Treasury Minutes on the

Tenth, Eleventh and Thirteenth Reports from the Committee of Public Accounts 2004-2005

10th Report: Welfare to work: tackling the barriers to the employment of older people

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TREASURY MINUTES DATED 20 JULY 2005 ON THE TENTH, ELEVENTH AND THIRTEENTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 2004-2005

Tenth Report

The Department for Work and Pensions

Welfare to Work: Tackling the Barriers to the Employment of Older People

PAC Conclusion (i): Too many people in the over-50 age group are unemployed or inactive, which is a waste of skills and experience and a loss to the economy. The Department's more active role through the New Deal 50 Plus, other training programmes and collaboration with employers has helped increase the numbers in work. But between 700,000 and 1 million people in this age group, who are currently inactive, would like to work.

1. The Department for Work and Pensions (the Department) accepts this conclusion. While the Department has already done much to increase the employment rate of people aged 50 and over it accepts that there is more to be done. Over recent years the employment rate for people aged 50 to State Pension Age has been rising steadily, and now stands at 70.6 per cent, with employment rates of men in this age group higher than they were in the employment peak of 1990. However, there is still scope for an increase. The latest data from Autumn 2004 shows that 600,000 people in Great Britain aged 50 plus and inactive say they would like work.

2. As the Committee has acknowledged, the Department has adopted a holistic approach to both increasing employment opportunities and tackling specific barriers for older workers. The Department works closely with employers and business-focused organisations to tackle age discrimination, using the Code of Practice on Age Diversity in Employment and the Age Positive campaign. The Government now provides all employers across Britain with practical guidance on adopting non-ageist practices, including those around flexible working and retirement to support the retention of older workers. The Department will provide employers, Trade Unions and business advisers with the guidance needed to prepare for age discrimination legislation, which is planned for implementation in October 2006. The Government plans to introduce a default retirement age of 65 and employers will have a duty to consider any employee request to continue in work. In five years the Government will review whether there is any further need for a default retirement age of 65 in age legislation. The Government is working with others to set up a Commission for Equality and Human Rights in 2007 which will tackle ageism and support the age legislation as part of their equality remit.

3. The Government is increasing the opportunities for individuals to work and retire more gradually to better meet their own needs while improving their possible income before and after final retirement. From this year there are more generous rates for the deferral of state pension. This includes for the first time the option of deferring for at least one year and receiving a lump sum later. From next year there are plans to remove the measures in occupational pension tax rules that do not allow individuals to carry on working for the same employer whilst drawing part of their occupational pension. The Department is also providing state pension forecasts and

developing better information, including a web based retirement planner, to help people make informed choices about working and saving longer towards their retirement.

4. The Government has recognised that people aged 50 and over who are out of work can too often face difficulties finding employment. It is for this reason that voluntary help through New Deal 50 plus was introduced in 2000. It is estimated that by December 2004, 150,000 job starts were supported through New Deal 50 plus. As the Committee has noted, around 1.3 million people over 50 are claiming incapacity benefits and many of these people would like the opportunity to work again. In pilot areas, help is available through the Pathways to Work schemes which are being monitored to assess how effective they are in helping inactive people back into work. The Department has also introduced Skills Coaching Pilots, to help people who are out of work and face skills barriers in the labour market. These should be particularly helpful to those people aged over 50 who lack up to date skills.

5. There is more to be done further to increase employment opportunities for older workers. This work and the Department's new Public Service Agreement (PSA) Target: 'to increase the employment rate of people over 50 from Spring 2005 to Spring 2008', demonstrate that the Department is committed to enhancing employment opportunities for older workers.

PAC Conclusion (ii): The Department assured us it did not intend to change significantly the number of staff working in the role of Personal Advisers as it reduces its staffing by 30,000 by 2008. It would be a false economy to cut back on Personal Advisers if, as is likely, the effect was to delay return to work and increase benefit expenditure.

6. The Department is pleased that the Committee recognises the value of Personal Advisers and the contribution that they make to realising the Jobcentre Plus purpose of a welfare system for people of working age that promotes work as the best form of welfare, while providing appropriate help and support for those unable to work.

7. The Department is currently assessing how Personal Advisers spend their time to ensure that interviews are productive and appropriately targeted. Efficiencies that might result from these reviews will be used to support more people into work. Even though Departmental staff will reduce in the current Spending Review Period, the Department does not intend to change significantly the number of staff working in the role of Personal Advisers.

PAC Conclusion (iii): Although the growth in the number on incapacity benefits has slowed significantly, the figure for those claiming is still twice as high as in the late 1980s. Helping those closest to returning to work may require only limited financial assistance or rehabilitation services. Subject to the outcome of the current pilots and a thorough analysis of the likely costs and savings, the Department should exploit this major invest to save opportunity which could lead to significant net savings to the taxpayer.

