitment agencies on the NHS Employers list of agencies that comply with the Code of Practice (April 2005). Five agencies have been removed from this list when investigation identified that they did not comply with the Code of Practice.

24. The latest figures from the Nursing and Midwifery Council (NMC) show that numbers of UK-trained nurses and midwives coming onto the register are up while those of overseas-trained nurses and midwives are down. The NMC is the statutory regulator for nurses and midwives in the UK. Every nurse or midwife who wishes to practise in the UK must register with the NMC.

PAC conclusion (viii): The Department's country plans for responding to HIV/AIDS are poorly prioritised and would benefit from an assessment of a country's capacity to respond to the epidemic. The Department's country programmes are rarely based on an explicit assessments of factors such as the government's capability to deliver an effective response; the work and priorities of other donors; the activities of NGOs and the voluntary sector; and the quality of information about the epidemic's status. The Department should assess these factors to identify where its efforts can be best directed.

25. The Department agrees with the Committee's conclusion. Responsibility for delivering DFID's HIV and AIDS targets rests with individual Directors, and is operationalised both through their Director's Delivery Plans and through Country Assistance Plans (CAP). HIV and AIDS have been given increasing prominence in these plans. In general, we believe that existing plans respond to the Committee's concerns. However from May 2005 all new CAPs and major reviews of CAPs will be scrutinised for coverage of HIV and AIDS and other key issues prior to approval by a cross-divisional group. This will ensure that the country teams have considered all relevant DFID policies and strategies in their CAPs.

26. All Heads of DFID country offices in Africa and Asia have also been charged with reviewing their commitments to AIDS and explicitly addressing the issues in future CAPs and country agreements.

PAC conclusion (ix): The Department's country teams should have better access to information on why successful programmes have worked. The Department's recently launched HIV/AIDS web-portal provides information and guidance on HIV/AIDS which is designed to meet the needs of staff running country programmes. The Department should monitor usage of the portal, and act on feedback from country staff

27. DFID agrees that country teams should have better access to information. DFID will evaluate implementation of its HIV/AIDS strategy in 2006. Findings from this will be incorporated into future strategic planning and actions.

28. DFID will shortly be introducing new features to the HIV and AIDS web-portal in response to feedback from a consultation with country staff in late 2004. This consultation and updating will be a continuous process.

29. In addition to providing information and guidance on HIV and AIDS programming, the web portal is designed as a tool to support collaboration between country based staff, other DFID teams and external partners. DFID will monitor its effectiveness as a tool to support collaboration between these groups.

Sixteenth Report

Department of Health

Improving Emergency Care in England

PAC conclusion (i): Demand for emergency care continues to rise. Emergency Care Networks should be given responsibility for reviewing local patterns of demand compared to supply, and emergency care services should be commissioned accordingly.

1. The Department accepts this recommendation. The Department will be working with emergency care networks (or with more broadly based urgent care networks as they are established) to help assess patterns of demand for emergency and urgent care services and ensure that services are effectively commissioned and delivered.

PAC conclusion (ii): The Department is to be commended for expanding access to emergency care through the establishment of new providers, but there is a lack of knowledge about the relative unit costs of these services. The Department should clarify the methodology for computing costs so that strategic planners for emergency care services can estimate the relative unit costs of the different providers and assess the impact on existing organisations if changes in service provision are made.

2. The Department accepts this recommendation in principle. We strongly support the underlying principle of ensuring value for money, but we do not believe that a single methodology would be sufficiently sensitive to variations in the way that emergency and urgent care services are commissioned and provided to meet the needs of local populations. We believe that Primary Care Trusts (PCTs) and Strategic Health Authorities, working with emergency and urgent care networks, are best placed to assess the costs of services for their areas and decide how to achieve the most appropriate and cost effective service for patients.

PAC conclusion (iii): As a consequence of the Department actively managing trusts' performance, the percentage of patients being discharged or admitted from A&E in under four hours has risen from 77 per cent in September 2002 to 94.6 per cent in September 2004. After the maximum total time ceases to be a national target there is a risk that high level attention to performance in A&E Departments will diminish. To avoid this risk the Department should continue to monitor performance closely and provide support to NHS acute trusts to identify bottlenecks in their systems and help them develop practical solutions.

3. The Department accepts this recommendation. The four-hour target became an operational standard from 1 January 2005. The Department continues to monitor performance very closely and provides targeted support for the minority of Trusts not yet performing at 98 per cent. Performance against the operational standard will be one of the measures used by the Healthcare Commission to assess Trust and PCT performance against national performance commitments.

PAC conclusion (iv): Four hours is too long for the treatment of many patients with minor injury or illness, and the proportion of older and vulnerable patients who spend longer than four hours in A&E remains disproportionately high. The Department should make data available to all emergency care providers so that they can benchmark their performance and monitor their

processes to ensure patients spend no more time in A&E than is clinically necessary. In collaboration with other National Directors, particularly the Older People's Czar, the National Director for Emergency Access should promote action to identify ways of reducing the need for crisis emergency care for the elderly and those with mental health problems.

4. The Department accepts this recommendation in part. It is important that providers monitor their processes to ensure patients experience as little non-clinical delay as possible. The Department has made available an analytical tool (the '7-day analysis') that enables providers to monitor their processes to help pinpoint the reasons for unnecessary delays and plan corrective action.

