



Treasury Minutes on the Twenty-third, Twenty-fifth to Twenty-sixth and Twenty-eighth to Thirtieth Reports from the Committee of Public Accounts 2004-2005

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TREASURY MINUTES DATED 12 OCTOBER 2005 ON THE
TWENTY-THIRD, TWENTY-FIFTH TO TWENTY-SIXTH
AND TWENTY-EIGHTH TO THIRTIETH REPORTS FROM
THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION
2004-2005

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Twenty-Third Report

Home Office

Reducing crime: the Home Office working with Crime and Disorder Reduction Partnerships

PAC conclusion (i): By establishing 376 Crime and Disorder Reduction Partnerships (CDRPs), the Home Office has enabled locally based groups to find innovative solutions to local problems. To avoid unnecessary duplication of effort and to deliver more effective solutions overall, the Home Office should now review whether the number of partnerships is excessive, and whether resources would be used more effectively if there were fewer partnerships covering larger areas. This approach might also better address crime displacement risks.

1. The Department agrees with this recommendation. A review of the partnership provisions of the Crime and Disorder Act 1998 was announced in November 2004 and carried out between then and early 2005. The review was jointly undertaken by the Home Office, the Local Government Association, the Association of Chief Police Officers and the Association of Police Authorities. The review specifically considered Crime and Disorder Reduction Partnerships' structures, membership, the way they make decisions about local priorities and the delivery of crime reduction services and programmes in local communities. The Department is currently considering the findings of the review and expects to announce proposals to improve the effectiveness of Partnerships later in the year.

2. In the meantime some Partnerships have begun to merge informally and guidance was issued to Home Office Directors in Regional Government Offices in November 2004 setting out the procedures when two or more areas seek to merge formally. The first formal application was received from South Worcestershire Community Safety Partnership (CSP) which merges Malvern Hills, Worcester and Wychavon CDRPs. This first formal merger was approved and took effect on 1 August 2005. This new CSP is coterminous with the Police Basic Command Unit. This makes the total number of CDRP/CSPs 374 (352 in England; 22 CSPs in Wales). Further such applications are anticipated and over 30 CDRPs around the country are working together as informally merged partnerships. We are actively encouraging CDRP mergers in two tier Local Authority Areas.

3. This process has already been aided by the Prolific and Other Priority Offenders strategy in respect of which we have actively encouraged smaller Partnerships to come together to deliver this initiative. In Dorset, four small CDRPs have come together to form a single Prolific Offenders scheme. In West Cornwall seven CDRPs worked together to produce their 2004 Audit of crime and disorder and misuse of drugs and in publishing their crime reduction strategies for 2005-08. In Leicestershire and in Avon and Somerset, all CDRPs are covered by force-wide Prolific Offender Schemes.

PAC conclusion (ii): Nearly £1 billion has been spent through Crime and Disorder Reduction Partnerships over the past five years, but fewer than half of the Partnerships consider that their work has contributed to a measurable reduction in crime. The Home Office should develop a framework to assist Partnerships in designing projects which will have a visible impact in reducing

crime. Such projects are likely to be underpinned by rigorous analysis; to be targeted to achieve a demonstrable reduction in crime; to be a rational solution to the crime problem; and to be of sufficient scale to tackle the problem.

4. The Department agrees with this recommendation. When the Crime Reduction Programme was initially set up, the Home Office intended to spend 10 per cent of each project on evaluation. It rapidly became clear that that was not the most effective strategy, since the cost of evaluation does not necessarily relate to the cost of a programme.

5. The Home Office has learnt from the experience of the Crime Reduction Programme. It has now established a process of local target setting for Partnerships that will support delivery of Home Office Public Service Agreement 1 (PSA1). This is supported through monthly performance monitoring by the Home Office and Government Offices. As the Department monitors performance, it is able to identify both good and less good performance and support Partnerships in taking appropriate action.

6. The Home Office continues to provide support and advice to Partnerships on the implementation of crime reduction projects. This includes the work of Research Development and Statistics regional staff in providing increased analytical and research capacity to regional teams and Partnerships and the work of the regional teams in challenging and agreeing local plans to deliver Local Area Agreements and the Safer and Stronger Communities Fund. The Crime Reduction website remains a crucial source of good practice and guidance, complemented by the Crime Reduction Digest and the launch of the Improving Performance through Applied Knowledge Programme (IPAK).