8. The Department plans to assess the outcomes of the current pilots to inform further developments. The number of people receiving Incapacity Benefit has now stabilised after more than 20 years of substantial growth,

with the intake from older age groups falling in recent years. In the Pre Budget Report 2004 the Government announced that Pathways to Work pilots will be extended between October 2005 and October 2006 to an additional 14 Jobcentre Plus districts. One third of the country based on the numbers claiming Incapacity Benefit will then be covered.

9. The Government's vision is to achieve a fundamental change in the way that people with a health condition or disability are given support to find, remain and progress in employment. Nearly all people claiming incapacity benefits tell the Department that they want to get back to work, but very few take any active steps towards this aim. Many believe they are not allowed to look for work while on the benefit, or think they should not consider work until they are fully recovered from their health condition. To achieve this the Department needs to reform Incapacity Benefit. Transforming the culture so that work is seen as positively beneficial for many of those currently claiming incapacity benefits is also central to the Government's reform programme.

PAC Conclusion (iv): Jobcentre Plus and the Learning and Skills Council both contract for employment and training services from the same local providers. At local level, the two organisations should harmonise their contracting with local service providers to make efficiencies and share knowledge about which providers deliver the best quality service for customers.

10. Jobcentre Plus and the Learning and Skills Council are taking a number of steps to harmonise their contracting processes.

11. Progress so far includes:

- practical co-operation between Jobcentre Plus and the Learning and Skills Council at a local level on sharing information about the providers they use and agreeing where one organisation should take the lead on procurement;
- the development of Local Service Level Agreements to formalise arrangements and setting out the respective roles and responsibilities of each organisation. Examples of good practice will be encouraged through a joint national communications strategy; and
- the planned trialling of arrangements at a national level so that appropriate Jobcentre Plus customers may be referred to Learning and Skills Council provisions – particularly to high-priority services such as Basic Skills and English for Speakers of Other Languages.

12. Currently wherever possible, Jobcentre Plus and the Learning and Skills Councils have run joint procurements for European Social Fund monies. Although separate contracts have been awarded it has helped to highlight areas of overlap and double funding.

13. Knowledge of the performance and quality of those providers who have contracts with both Jobcentre Plus and the Learning and Skills Council is already available. This information is shared through a common external inspection regime (Association of Learning Inspectors in England; ESTYN – the Office of Her Majesty's Chief Inspector of Education and Training - in Wales).

14. The Department is exploring whether closer harmonisation is possible in discussions between DWP and Department for Education and Skills Ministers and officials, and with the Learning and Skills Councils and Jobcentre Plus.

PAC Conclusion (v): To encourage staff to sustain and develop their efforts and monitor progress in assisting the most disadvantaged, better use should be made of performance targets. In particular:

- **To incentivise staff to focus on the hardest to help customers, Jobcentre Plus should develop performance measures to acknowledge improvements in employability of those who have participated in programmes but are not yet ready for work.**

15. The Department shares the Committee's concern. People who are particularly disadvantaged should receive the appropriate help to bring them closer to the labour market, while receiving continued help to progress into a job. Jobcentre Plus prioritises particular effort through the Job Entry Target and the Business Delivery Target. These targets do reward staff for progressing the most disadvantaged customers.

16. The Business Delivery Target for example, has an element which measures the delivery of appropriate basic skills support, whilst under the Job Entry Target, helping lone parents and Incapacity Benefit clients into work earns the most points toward the target. This reflects the significant barriers to employment that many people in these groups face, and therefore the additional help and tailored support that they may need. People who are more job ready are offered support through our new self-service facilities.

- **Regional Development Agencies should build on the pioneering work of the East Midlands Development Agency by setting targets for the number of older workers receiving advice and guidance as part of their regional strategies.**

17. The Department is working with the Regional Development Agencies (RDAs) to increase employment and training opportunities for older workers and to tackle age discrimination, by encouraging employers to adopt Age Positive employment practices, and flexible approaches to work and retirement.

18. The RDA Tasking Framework requires each RDA to show in its Corporate Plan for 2005-08, how, in support of its statutory role and responsibilities, it will address the priorities identified in the Regional Economic Strategy (RES) for the region. The fundamental purpose of the RES is to improve economic performance and enhance the region's competitiveness. Each RDA is also required to show how it will contribute to the delivery of the Government's Public Service Agreement (PSA) Targets on Regional Economic Performance, Sustainable Development and Productivity/ Rural Productivity, and through these to the delivery of a range of other PSA targets set out in the Framework.

19. In relation to skills, the Framework specifies that all RDAs will work with Regional Skills Partnerships (RSPs) to make a full regional contribution

to the shared Department for Work and Pensions, Department for Education and Skills and Department of Trade and Industry over-arching aim to 'attain greater labour market capacity and higher productivity and business performance and ensure individuals have the skills they need for employment, progression and personal development'. The Tasking Framework also requires RDAs to compare what they intend to deliver in the region against a number of specified "core outputs", such as the number of people assisted in their skills development as a result of RDA programmes.

PAC Conclusion (vi): Compared with some other New Deals, performance information for New Deal 50 Plus is poor. The Department should ensure it collects basic data from the outset, including outcomes and costs, so that it can better monitor success.