5. Older people are at higher risk of a longer stay in A&E or admission to hospital because they tend to have more complex needs than younger patients. It is complexity of needs, rather than age in itself, that influences the length of stay in A&E. Older people's need for A&E services should reduce as the Older People's National Service Framework is implemented and the work on Long Term Conditions progresses.

PAC conclusion (v): Treatment would be improved by more efficient use of or investment in diagnostic services, more effective bed management and timely access to specialist opinion. To reduce variations in patients' experience of A&E services, NHS acute trusts should draw on approaches used by the highest performing departments and hospitals. These include widening staff responsibility for initial interpretation of x-rays, and using up-to-date equipment in diagnostic services, and making use of Departmental checklists for bed management and access to specialist opinion.

6. The Department accepts this recommendation. All Trusts are encouraged to follow best practice and make use of the Department's guidance on bed management, specialist opinion and assessment in A&E. The Department's wider diagnostics strategy will help Trusts ensure they are making best use of their diagnostic capacity, both to support delivery of the 2008 target of ensuring that patients do not need to wait more than 18 weeks from GP referral to start of hospital treatment and more generally to transform diagnostic services for the benefits of NHS patients.

PAC conclusion (vi): The work on constructing quality standards for emergency care and national clinical audit tools is welcome but overdue. The National Director for Emergency Access should work with expert groups, such as the Faculty of Accident and Emergency Medicine, to test the reliability, validity and responsiveness of the 36 quality of care indicators which have been proposed. Once a range of performance measures have been agreed the Department should make the data available for patients, clinicians and managers so that they can benchmark the standards of care being provided.

7. The Department accepts this recommendation in principle. The next steps in improving emergency care will include improving measures of quality. These should focus on the commonest emergencies and should look at outcomes from the whole pathway of care, including pre-hospital stages and ongoing care after treatment or assessment in an A&E department. The Department is establishing a working group to help develop a number of key indicators that local health communities and the Healthcare Commission can use to assess quality. It will be for local health economies to test these and agree how they should be used locally.

PAC conclusion (vii): The current absence of integrated patient records is an acknowledged risk to patient safety. To prevent the collection of duplicate information and reduce the risk to patient safety the Department should clarify where the responsibility for inputting particulars collected at each stage of the emergency patient's journey will lie. Pending integrated care records that allow emergency healthcare professionals to audit clinical outcomes by tracking patients' progress, the Healthcare Commission should develop more audit tools that allow clinicians to measure the quality of care and benchmark performance across all emergency providers.

8. The Department accepts this recommendation. Work is already underway as part of the National Programme for IT to define, with clinicians, what information should be recorded, and how that information can then be stored as part of the patient's NHS Care Record. One of the main objectives of the NHS Care Record Service is to enable such patient clinical information to be available to those who need to know as part of treatment (primary uses). It will then be possible to analyse such data for audit, benchmarking and review purposes (secondary uses). NHS Connecting for Health (the Agency progressing the National Programme for IT) is working on the definition of the Secondary Uses Service, and is liaising with the Healthcare Commission on the definition and implementation of audit facilities.

PAC conclusion (viii): Delivery of high quality care in a timely manner depends on having enough skilled staff 24 hours a day. The Department should amend its A&E workforce-planning model, in light of feedback from its own trials and the recommendations of the British Association for Emergency Medicine, and make the tool available to all A&E service managers. The workforce development confederations of strategic health authorities should then agree regional strategies to address any identified shortfalls in skilled staff.

9. The Department accepts this recommendation in part. We will take into account the recommendations of the British Association of Emergency Medicine in providing advice to the Workforce Review Team on the workforce requirements for Emergency (A&E) medicine. The Workforce Review Team will then advise and support local Workforce Development Directorates within Strategic Health Authorities who are responsible for determining local workforce requirements.

10. The A&E workforce planning model is available to all trusts via the DH website. The Workforce Review Team is developing further tools to help provider organisations and emergency care networks (or urgent care networks) identify the range of competencies needed to deliver emergency and urgent care. The team plans to make these available in the Autumn of 2005 with testing and further refinement taking place during the Winter.

11. It is for Workforce Development Directorates in SHAs, with the support of the Workforce Review Team's tools and guidance, to work with local commissioners, emergency care networks (or urgent care networks) and providers to identify likely patient demand for emergency and urgent care (including A&E) and the staff needed to meet changing patterns in demand. Workforce Development Directorates also work with higher education institutions and provider organisations to commission training places for health care staff.

PAC conclusion (ix): Patients are confused by the variety of different emergency care providers. Strategic health authorities, working with Emergency Care Networks, should rationalise the system of names used for emergency care services so that the purpose of each type of organisation is clarified and standardised across the country.

12. The Department accepts this recommendation in principle. We are committed to supporting the NHS in developing a whole systems approach to emergency and urgent care that ensures integrated, local, patient-centred services. We are currently working with the NHS to help identify ways of simplifying local access to the range of emergency and urgent care providers.