7. The Home Office attaches a high priority to knowledge management in the drive to improve performance and reduce crime still further. IPAK has considerable potential to improve performance within Crime and Disorder Reduction Partnerships and Drug Action Teams by enabling the sharing of effective practice. IPAK represents a systematic approach to identifying, collecting, collating, quality-assuring, consolidating, disseminating and promoting both knowledge of evaluated 'good practice' and wider research-based knowledge about crime and the fear of crime, drugs misuse and 'what works' to reduce them. A pilot proposal to test the IPAK framework has now been agreed. Evidence gathering for the pilot, which includes identifying suitable national and regional crime themes to test the IPAK framework, is underway. An IPAK development plan for parallel Partnership, Performance and Support Unit, police and corporate projects will be considered in the autumn.

PAC conclusion (iii): Local crime reduction targets are not clearly aligned with national crime reduction targets, and the link between national and local targets is not therefore transparent. When setting future targets, the Home Office should establish clear links between targets needed to tackle local patterns of crime and the national targets.

8. The Department agrees with this recommendation. The Government originally set a national PSA target for the period 2003-5 which covered volume crime reduction targets for three specific crime types; vehicle crime, robbery and burglary. During the period in question not all CDRPs set local targets based on their local priorities.

9. This has been addressed by the development of a system of negotiated targets between Regional Government Offices/Welsh Assembly Government and CDRPs in support of the new national Home Office PSA1 target which is to reduce crime by 15 per cent, and more in high crime areas by 2007-08.

10. All CDRPs have now set robust local targets to reduce crime and disorder in their communities in order to support the delivery of the Home Office PSA1 target for the three years from 2005-06. Their targets reflect both national and local priorities thus aligning national and local targets and progress towards their achievement is monitored monthly. If achieved, the delivery of these local targets will support the delivery of the new national Home Office PSA 1 target.

11. Monthly monitoring information is available to all partnerships via iQuanta. iQuanta is a web-based tool for policing performance information and analysis developed by the Home Office. iQuanta exists to provide users in police forces, police authorities, Crime and Disorder Reduction Partnerships, Her Majesty's Inspectorate of Constabulary and the Home Office with:

- up-to-date information on indicators of policing performance
- analyses of this in a universally accepted format
- access to guidance on management performance
- background materials and help files.

12. This approach supports improved local performance management and understanding crime trends.

PAC conclusion (iv): Many projects have been directed at perpetrators of crimes rather than at helping potential victims to protect themselves. At Bexley in Kent the “Bobby Van” initiative, which addressed the risk of repeat burglaries by helping to improve house security, has contributed to a 50% decrease in burglary between 1998 and 2004. The Home Office should encourage broader adoption of initiatives aimed at reducing risks for potential victims, particularly as there is a close link between areas of high deprivation and high crime.

13. The Department agrees with this recommendation. The Home Offices' recent Acquisitive Crime campaign, covering burglary, robbery and vehicle theft, aims to prompt people to feel more empowered and less afraid of crime by showing how easy it is to outwit criminals. It also aims to motivate people to take preventative measures to keep their belongings safe and secure. The messages are simple but very much related to the causes for acquisitive crime. For example, one fifth of burglaries take place through open doors and windows, one fifth of all motorists still don't lock their car doors and most mobile phone theft occurs while people are using their phones. Communication channels for the campaign have included TV, radio, direct mail, press, print, outdoor channels such as panels/posters on tubes, buses, phone booths and at optimum moments such as in washrooms and on petrol pump nozzles. The campaign focused on high-crime regions. “Optimum moment” media was used to reach people at the time and place of particular risk.

14. The Home Office's initiatives to tackle violent crime also focus on risk reduction and support for potential victims. In respect of alcohol-related crime the Alcohol Harm Reduction Programme includes work to raise public awareness and, in particular, that of young people, about the risks associated with binge drinking. In respect of domestic violence the Home Office is introducing independent domestic

violence advisers who will give advice and personal support to victims of domestic violence. It has also issued a personal safety video (Watch Over Me) to schools in 2004 and put a Domestic Violence and Children anti-bullying toolkit on its website in March 2005. In December 2003 a National Domestic Violence helpline was launched with the aid of grants from the Office of the Deputy Prime Minister and Comic Relief. In respect of sexual offences the Home Office and the Department of Health have developed a network of Sexual Assault Referral Centres to improve standards of victim care and evidential integrity. 13 such centres are currently open and additional centres are due to open during 2005-06. The Home Office has also published leaflets on personal safety for children and families, and about the links between high levels of alcohol consumption and sexual assault to raise public awareness of these risks. These are on the Home Office website.