20. The Department does seek to collect appropriate data on its programmes, including New Deal 50 plus, to see whether they work, meet objectives and provide value for money. Information from New Deal 50 plus was interrupted with the replacement of the Employment Credit and the introduction of the 50 plus Working Tax Credit in April 2003. Due to the need for extensive quality assurance, it took longer than was hoped to develop the new database for New Deal 50 plus, but the Department has now published information as National Statistics, included as part of the quarterly DWP Statistical Summary, and in the 'Older Workers: Statistical Information Booklet Autumn 2004.' Work is currently being done to estimate the impact of the April 2003 changes on the number of over 50s in work and receiving tax credits or New Deal 50 Plus support.

PAC Conclusion (vii): All major employment programmes should be evaluated to determine, as far as possible, their net economic effect, and their continuing value for money. The New Deal 50 Plus is the Department's main employment initiative for this age group, but the number who would have found work anyway has not been assessed. A full economic evaluation, like that for the New Deal for Young People, should estimate the full impact of the programme on the public purse and on the economy.

21. An extensive programme of quantitative and qualitative evaluation has been undertaken on New Deal 50 plus. The evaluation covered a mixture of qualitative research (among staff and customers over three stages) and quantitative research (a two-stage survey), as well as analysis of administration data, which provided an assessment of whether outcomes were sustained. Key findings from the quantitative and qualitative evaluations of New Deal 50 plus showed that Personal Adviser support was valued and customers reported that advisers had understood the problems they faced in their search for work. Staff appreciated the simplicity and the voluntary character of the programme. Furthermore, job outcomes from the programme tended to be sustained. Evaluation of the Employment Credit element of the scheme showed that the Employment Credit was important in providing financial help in moving into work and changed many participants' job search activities or desired wage levels.

22. The majority of New Deal 50 plus programme expenditure within the period to April 2003 was Employment Credit expenditure going to older people returning to work, rather than expenditure on Personal Adviser assistance or other Jobcentre Plus activity. This balance distinguished the programme from other New Deals.

23. The Department will be commissioning a project to estimate the employment effects of Jobcentre Plus as a whole and component New Deal Programmes. This analysis is planned to commence in Summer 2005, following the identification of a suitable organisation to undertake the work, and a full assessment of the viability of all elements of the project.

Eleventh Report

Department for Transport

Improving public transport in England through light rail

PAC conclusion (i): The Department should develop a strategy for the development of light rail as part of an integrated transport network. The Department has maintained an arm's length approach to the development of light rail, leaving local authorities to decide whether light rail was appropriate for their areas, and not prioritising in value for money terms which schemes should be allowed funds and built. It should take a more active role in the development of light rail by, for example, indicating the types of urban areas where it would be most receptive to local authorities' proposals.

1. The Department agrees that light rail should be integrated with other parts of a local transport network. The White Paper, `The Future of Transport' (Cm 6234), and Guidance for Second Local Transport Plans (LTPs), both published last year, provide examples of transport measures which can complement light rail schemes. What this means for the design of individual schemes will obviously vary from place to place. However, the Department intends to work closely with local authorities who wish to develop light rail schemes, particularly as part of innovative local plans to tackle congestion. We announced on 5 July the details of the Transport Innovation Fund which will support good value local schemes combining demand management with better public transport.

2. The Department recognises that light rail can deliver quicker, more reliable journeys, and can be effective in attracting people out of cars. It will support light rail schemes where they are the best solution for the local circumstances. This will usually be in corridors with high traffic and passenger flows.

3. Light rail is a relatively expensive solution, so the additional costs must be justified. Proposals for developing light rail schemes must therefore be compared with other public transport solutions. A light rail scheme has to show that it represents value for money, taking account of the wider benefits, and that it is affordable in terms of both central and local contributions. It must demonstrate that it will help local authorities deliver wider transport goals such as tackling congestion and minimising pollution.

4. The Department is now taking a more active role than it has in the past by working directly with promoters of light rail from an early stage to provide guidance on what is likely to be worth pursuing and to ensure that all these issues are addressed. For example, we have worked closely with the promoters of Leeds on development of revised proposals, consideration of alternatives, and procurement approach. We are in discussion with the promoters of Manchester Metrolink about their strategy for extensions to the existing system as part of an integrated transport package for the area.

5. Prioritisation of light rail schemes takes account of a range of factors - qualitative and quantitative impacts, including value for money, and also wider considerations such as the fit with national, regional and local strategies and what is actually deliverable. `The Future for Transport' announced the intention to give regional bodies a stronger say in developing transport strategies and priorities, through the publication of long term guidelines for the level of regional spending.

6. In helping local authorities to develop more successful light rail schemes, the Department is considering how success can be built upon and how best practice can be shared. To achieve this the Department has embarked on a programme of workstreams with the Passenger Transport Executive Group (PTEG) light rail group. A seminar has been held with promoters on realising the benefits for passengers and improving financial viability of schemes. A workshop on evaluating light rail schemes has also been held with a view to a wider seminar for promoters. Further seminars on procurement strategies and the Transport and Works Act process are planned; and subsequent sessions may include: reducing costs of implementing light rail; including standardisation; developing other sources of funding; innovation; track-sharing issues; appraisal and safety aspects. In each case the Department will be discussing how effectively to disseminate the outputs of this work.