PAC conclusion (x): Patients need to understand the circumstances in which an ambulance should be called, when ambulance personnel should and should not be expected to provide a transport service to A&E, and that minor injuries and illnesses can be treated efficiently at emergency care providers other than major A&E departments. The Department should engage in a public education campaign, drawing on best practice from other organisations such as the UK Fire Service.

13. The Department accepts this recommendation in part. The Department already runs an annual national public education campaign on making the most appropriate use of the NHS for emergency and urgent care. This is called 'Get the Right Treatment'. The campaign includes advice on the most appropriate use of A&E and the ambulance service. The national campaign is mirrored locally each year. Many ambulance services also run targeted campaigns about use of their services.

14. The way in which the NHS responds to demand is as important as public education in ensuring appropriate use of services. Until eight months ago, ambulance services had only two options when responding to calls – to send no ambulance at all or to send an emergency ambulance. Since 1 October 2004, it is up to the NHS locally to decide whether an ambulance should be dispatched in response to non-urgent (Category C) 999 calls, or whether it is more appropriate (say) to provide telephone advice, or to arrange a home visit from a nurse, paramedic or Emergency Care Practitioner, or to make a referral to another health or social care service.

PAC conclusion (xi): The emergency care services of some acute and ambulance trusts are commissioned by more than one primary care trust. The current method of funding is not flexible enough to deal with differences in strategies to address local health needs or with variations in demand. The Department should evaluate the potential for making Emergency Care Networks responsible for allocating funds for emergency care services in their locality. It should draw on the knowledge and experience gained from Cancer Networks in performing this function.

15. The Department accepts this recommendation in principle. Emergency care networks (or urgent care networks) are playing an increasingly important role in commissioning integrated urgent care services, learning from and spreading examples of good practice across health and social care services. It is for PCTs to ensure that the role of networks in commissioning is compatible with the overall approach to commissioning locally.

PAC conclusion (xii): The Department's vision for simple local access to emergency care through one telephone call is laudable but staff need sufficient clinical experience and training and local knowledge to provide a safe service. The Department should expedite its discussions with NHS Direct, the Ambulance Services and GP Out-of-Hours Service providers and conclude on how to handle initial requests for help via the proposed single national telephone number for emergency care. It should also publicise the evaluations of the Out-of-Hours Exemplar Programme to ensure that Emergency Care Networks can adapt best practice to fit the situation in their localities.

16. The Department accepts this recommendation in principle. We are currently working with the NHS to identify options for simplifying telephone access to services, based firmly on the patient's perspective. This includes work to define competencies for staff involved in telephone triage and assessment. Southampton University will be publishing a report based on their independent evaluation of Out-of-Hours exemplars.

PAC Recommendation (xiii) Increasingly emergency care practitioners and emergency nurse practitioners are becoming responsible for the treatment of patients, but there is no standard training or job description for these roles. To provide much needed national consistency, and in accordance with ideals of the NHS Knowledge and Skills Framework, the Department should clarify the skills and competencies that a person needs to be effective in these posts and define the minimum content for the education curriculum.

17. The Department accepts this recommendation in relation to Emergency Care Practitioners. There is a widely agreed need to standardise competencies for Emergency Care Practitioners, and 'Skills for Health' is currently working to define and develop a national educational package that includes standard competencies. This is scheduled to be completed by September 2005.

18. The Department accepts this recommendation in principle in relation to Emergency Nurse Practitioners, although their role (which differs from that of an Emergency Care Practitioner) has a longer history and there is a less pressing need to develop new standard competencies.

Seventeenth Report

Department for Transport

London Underground Public Private Partnerships

PAC conclusion (i): An alternative solution might have been to restrict the PPP approach solely to major upgrade work. A major part of the justification for the PPPs was London Underground's inability to carry out major upgrades effectively. Yet much of the infrastructure work covered by the PPP is just ongoing maintenance and renewal work.

1. The Department does not agree with the Committee's conclusion. When developing the PPP, routine maintenance was included alongside the longer-term enhancement projects for the following reasons:

(A) That the companies deliver the enhancements to the trains, track and signals on a 'whole life' basis

2. Previously a weakness in traditional procurement by London Underground (LU) was that they would acquire assets such as trains and signals, but on a short-term 'cost-only' basis. For example if trains were delivered and the contract requirements met LU would be left with meeting any shortcomings in their construction or design. Longer term issues, such as higher running or maintenance costs, would fall to LU. Good industry practice now requires an approach which considers performance and cost for the whole asset life, including design, construction, maintenance and its eventual replacement. Under the PPP it will be in the interests of the PPP companies to deliver assets that have the best whole life cost, i.e. that they are well designed, have maximum durability, deliver the required benefits and have minimum long-term maintenance costs.

(B) The need to bring in structural changes to London Underground

3. A primary motivation behind the PPP was LU's previous record on delivering major upgrades. The National Audit Office (NAO) Report 'Were they good deals?' notes the Government's view that LU, while having a good record in delivering passenger services, had demonstrated weak management of major infrastructure projects leading to substantial cost and time overruns¹. As the Committee's report states, the Central line modernisation and the Jubilee line extension were both substantially over budget and did not deliver the improvements envisaged at the commencement of the projects. The desire to bring in the necessary structural changes, and particularly the separation of responsibility for delivering passenger services from the management of the infrastructure, was an important factor in the decision to proceed with the PPP.

(C) Separating routine maintenance from enhancement would have been both difficult and costly

4. Separating routine maintenance from enhancements (i.e. undertaking the 'steady-state' maintenance outside of the long-term improvements) would have created a series of complex interfaces across the whole network with LU having to manage, and possibly bear, the potential risk and costs associated with this. LU would have retained day to day responsibility for maintenance while managing potentially a very large number of contracts to install new assets, such as signals,

¹ National Audit Office Report 'London Underground PPP: Were they good deals?' (HC 645 Session 2003-04: 17 June 2004). Executive Summary, Paragraph 5.

track and trains across eleven lines. Issues such as the access to work areas, with their restricted engineering hours, and compatibility of equipment would have fallen to LU. This would have created logistical complexities in managing many more interfaces, and potentially a significant level of integration risk to ensure that all trains, track and signalling were compatible across maintenance and enhancement boundaries, and across lines where track is shared.

5. A criticism levied against the PPP by the Transport Select Committee² is that under the PPP, LU 'is left with a plethora of different arrangements with private partners all responsible for different bits of infrastructure'. While there are interface issues between the current PPP and PFI contracts managed by LU, the PPP does mean that many of the potential interface issues of modernising the whole network are now the responsibility of PPP companies.

(D) An outcome style contract was not possible under a split arrangement

6. The PPP contracts are outcome based so they specify the desired level of performance from the assets rather than specify inputs (money invested) or outputs (e.g. track refurbished). This type of contract was not possible with split responsibility between maintenance and enhancement. Attributing responsibility for costs overruns, delays and poor performance during and after the enhancement project would not have been possible and it would have left LU to retain a larger risk share than under the existing PPP structure.

Split of PPP infrastructure work between maintenance/renewal and major projects

7. The current expenditure profile under the PPP, with a high level of routine maintenance costs, can be misleading at the early stages of the contracts and will change with time. LU estimated that in the first 15 years of the contracts around 48 per cent of the expenditure would be incurred on major projects³. Major enhancements, such as signalling and train replacement, will have an initial low expenditure profile as the projects are in the start-up, design and contract-letting phases. Expenditure on these will rise dramatically as the major projects reach construction and implementation.

8. At the same time much of the initial expenditure by the PPP companies has been targeted at addressing the immediate backlog of maintenance concerns that they have inherited. This is delivering immediate benefits in performance. In 2004-05 train delays were at their lowest level since 1998-99, reflecting improvements by the PPP companies in the reliability of the trains, track and signalling. Over 95 per cent of the schedule was run, the highest level for seven years, which enabled LU to set a record of operated train kilometres at nearly 70 million. Customer satisfaction was also at its highest level since 1990-91⁴.

PAC conclusion (ii): Departments should not use the Public Sector Comparator (PSC) as conclusive evidence of the value for money of the PPPs. Recent Treasury guidance, following representations from this Committee and the National Audit Office, downplays the role of the PSC in favour of a broader more meaningful analysis. The Department and London Transport did consider wider, non-quantitative factors alongside the PSC in this case and assessed value for money based on a broader, more judgemental basis.

9. The Department agrees with the Committee's conclusion.

²House of Commons Transport Committee Sixth Report of Session 2004-05 'The Performance of London Underground' Chapter 5.

³London Underground's 'Final Assessment Report' for the PPP, paragraph 17.4.2.

⁴Transport for London Press Release 'Tube breaks passenger and train records' on 18 May 2005.

10. The Department and LU did consider wider, non-quantitative factors alongside the PSC and assessed value for money on a broader basis. The procurement process for the PPP took place prior to the Treasury's new Value for Money Guidance being published. However, as noted in the Committee's report, the key principles of this Guidance were adopted for the PPP. Wider factors such as the strategic benefits, the ability to create a partnership and risk share were considered as part of the separate value for money evaluations undertaken by both LU and the Department.

PAC conclusion (iii): Issuance of a public sector bond should be considered for financing future infrastructure projects in which significant risk transfer to the private sector may not be achievable. Bond financing would have been cheaper than the PPP financing costs though the risk of non-performance would then have fallen directly on the public sector. TfL is now planning to use bonds for investment under new rules introduced in April 2004.

11. The Department agrees with the Committee's conclusion. Before proceeding with the PPP a comparison was carried out within the PSC between the PPP and the option of using local authority bonds for each of the contracts. However, the PSC still found in favour of the PPP, as the efficiencies that the PPP is expected to bring outweighed the extra financing costs of privately sourced funds.

12. As the Committee's recommendation also notes bond financing would not have transferred the risk arising from cost overruns due to inefficient or ineffective practices to the private sector. Previously much of the major work on the Underground had been undertaken by the private sector, but risk had remained with LU. Thus the cost overruns of £1.4 billion on the Jubilee line and £200 million on the Central line projects were met by the taxpayer.

13. The Prudential Regime was not available to allow local authorities to raise finance through issuing bonds as it was launched in April 2004. This was after the development of the PPP contracts, the last of which were signed in April 2003.

PAC conclusion (iv): Disagreement between the main parties responsible for procuring and managing a PPP ideally should be resolved beforehand and certainly before the terms of a PPP are agreed. The perception by financiers of political risk (such as the amount of central government support to local government), rather than project risk, appears to account for much of the £450 million extra cost of private finance.