7. The Department is also working to ensure that better guidance about developing a light rail scheme is available to promoters. The outputs from the PTEG work, mentioned above, will contribute to this. The Department intends to publish the guidance later this year.

8. The Department has also been working with the Commission for Integrated Transport on their project to produce guidance on affordable mass transit systems. The guidance will provide an assessment framework and comparative information to help promoters of mass transit systems select the most suitable, affordable and cost effective technology taking into account the scheme context, and help to ensure that delivered systems achieve their forecast performance. It should also assist government, financial institutions and Private Finance Initiative (PFI) contractors, who are responsible for the funding and delivery of such systems.

PAC conclusion (ii): The Department should have acted more quickly when problems with the design and delivery of systems started to appear and costs started to escalate. The continued use of design, build, operate and maintain type contracts or derivations of such contracts, for example, has had implications for the costs of light rail systems. Operators have been left to bear all of the revenue risks and escalating

costs on proposed schemes [which has] suggested that operators were building premia into their bids to cover risks over which they had no control. The Department should exploit its knowledge of existing schemes, in England and abroad, to provide advice and guidance on the characteristics of successful schemes.

PAC conclusion (x). The Department has shown limited interest in the financial viability of light rail systems even though the residual risk of such schemes if an operation fails is likely to fall on taxpayers. The Department's investment may be limited to its construction grants. In the event of failure, however, and no alternative operator coming forward, additional subsidies may be required to keep a system running, and recovery of the Department's construction grants may be unlikely. The Department should test rigorously the financial viability of scheme proposals through a range of potential outcome scenarios; and maintain an ongoing interest in the financial health and operational performance of current schemes to take account of lessons emerging.

9. The Department agrees that the procurement strategy for a scheme, and the associated commercial and financial risks, require careful scrutiny: and that experience and best practice should be shared. Recent experience has taught that the Department should only give final scheme approval once the costs, risk and benefits of a scheme proposal have been thoroughly researched and costed. The Department must also be satisfied that the procurement approach proposed is appropriate and offers the best value for money.

10. The Department issued new draft guidance on the approval process for major schemes on 1 April 2005, which includes a requirement for more information on procurement in the bid documentation. Under the new approval process schemes will pass through a three-stage decision process, rather than two. This includes:

- **Programme entry** which signifies that the Department would expect to fund the scheme subject to it being affordable; meeting value for money criteria; being a high priority for the region and deliverable by the promoters within time and budget.
- **Conditional approval** would be granted following the granting of statutory powers but before procurement. This represents a commitment to funding provided the estimated costs and risks do not change adversely and the scheme is ready to commence within a specified period.
- **Full approval** will be granted only when procurement has taken place and prices and risk allocation are known with confidence. The promoter will have a preferred bidder and a revised benefit:cost ratio for the scheme with final costs.

11. The Department will also make sure major schemes, including light rail, will go through the Office of Government Commerce Gateway process. The OGC Gateway provides reviews of projects at critical stages to ensure they are in a fit state to move forward. The requirements for Gateway Reviews will also provide reassurance to the Department that a scheme is under good project management.

12. The Department is already playing a more strategic role across projects, discussing with promoters at an early stage the best procurement approach for new schemes, and ensuring that the risks are properly reflected in the economic and value for money appraisal.

13. No single procurement model will be appropriate for all schemes - particularly where extensions to existing systems are concerned. Promoters seeking funding approval are therefore encouraged by the Department to learn from previous experience and to consider which procurement strategies would be most beneficial in their particular circumstances.

14. Procurement models for light rail systems have developed over recent years, learning from previous experience, and will continue to be developed as new projects come forward. Sheffield Supertram was the last light rail system developed under public sector "traditional" procurement.

15. Private finance has shown some advantages. In the existing Private Finance Initiative/Public Private Partnership projects, public sector exposure to significant cost overruns during construction has been avoided by transferring this risk to the private sector. The private sector has also taken the revenue risk. There were significant losses on the Croydon Tramlink, Midland Metro and Nottingham Express Transit systems which would have been borne by the public sector under traditional procurement. More recent tender exercises demonstrate that the market transfer of full revenue risk is unlikely to offer good value for money in most circumstances.

16. The Department is working with the industry more generally, including through UKTram, to continue to develop the procurement models that seek to deliver best value for money. Along with promoters of schemes, the Department has been looking at the detail of particular procurement approaches. This includes reviewing the risk allocation being adopted, the overall contracting structure, the role of private finance and the approach to project delivery. UKTram is prioritising work in this area, bringing together experts from across the industry to draw on experience, both in the UK and abroad, to look at procurement strategies for future schemes.

17. Where risks are retained within the public sector these must be both affordable and robustly managed and mitigated. Scheme proposals are being subjected to scenario testing to ascertain their financial robustness given the proposed contracting structure, and to identify any potential direct or indirect financial liabilities that may fall to the scheme promoters.