14. The Department agrees the importance of ensuring that the main parties involved in procuring and managing a PPP are in agreement that it provides the best solution before embarking on such a project.

15. It is, though, also the case that any Government will wish to deliver its manifesto commitments. The origin of the PPP's development was a commitment in the Labour Party's 1997 Election Manifesto:

Labour plans a new public/private partnership to improve the Underground, safeguard its commitment to the public interest and guarantee value for money to taxpayers and passengers.

16. The development of the PPP commenced in May 1997 when various options for the modernisation of the Underground were considered and it was then formally announced in March 1998 that the PPP structure was the preferred method for delivering this. The Greater London Authority was established in May 2000 and only after its establishment was it confirmed that the Mayor would be formally opposed to the PPP. At this stage the extent and duration of the opposition to the PPP from the Mayor and TfL could not have been anticipated.

17. Thus the unique circumstances in the PPP process were that one of the major parties to the procurement was only formally established after the initial decision-making and preliminary procurement stages had been completed.

PAC conclusion (v): Public sector bodies should ensure that the contractor discloses the existence of any success fees in bid competitions and that there is satisfactory justification for such fees. It is common for the public sector to reimburse bid costs to winning bidders through the PPP service charge. Success fees of some £90 million, approximately 30 per cent of total bidders' costs of £275 million, were paid to the winning bidders in this case.

18. The Department agrees with the Committee's conclusion.

19. Bidding fees have always been incorporated into the costs of delivering services, whether identified separately within the tender process or not. Contract prices will always contain an element to cover the costs of successful and unsuccessful bids; otherwise a company's long-term financial viability would be threatened when faced with unrecoverable costs for each failed tender. In the case of the PPP, as noted by the NAO, LU did scrutinise the audited bid costs before they were reimbursed and not all submitted costs were accepted⁵.

20. PFI projects should be pursued only where this delivers overall value for money, which includes consideration of the optimum combination of whole life cost, qualitative benefits and ability to meet the user's requirement. Therefore, bid costs, to the extent that it impacts on whole life costing, form part of the wider considerations for assessing value for money. Nevertheless, we agree that bid costs, including success fees, should be made transparent and disclosed to the procuring authorities to assist them in their value for money assessment.

21. The cost of the extensive upfront due diligence exercise is included as bid costs within the overall costs of delivering the service and is taken into account as part of the overall value for money considerations, rather than just at initial procurement stage. This ensures that competitive pressures exist on bidders and help to ensure that bid costs are driven down.

22. The Government also continues to implement measures designed to reduce both bid costs and times. The rigorous enforcement of the standardisation of PFI contracts (SoPC 3⁶) and creation of sector specific standard contracts will help to drive this process. While the greater involvement of Partnerships for UK and the Public Private Partnerships Programme will also further support public sector bodies in the efficient procurement of PFI transactions. Providing the private sector parties with a more detailed view of the government's forward investment programme will help them to better manage and plan their resources and therefore is expected to reduce the overall private sector costs in relation to PFI transactions.

⁵ NAO Report 'Were they good deals', paragraph 2.11.

⁶ HM Treasury guidance 'Standardisation of PFI Contracts Version 3' published on April 2004.

Eighteenth Report

HM Treasury

Financial management of the European Union

PAC conclusion (i): Historically, accountability and audit arrangements of the European Union have been characterised by inertia among the Institutions. Since the Committee's last visit, the Commission has started to implement a programme of reform and there is movement to more accountable and transparent ways of working. The Commission is committed to change but there is still a long way to go to secure the standards that European taxpayers are entitled to expect.

1. The Government agrees that the institutions of the European Union have moved in the direction of a culture of accountability following the implementation of the reforms championed by Neil Kinnock. The major change agent was the introduction of the revised Financial Regulation, which came into force in January 2002 and which the UK helped influence considerably. This Regulation defined responsibilities, made officials accountable for expenditure, introduced more stringent audit provisions, and required all expenditure to be subject to objective-setting and evaluation. These reforms are critical to the achievement of the standards of financial management that European taxpayers are entitled to expect, but the Committee is right to state that there is still a long way to go before these reforms can fully bed down and we can visibly see the effects of a culture of accountability throughout the institutions of the European Union.

PAC conclusion (ii): The size of the European Union overall budget and the United Kingdom's contribution to it emphasises the need for strong financial management and frameworks of accountability. For the tenth year in succession the Court qualified its opinion on the reliability of the Community annual accounts and did not provide a positive opinion on the main five out of the six payment headings. The lack of a positive Statement of Assurance undermines public confidence in European Institutions.

2. The Government agrees with the Committee's conclusion. See also the comments in response to Recommendations (iv), (vi), (vii) and (xi).

PAC conclusion (iii): Despite the continued qualification of the Community accounts, the Commission has made some progress in improving financial management. The Court identified improvements in the quality of the annual reports intended to enhance the accountability of each Directorate-General and it noted that the Commission had made good progress in designing internal control systems. The introduction of a new accruals accounting system, with supporting IT, is another welcome development especially as the qualification on the reliability of the accounts was attributable largely to weaknesses in the previous accounting system. The Commission has also established an Internal Audit Service which reports to an independent audit committee with six members, two of which are external appointments.

3. The Commission is still on a learning curve with regard to the Directorate-Generals' Annual Activity Reports, but we agree that improvements have been made. There is still some progress needed on internal control systems, but it is encouraging to note that the Court's assessment of these in its 2003 report indicated that it was satisfied with the introduction of internal control systems in the two

Directorate-Generals responsible for more than 80 per cent of the total budget – DG Agriculture and DG Regional Policy. The Government is also pleased to note that the Commission's new accruals accounting system was introduced successfully in January 2005. The Commission now has a full accruals accounting system, ahead of many Member States, and it has achieved this within the planned timetable and budget. The proof of the pudding will of course be whether the new system results in a clean bill of health for the accounts side of the Statement of Assurance in the Court of Auditors' report on the 2005 budget.

PAC conclusion (iv): It is difficult to obtain a clear indication of the extent of the problems relating to the legality and regularity of European Union expenditure. It would be helpful if the Court's annual report could indicate more clearly its assessment of the legality and regularity for each area of the budget. In addition, the report could usefully give an indication of how much progress or otherwise the Commission is making both generally and under each of the six expenditure headings and it could also point to developments within Member States. Such enhancements could assist the Commission and the Member States in making the necessary improvements to move forwards to an unqualified opinion on the accounts. In the meantime, the Court could consider the scope for producing a separate Statement of Assurance for each expenditure heading and for each Member State.

4. The Committee has identified one of the major problems of the current method of assessing the Statement of Assurance. It is not possible to compare and contrast the quality of financial management between budget sectors; nor is it possible to measure whether there has been any improvement or progress from year to year. However, the Government would urge caution in response to the Committee's comment (in paragraph 5 of the main report) that the Court should publish error rates. In the past, the Court used to publish a global error rate for the whole budget (the last occasion being 5.4 per cent for the 1996 budget), but it discontinued this practice as:

- any figure quoted was inevitably misinterpreted as relating to fraud rather than error;
- no account was taken of amounts which were later recovered (and indeed the Commission tended to interpret it as a target for recovery), and;
- it could not be (although was) compared from year to year as it was derived from a randomly-generated sample.

5. If error rates were to be published by budget sector and/ or Member State, there would need to be some changes to the system to ensure that the problems described above were not repeated. The Court is already, under Article 248(1)⁷ of the Treaty on European Union, able to produce specific assessments for each major area of Community activity. This amendment was added under the Nice Treaty. There is no obvious scope in the Treaty at present for the Court to give a Statement of Assurance for Member States. However, legal advice suggests that the Nice amendment may be sufficiently wide-ranging to allow the Court to extend its assessment for the Statement of Assurance to include an opinion on Member States' supervisory systems and controls; indeed the last Statement of Assurance (for 2003) does touch superficially on Member States' systems.

⁷“The Court of Auditors shall provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions... This statement may be supplemented by specific assessments for each major area of Community activity.”

PAC conclusion (v): A major factor contributing to the qualified audit opinion is the level of errors identified by the Court. This is partly due to the complexity of schemes and programmes, particularly for payments under the Common Agricultural Policy and Structural Measures. In designing schemes and programmes, the European Institutions should consider the relationship between desired outcomes of a particular scheme, the complexity of the rules governing it and the consequential likelihood of an error occurring. There is also a lack of common understanding between the Commission and the Court about the definition of error. This should be resolved.

6. Achieving greater simplification in the Structural Funds Regulations has been one of the Government's main objectives in the negotiations on the Regulations for the next programming period (see also the response to Recommendation (xi)). However, while we have continually emphasised our concern to ensure there are proper safeguards against fraud, our main objective has been to achieve greater simplification with a view to reducing administrative burdens of managing and delivering the Funds, and to improve the efficiency and effectiveness of spending.

7. Although it is clear that there are still difficulties in practice, a standard definition of irregularity does exist in Regulation 2988/95⁸, which has been agreed by all Member States. The same applies to the definition of fraud, which appears in the Convention⁹ on the Protection of the Financial Interests of the European Communities (usually known as the "Fraud Convention", which has been ratified by all Member States. Errors detected by the Court's annual audit are of two kinds: substantive (quantifiable errors directly affecting the amount of the transactions underlying the Community funds disbursed) and formal (errors without any directly quantifiable effect on the amounts of the transactions underlying the Community funds disbursed). The Government would welcome some refinement of this process, such as the introduction of a *de minimis* amount – for example, some errors in the agriculture sector are extremely small (less than 100 euros) and it may not always be economically sound to put in place the usual recovery procedures or fines. Expenditure involved in most irregularities or substantive errors is of course usually recovered at a later date, although this process may take considerable time.

⁸ Article 1(2) of Council Regulation (EC, Euratom) No 2988/95 (OJ L 312, 23.12.1995) states that "*Irregularity* shall be mean any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure."