18. The Department is now seeking to work with the promoters of existing systems in order to continue to monitor financial performance of those schemes and capture lessons from operational experience.

19. The on-going financial performance of light rail schemes depends on patronage and revenue levels. To help improve patronage forecasting, the Department commissions independent audits of promoters' models, and has undertaken a review of the modeling guidance. A draft revised version of the guidance will be published for consultation shortly. The new guidance will provide advice to promoters on the design and use of public transport forecasting models and will cover best practice.

20. The Department agrees that there is much to admire in the success of light rail development in France and Germany, and wants to learn as much as it can from this. However, the read-across is not straightforward, for example, population densities are usually higher, and urban layout is often more accommodating to light rail. The European LibeRTiN programme is further developing template tender documents covering core areas e.g. operations, vehicles and infrastructure - which can be used separately or together. These, combined with the development of new technical standards, will help to reduce tender preparation time, and improve market response.

PAC conclusion (iii): The process to plan and approve schemes is too lengthy and time consuming. The Department should work closely with promoters to improve the quality and completeness of promoters' proposals, and meet its own targets for scheme approval.

21. The Department agrees with this conclusion. In order to improve performance in this area, the Department has increased its input from the earliest stages of scheme preparation, providing advice to promoters on policy, appraisal and procurement issues to try to avoid problems and delays downstream. It has issued draft guidance on developing major schemes, so that promoters have a clear understanding of what is needed from them at each decision stage.

22. Promoters and their consultants also have their part to play in helping the process go smoothly and expeditiously. There have been instances where they have been slow to produce the necessary robust information or analysis which is important for proper assessment of the business case.

23. The Department has been working to ensure that statutory procedures deliver decisions more quickly. Under the Transport and Works Act (TWA) 1992, promoters of light rail schemes can apply for an Order giving them powers to construct and operate a scheme. TWA rules introduced in August 2004 will help to make the inquiry process more efficient, and new rules are being prepared which will improve the process for making and considering applications. Of the four TWA Order applications for new light rail schemes decided since the TWA Orders Unit transferred to the Department in March 2003, two decisions were well within published targets and one was only just outside. The other recently missed its target due to the promoters having to review and revise their proposals after the inquiry closed.

PAC conclusion (iv): To improve the realisation of expected benefits, the Department should require promoters to state clearly how they propose to integrate light rail with other modes of transport, for example, through ticketing and timetabling of services using existing statutory powers as appropriate; linkage of centres of social and economic activity; prioritisation over traffic to improve speed and punctuality; and complementary measures such as park and ride facilities.

24. The Department agrees with this conclusion. To be successful, light rail schemes need to provide the best value for money way of delivering local authorities' wider transport strategies. The Department recognizes that light rail schemes need to be developed as part of an integrated approach, including integration of buses, through ticketing, appropriate park and ride facilities, and measures to manage traffic. There are sufficient powers available to local authorities to deliver a strategy of this kind. The Department has said that it is not minded to approve light rail schemes in the future unless they demonstrate such an integrated approach. It is working closely with promoters to ensure that this approach is reflected in scheme development.

25. The `Future of Transport' White Paper encouraged local authorities to consider strategies to tackle congestion in towns and cities by improving public transport together with demand management methods to reduce car use, such as road pricing that targets congestion. These measures could be used to help make light rail more successful.

26. The White Paper set out the Department's intention to establish a Transport Innovation Fund to help its delivery partners to develop and deploy smarter innovative local and regional transport strategies. As we announced on 5 July, the Fund will:

> Support the costs of smarter, innovative local transport packages that combine demand management measures such as road pricing with, modal shift, and better bus services;
>
> Support innovative mechanisms which raise new funds;
>
> Support the funding of regional, inter-regional and local schemes that are beneficial to national productivity.

Money from the fund will become available from 2008/09 and is forecast to grow from £290 million in 2008/09 to about £2.5 billion by 2014/15.

PAC conclusion (v): The Department has failed to evaluate fully the £1.2 billion of public money invested in light rail systems in England. It now has plans to set up such evaluations for new schemes. The department should evaluate, for all schemes, whether the expected infrastructure and vehicles have been provided at the cost agreed, and whether schemes are delivering expected benefits.

PAC conclusion (vi): The Department should consider whether their estimated evaluation costs of £10-15 million are unnecessarily high. Some benefits, such as social inclusion and regeneration, are complex to measure, but core benefits such as patronage levels and reliability are relatively straightforward.

27. The Department agrees with these recommendations. The Department intends to commission a comprehensive before-and-after study of the next light rail scheme to gain full approval. The Department had commissioned consultants to devise a general framework for before and after studies, but the outcome was disappointing. The Department has now pulled together expertise from the PTEG light rail group and other areas, and is working to

establish an evaluation framework. This will include core data requirements for each scheme; impacts that need to be considered; timing for the whole process and how to disseminate lessons learned effectively to other promoters.