⁹ Article 1(1) of the Convention on the Protection of the Financial Interests of the European Communities (OJ C 316, 27.11.1995) states that "For the purposes of this convention, *fraud* affecting the European Communities' financial interests shall consist of:

- (a) in respect of expenditure, any intentional act or omission relating to:
 - the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities;
 - non-disclosure of information in violation of a specific obligation, with the same effect;
 - the misapplication of funds for purposes other than those for which they were originally granted.
- (b) In respect of revenue, any intentional act or omission relating to:
 - the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities;
 - non-disclosure of information in violation of a specific obligation, with the same effect;
 - the misapplication of a legally obtained benefit, with the same effect.

This Convention came into force on 17 October 2002, after it had been ratified by all Member States.

PAC conclusion (vi): The Barroso Commission has committed, as one of its objectives for the next five years, to move towards a positive Statement of Assurance in order to enhance accountability. The European Institutions, led by the Commission and supported by the Member States, have agreed on the need for a road map intended to achieve this objective. The road map will be built on the principles of the Community Internal Control Framework recommended by the Court. Under the road map, the Commission would be responsible for promoting improvements in internal controls in partnership with Member States.

8. The Government welcomes the Commission's action to produce the "roadmap" and intends to work with the Commission, the European Parliament and the Court of Auditors, to take this forward actively during the UK Presidency of the Council later this year.

PAC conclusion (vii): The commitment by all parties concerned to progress towards a positive Statement of Assurance is welcome, but the scale of the task ahead is formidable. The European Union's budget covers six expenditure headings and is spent by 25 Member States as well as third countries and the Institutions. Some of the Member States have federal structures and autonomous regions. With this variety of transactions and the number of bodies and systems which manage and control them it is far from clear how quickly this worthy ambition can be achieved.

9. The Committee is right to be cautious and it is clear that progress towards a positive statement of assurance, especially for those budget sectors where management is shared with Member States, will not be swift. The first step will be to gain agreement on a method and a timetable for taking forward the Commission's "roadmap". This will be a priority of the UK Presidency.

PAC conclusion (viii): There is scope for more value for money work and reporting by the Court. The Court has a duty to examine "whether the financial management has been sound", corresponding broadly to audits of economy, efficiency and effectiveness by the Comptroller and Auditor General in the United Kingdom. The results of the Court's work in this area are included in its Annual Report and in Special Reports. But the scale of this work is totally inadequate given the importance of ensuring the effective use of Community funds.

10. The Committee is right to identify this point. The Court does carry out some "value for money" work in its special reports, which the Government considers are useful pieces of work which can and do lead to substantial improvements in policies, processes and administration. There is little evidence of this effect in the annual "Statement of Assurance audit". In the past this relied entirely on an audit carried out on the basis of random transaction testing, which was inevitably going to detect problems. Recently the Court has expanded its method to include four "pillars":

- Examination of control systems (eg the Integrated Administrative Control System in agriculture)
- Analysis of the Commission Directorate-Generals' annual activity reports (which include declarations of assurance)
- Examination of the work of other auditors outside the normal control processes (eg independent auditors, or Member States' national audit offices); and
- Random transaction testing as before.

11. However there is as yet little evidence in the Court's annual report of results which would measure progress or pinpoint areas for improvement, with recommendations. Expanding the "systems" pillar would go some way to improve this.

PAC conclusion (ix): No independent review of the Court's work has taken place since it was set up in 1977. Unlike the United Kingdom National Audit Office, the Court does not report on its own performance to anyone. The Court should therefore consider arranging a peer review of its approach and work to test the quality and relevance of what it does and demonstrate its willingness to learn from others.

12. The Government agrees that there would be benefits in carrying out a review, or in introducing systems for ongoing external review. Processes of ongoing review and feedback similar to those recently agreed for our own National Audit Office could be considered for the Court of Auditors.

PAC conclusion (x): The precise level of fraud against European funds is unclear at present. Differentiating between fraud and irregularity is complex. For example, Member States are required to report irregularities, including fraud, to the Office Européen de Lutte Anti Fraude (OLAF), the European anti-fraud office, but they do not do so on a consistent basis. OLAF's current work on a methodology to distinguish between irregularity and intentional fraud is clearly a priority.

13. It is unacceptable that the Commission cannot identify the likely level of fraud and the Government has pressed for some time for this work to be carried out. Without a reliable estimate, backed up by data, there is no effective riposte to misleading statements in the media. OLAF now has the resources and the expertise to analyse reported irregularities and identify cases of suspected fraud. We understand that OLAF now intends to publish an estimate of fraud in the Autumn, and we welcome this.

14. The Government has always supported OLAF's work to improve the reporting of irregularities by Member States. In the United Kingdom we take this very seriously, and the Government Departments responsible liaise closely with OLAF and HM Treasury to ensure that the requirements are met. We have also played our part in passing on our experience to the new Member States eg through a twinning project with Malta.