28. Joint evaluations with promoters of several existing schemes have been conducted in recent years, for example, Tyne and Wear Metro (1985), Metrolink Phase 1 (1996), Sheffield Supertram (2000) and Croydon Tramlink (2002). The Department has conducted joint monitoring of Midland Metro with Centro.

29. A full, comprehensive evaluation of a light rail scheme will be expensive, because the evaluation will have to run for five to ten years once the regeneration benefits are in place. The figure of £10-15 million was a market tested price, following a tender exercise for a specific study (for Manchester Metrolink Phase III). We would expect costs to be lower for a smaller scheme. Some lessons from previous schemes are relatively quick and easy to spot without a comprehensive evaluation and can be applied to future schemes. Building on the work with PTEG described above, we will be ensuring that such opportunities are exploited.

PAC conclusion (vii). The lack of standardisation in the design of vehicles and systems has driven up costs. Once UK Tram has reported on best practice and standards for light rail design by the end of 2005, the Department should appraise new proposals against such standards before giving scheme approval.

30. The Department agrees with this recommendation. The Department already expects promoters to show that they have learnt from practical experiences elsewhere and will look to see if there are opportunities in future projects for promoters to work in partnership. Once a clear set of standard specifications for light rail systems is established the Department will require, as a condition of grant for a future scheme, that these specifications are met.

31. The Department has welcomed the creation of UKTram. UKTram was formed in 2004 to represent designers, operators, promoters and suppliers of tramway systems in the UK. It brings together representatives from: Confederation of Passenger Transport UK, Transport for London, the Passenger Transport Executive Group light rail group and the Light Rapid Transit Forum (private sector industry body including contractors, suppliers and advisers). The Department is working closely with the group as their work programme develops.

32. UKTram aims to address many of the issues that were raised in the National Audit Office report on light rail. Working groups have been set up to take forward four main streams of work:

1. Development of technical, operational and safety management standards and best practice guidelines;
2. Peer review process to provide a challenge to the robustness and optimisation of new proposals, providing an early link to industry best practice and standards;

3. Legislative issues – to review, assess and respond to safety and other relevant legislation with a specific tram impact; and
4. Procurement & funding – developing a suite of procurement and funding options to deliver best value in tramway development.

PAC conclusion (viii). Diverting utilities such as water and gas mains, and installing new infrastructure, also drives up costs. The Department has not questioned whether such work is always necessary or who should do it. For future grant applications, the Department should require promoters to demonstrate that utilities need to be diverted, and require them to show how the costs of such essential work are to be contained.

33. The Department agrees with this recommendation. The Department challenges scheme promoters, where necessary, over their approach to managing construction and this includes utility diversion.

34. The utility companies are understandably keen to have all the utilities along a proposed tram route diverted to avoid damage and have preferred to carry out the works themselves at cost to the promoter. However promoters are now taking a more risk-based approach, questioning whether all the utilities need to be moved in the first place. They are also considering carrying out the diversions through the concessionaire or separate contracts. The Department is working closely with individual scheme promoters and PTEG on this issue.

PAC conclusion (ix). Innovative ultra light rail technologies have been excluded from departmental funding because they cost less than the £5 million qualifying threshold for a scheme to receive financial support. They may, however, offer the prospect of reducing costs and delivering environmental benefits through greater energy efficiency. In now inviting local authorities to put forward pilot ultra light rail schemes, the Department should encourage innovative solutions to local transport problems which have the capacity to be replicated elsewhere.

35. The Department agrees that the potential benefits of innovative light rail technologies could be explored further through pilots. The Department has now removed the qualifying threshold for pilot or demonstration schemes. Those costing under £5 million are now eligible for major scheme funding from the Department, providing that they meet a genuine transport need and can demonstrate value for money. The Department recognises that the full benefits of an innovative pilot may be in releasing the potential for its wider application, even if the benefits as a stand-alone project are less clear. We will take this into account when appraising the case for such schemes. The Department will engage in discussions with any authority proposing such a scheme at an early stage and will provide case specific guidance as to how the potential benefits may be assessed.

Thirteenth Report

Ofgem

The Social Action Plan and the Energy Efficiency Commitment

Helping to tackle fuel poverty is one of the major themes of Ofgem's Corporate Strategy. The Social Action Plan, established in 2000, is the main vehicle for doing so. Consistent with the Plan, in December 2004 Ofgem took the lead in further encouraging companies to do more to help those customers who struggle to keep their homes warm. Energy companies were asked to place additional focus on the targeting of energy efficiency programmes and the development of special tariffs, as well as on debt prevention and the provision of special services. There are good signs that the industry is responding to Ofgem's call for more to be done to tackle fuel poverty. All suppliers have either introduced social tariffs aimed at vulnerable customers or brought in price freezes to protect the fuel poor. All suppliers offer packages of energy efficiency measures. Ofgem has now published a new Social Action Strategy building on this work and covering the next five years.