PAC conclusion (xi): The United Kingdom Government should utilise the occasion of the United Kingdom Presidency to improve accountability in the European Union. Specifically, it should:

- (a) as a top priority, press for the simplification of the rules and regulations of the Common Agricultural Policy and Structural Funds to reduce the scope for fraud and error so as to increase the prospects of achieving a positive Statement of Assurance;
- (b) support, and encourage other Members States to support, the development of the road map for a positive Statement of Assurance. In particular, attention should be focused on
 - identifying the reasons the Court is unable provide a positive Statement of Assurance on the legality and regularity of the underlying transactions;

- **the action the Commission and National Authorities need to take in each of the areas which are a cause for concern, with a specific focus on the major areas of European Union spending, support for agriculture through the Common Agricultural Policy and the Structural Measures; and**
 - **the prospects of National Authorities entering into ‘Contracts of Confidence’ and the likely value of such contracts for accountability;**
- (c) **encourage, with other Member States and the Commission, an increased focus on value for money work in the Court given the importance of ensuring the effective use of community funds; and**
- (d) **support OLAF’s efforts to obtain a clearer picture of the scale of irregularity, including fraud, by:**
- **encouraging Member States to (i) fulfil their obligation to protect Community Funds as they protect National Funds; (ii) deter crime against European interests by identifying those responsible and applying effective penalties and sanctions;**
 - **setting a good example to the other Member States by complying with OLAF’s guidelines for reporting regularities; and**
 - **encouraging a programme of secondments to OLAF from a wide range of United Kingdom institutions, including the police force.**

15. The Government fully intends to make these issues a priority during the UK Presidency.

16. Simplification of the rules and regulations covering the Common Agricultural Policy and the Structural Funds remains a key objective.

17. On the Common Agricultural Policy, Better Regulation is a headline priority for the UK Government during its Presidency of the EU, and a top priority for the Department for Environment, Food and Rural Affairs. Along with the improved use of impact assessments in policy making, simplification of existing legislation is a key part of this work. The main opportunities for simplification of the Common Agricultural Policy during the UK’s Presidency will be:

- To make progress on the agricultural priorities for simplification discussed by the CAP simplification Horizontal Issues Working Group in December 2004;
- To prioritise progress on the expected Commission Communication on Simplification in the agricultural sector, due in October 2005.

18. Achieving greater simplification in the Structural Funds regulations has been one of the Government’s main objectives in the negotiations on the next programming period (2007-2013). However, whilst we have continually emphasised our concern to ensure that there are proper safeguards against fraud in place, our main objective has been to achieve a greater simplification with a view to reducing administrative burdens of managing and delivering the Funds, and to improve the efficiency and effectiveness of Structural and Cohesion Fund spending. Our concern for greater simplification in the Regulations which govern the Structural and Cohesion Funds covers the financial and audit controls, as well as the reporting and evaluation requirements. In particular, we have opposed the Commission’s complex and bureaucratic proposals for performance reserves, on the basis that they would increase administrative costs without rewarding the most successful programmes. We have also sought a reduction in the requirements for the content of Operational Programmes.

19. As already stated, taking forward the Commission's "roadmap" will be a top priority during the UK Presidency. The major aim will be to obtain agreement with Member States, the Court of Auditors and the European Parliament, on a timetable and method for taking this forward. On the subject of the "contract of confidence", this has already been introduced as an option in the Structural Funds. It requires those bodies responsible for the management of the Structural Funds to obtain Commission approval of their management systems; to submit an audit strategy covering the whole of the current programming period; and to report annually on the implementation of that strategy. The intention is that this will go some way towards providing an annual assurance on the financial management of the funds and avoid the problems experienced at the end of the previous programming period. No Member State has yet signed up to this, but we are hopeful that in the UK, the National Assembly for Wales and the Office of the Deputy Prime Minister (which is responsible through the Government Office Audit Team for the audit of Structural Funds in England) will be in a position to sign up later this year. Although the "contract of confidence" is currently optional, the Commission has added its requirements to the draft financial control regulations for the next programming period (2007-2013). If this is agreed, this will apply to all Member States in future. There is clearly scope to extend this concept to other budget sectors, especially agriculture, but we are not aware of any proposals.

20. The Government agrees that the Court should increase its focus on "value for money" work. It could achieve this by placing more emphasis on the "systems" pillar of the Statement of Assurance.

21. Member States already have a legal requirement, under Article 280 of the Treaty, to "take the same measures to counter fraud affecting the financial interests of the Community as they take to counter fraud affecting their own financial interests". The United Kingdom takes the detection of fraud affecting the Community budget extremely seriously, and works hard to detect crime and apply effective penalties and sanctions. As already stated, we also take the reporting of irregularities seriously and we are happy to help OLAF's work in analysing fraud by identifying those cases where fraud is suspected. On the possibility of arranging a programme of secondments to OLAF, HM Revenue and Customs, which is the largest law enforcement authority in the UK and is experienced in dealing with EU fraud, currently has 8 officers on secondment to OLAF. Secondments are normally between 2-4 years. Secondments are always made following a request from OLAF, and a successful candidate will need to have the level of expertise and experience that OLAF is looking for. In addition, the Serious Fraud Office has sent staff on secondment to OLAF (although they have none there at present). The Serious Fraud Office is also engaging with OLAF on a course of mutual training, starting with two sessions by each organisation but hopefully leading to more in depth training both ways. They have had several meetings with OLAF about the UK's systems and approaches to fraud, which they have been interested in pursuing. We are aware that some Member States have seconded Police officers to OLAF but these are normally national fiscal police or similar, and we have no equivalent national force in the UK. However the UK is keen to help OLAF gain the expertise it needs in investigations by sending staff on secondment where appropriate.



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