The Government's fuel poverty targets should be seen in the context of energy prices that are rising significantly for all customers - irrespective of payment type - because of increased fuel costs and environmental legislation. Competition and regulation have in the past reduced suppliers' costs and contributed significantly to a decline in fuel poverty numbers. Looking forward, Ofgem's strategy of promoting competition and regulating monopolies clearly remains important to help keep price rises to a minimum. But these measures alone will not deliver the Government's target to eliminate fuel poverty.

PAC conclusion (i): Ofgem should ensure that suppliers provide accurate bills to consumers. Suppliers are required to read a customer's meter every two years, but they do not always comply with this requirement. As a result, they provide inaccurate estimated bills to consumers, which in turn can lead to a build up of debt.

1. Ofgem agrees with the Committee's conclusion. Accurate and timely billing is important to all energy customers, especially those on low incomes. It is also important for companies trying to retain existing customers and win new ones in Britain's competitive energy market. Ofgem has encouraged suppliers to provide their customers with accurate bills.

2. Ofgem wrote to all energy companies last December asking them to set out the work that they are doing to improve their billing processes. The responses from companies show that suppliers are experimenting with different ways to encourage customers to read their own meters, and supply the readings, either by telephone or online. One supplier provides a discount to those customers who provide their own meter reads. Companies are also making significant investments in new IT systems to improve their billing processes.

3. On 6 April 2005 Ofgem received a supercomplaint from energywatch, under section 11 of the Enterprise Act 2002, alleging that there is evidence that the billing processes of gas and electricity suppliers are harming the interests of domestic consumers. Ofgem published a consultation letter seeking views from interested parties on the issues raised by the supercomplaint and is now considering those responses carefully. Ofgem published its analysis and conclusions on 5 July. While Ofgem found no widespread failure of industry billing arrangements, it did find that a relatively small number of customers suffered real harm when companies made billing mistakes. Ofgem's measures are designed to protect customers. They are:

- suppliers must stop 'back-billing' customers beyond two years, if no bill is issued and the supplier is at fault. This will reduce to one year in 2007
- energy suppliers must set up an independent body, with the power to award compensation, to resolve disputes quickly, and
- they must review their domestic customers' contract terms to ensure compliance with consumer rights legislation.

PAC conclusion (ii): Ofgem need to enforce suppliers' obligation to inform consumers about the disadvantages of prepayment meters. Under their licences, suppliers must inform consumers about all payment options and their relative costs. Yet consumers on prepayment meters are unaware of the extra costs they are incurring. Ofgem should ensure that suppliers comply with the relevant licence condition.

4. Ofgem agrees with the Committee that suppliers should inform customers about the disadvantages of prepayment meters (PPMs) in terms of their relative costs. As part of their licence obligations, suppliers must produce a code of practice on the use of PPMs, to include information on the advantages and disadvantages to customers. Ofgem has commenced a review of the supplier licences, and as part of this will consider whether this requirement should be reinforced to ensure that messages to customers are clearer.

5. Ofgem notes that research carried out under the Social Action Plan at various stages since 2000 has consistently shown that for some customers, notwithstanding the increased cost, PPMs were the preferred method of paying for and budgeting for energy costs. This does not in any way diminish the obligation on suppliers to ensure that customers are able to make informed choices about payment options.

PAC conclusion (iii): Ofgem should not encourage suppliers to charge more to customers who use prepayment meters. Ofgem encourages suppliers to recover the costs of using prepayment meters from those who use them. Yet it protects those in rural areas from paying the higher costs of delivering energy to their homes. Ofgem support for higher costs for prepayment meters is not consistent with its obligations towards all vulnerable customers.

PAC conclusion (iv): Suppliers should not discriminate against prepayment meter consumers. Ofgem should obtain better information on the costs of prepayment meters to ensure those who use them are not subsidising other consumers, such as those on direct debit. If discrimination is taking place, Ofgem should direct suppliers to reduce the bills paid by consumers on prepayment meters accordingly.

6. Ofgem rejects both these conclusions. Ofgem does not encourage suppliers to charge more to PPM consumers. Ofgem's policy is to promote the strongest possible competition with the effect of increasing choice and driving inefficiencies and costs out of the market. PPM tariffs are a more expensive method of buying energy because of the additional costs of providing and maintaining those meters and the associated card technology. Those extra costs will be reflected by suppliers in their tariffs to PPM customers.

7. At a time of rising prices, companies have been competing fiercely for all customers, including those with PPMs. We have seen some suppliers reduce the differential between credit and PPM tariffs. Prices are the responsibility of energy suppliers, who need to recover the additional costs of providing and maintaining PPM meters. Ofgem has welcomed the steps taken by some companies to remove or reduce differentials between credit and PPM tariffs. Ofgem keeps the costs of PPMs under review, and notes that in the future new PPM technologies might erode costs differences over time.

8. The Committee's argument that Ofgem protects those in rural areas from paying the higher costs of delivering energy to their homes is an over-simplification. Distribution charges for delivering energy vary from distribution network to distribution network, reflecting the fact that some areas are more rural than others and therefore costs of distribution are higher. However, distribution costs are the same for all customers located within a particular distribution network operator's system. To the extent that there is averaging of costs, this is largely because the administrative costs of charging at a more disaggregated level would be disproportionate.

9. Ofgem notes that, of all the households in fuel poverty, only 20 per cent use an electricity prepayment meter (PPM) and only around 15 per cent use a gas PPM. This illustrates the fact that fuel poverty is not confined to PPM customers, but rather is spread across all types of energy customer. Ofgem has introduced reforms to make it easier for PPM customers to switch to a cheaper supplier. Ofgem is also running an 'Energysmart' campaign with energywatch to highlight cheaper ways of paying for energy. In addition, some companies have reduced prices for electricity PPM customers.

PAC conclusion (v): The Energy Efficiency Commitment may not be delivering its intended outcomes. Ofgem records the outputs delivered by the suppliers, such as providing cavity wall insulation and energy efficient light bulbs. These measures do not necessarily result in the intended outcome of reduced energy use and hence lower carbon emissions. Ofgem should, with the Department, confirm that these measures deliver energy savings by monitoring their impact on energy use in a sample of homes.

10. Ofgem does not entirely accept the Committee's conclusion. It is wrong to suggest that Ofgem's work in administering the Energy Efficiency Commitment (EEC) is based merely on measuring outputs. The EEC is based on a sophisticated model set up to assess the effectiveness of energy efficiency measures in the home. This model incorporates a wide range of input data and information from organisations such as the Building Research Establishment, the Environmental Change Institute at Oxford University and the Energy Saving Trust (EST) and regularly updated as new data becomes available. The assumptions on which the EEC is based are therefore as reliable as it is possible to make them.

11. The EEC is part of the Government's climate change programme and its objective to target 50 per cent of measures to vulnerable households also contributes to meeting the Government's fuel poverty targets. Overall responsibility for assessing the impact of these policies in meeting carbon reduction and fuel poverty targets rests with the Government. As part of its work to ensure that suppliers are meeting their targets, Ofgem - with EST - have commissioned and published studies to monitor retrospectively the energy savings delivered by suppliers' measures. The results have been incorporated into the model described above. Responsibility for this ongoing programme of monitoring research has now been assumed by Defra, with advice continuing to be provided by Ofgem and EST. The results will inform the review of the EEC which is due to be complete by 2007. Any future programme would be expected to reflect the results of this research.

PAC conclusion (vi): Ofgem, with the Department and suppliers, should undertake a national campaign to encourage energy efficiency. Doubling the size of the Commitment from 2005 will require an increase in consumer demand for energy efficiency measures. Ofgem should work with Energywatch, suppliers and the Department to launch a national campaign to stimulate consumer demand.

12. Ofgem agrees with the Committee's conclusion in principle. Ofgem and energywatch, through the 'Energysmart' campaign, have advocated the benefits of consumers being more energy efficient and outlined various ways in which consumers can easily save money on their energy bills. Additionally, Defra funded the EST to undertake a national campaign to promote energy efficiency. This programme was structured in a way so that those consumers interested in taking up an energy efficiency measure were pointed towards supplier EEC activity. Ofgem itself does not have access to funds to carry out such a high-level campaign.

PAC conclusion (vii): Ofgem should identify more accurately the additional cost to consumers of the Commitment and other environmental schemes. Ofgem estimate that environmental schemes add around 3 per cent to the average consumer's bill. The Government's ambitious targets for doubling the Energy Efficiency Commitment and a new emissions trading scheme will add to costs. Ofgem estimate that this will amount to around £33 a year, or 6 per cent of the average bill, but the full extent of the increase is not yet certain.

13. Ofgem administers the EEC and the Renewables Obligation (RO), but both Defra and the Department of Trade and Industry, who are respectively responsible for these schemes, have published information about their impact on prices. Analysis of the EEC1 programme shows that on average the

benefits to customers have outweighed the costs. In terms of the carbon abatement objective our analysis consistently shows that energy efficiency is a cost effective measure.

14. Ofgem's position is that the Government, in meeting its environmental goals, should promote measures that are most likely to be effective in reducing carbon emissions at least cost to customers. This is particularly important given the impact of environmental schemes on customers' bills and the resultant impact (unless other action is taken) on the ability of the Government to achieve its fuel poverty targets.

PAC conclusion (viii): Ofgem should require suppliers to identify the extra costs of environmental measures. Energy bills should be transparent so that consumers can understand what they are paying for. Ofgem should require suppliers to separate out on energy bills the extra cost of environmental measures.

15. Ofgem agrees with the spirit of the Committee's conclusion. The environmental programmes are a cost to suppliers and to customers, but there are also benefits from them. Imposing a market-based mechanism on the suppliers, such as the EEC, encourages suppliers to meet their targets as cost effectively as possible. These obligations are integrated within the business making it difficult to determine exactly what the extra costs are. It is particularly complex to calculate the impacts on consumers' bills of the EU Emissions Trading Scheme, since there are many other factors involved. It would therefore not be practical to oblige suppliers to identify these costs accurately.

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