PAC conclusion (v): The innovation and flexibility encouraged through the Partnerships has helped to inform some programmes now being run nationally, such as that aimed at prolific offenders. The Home Office should support successful local initiatives by promoting such schemes to other Partnerships and encouraging wider sharing and take up. In reviewing Partnerships' strategies, Home Office Regional Directors should question Partnerships about the extent to which they are adopting successful projects from elsewhere which are relevant to the crime problems outlined in their strategies.

15. The Department agrees with this recommendation. Good practice is being shared through the Home Office Crime Reduction website, regular newsletters such as the Crime Reduction Digest, workshops and seminars. The Crime Reduction website has a password-protected discussion forum where practitioners can ask questions, pose problems and offer solutions. In addition there is an ideas exchange area which contains a database of ideas and initiatives on all crime reduction topics and a Learning Zone that offers help to practitioners regarding courses, a virtual library and distance learning packages.

16. As noted in the NAO report, the good practice developed from the Tower Project in Blackpool, which combines surveillance and drug treatment for a target group of prolific offenders, formed the basis for the ambitious national Prolific and Other Priority Offenders Strategy.

17. The Home Office will seek other opportunities which can be captured through the proactive performance management of CDRPs by Government Offices, and is committed to bring about substantial improvements in the capture, evaluation and promulgation to Partnerships of information about what does and does not work in community safety.

18. Separately, the Home Office Drugs Strategy Directorate will shortly issue regional performance reports on a high level suite of Strategic Delivery Indicators. The reports provide an overview of national progress and regional performance in delivering the National Drug Strategy. These will compare all nine regional offices, facilitating discussions between regions where there are notable variations in performance, resulting in shared learning and improved performance.

19. The Drug Strategy Directorate also manages two Performance Monitoring Groups: Young People and Drugs Intervention Programme. These Groups provide opportunities to hear about performance issues and successes and share good practice.

PAC conclusion (vi): Evaluation of outcomes delivered by Partnerships has been limited as the Home Office only introduced a self-assessment framework in 2003, some four years after the Partnerships commenced. Effective self-assessment depends on reliable data on the outcomes of projects run by each Partnership. The Home Office should develop a simple evaluation methodology to be adopted for all larger projects and funding applications for larger schemes should demonstrate how the methodology will be used.

20. The Department agrees with this recommendation. The Self-Assessment Framework (SAF) provided useful information as part of a drive to improve Partnership performance. The Framework is being used to underpin a strand of the Performance Assessment and Delivery System which combines various strands of existing performance management of crime and drugs, with new elements designed to support Partnerships to improve their overall performance and delivery.

21. One of the new elements is entitled ‘Quality Indicators of Partnership Performance’ – which builds extensively on the Framework to present a suite of indicators and measures which provide an objective assessment of areas for improvement, such as leadership, structures, processes, community engagement and information sharing.

22. This extensive system of performance management and supportive interventions will strengthen the ability of the Home Office working through Government Offices to engage with under-performing Partnerships and implement programmes to improve their performance.

23. The Home Office has also produced a booklet entitled “Passport to Evaluation” which is a distance learning package available on the Crime Reduction website. It looks at the basic techniques used to evaluate crime reduction projects. This booklet is relevant to anyone who works in crime reduction, particularly if they are likely to be involved in evaluating projects or initiatives. The skills and knowledge will be valuable for people new to evaluation and a useful reminder to anyone, whatever level of experience they have in evaluation. The booklet contains sections covering the context of evaluation, ‘what is evaluation?’, the process of evaluation and other issues. It includes examples and a case study where readers can practise the key points of evaluation.

PAC conclusion (vii): There is evidence that the Home Office has placed more emphasis on Partnerships spending money allocated to them quickly and before the financial year end rather than on the value for money to be obtained from funds. The Home Office should make use of existing flexibility for funding non-government organisations by granting funding for more than one year where a project has been clearly defined.

24. The Department agrees with this recommendation. The Home Office is making funding announcements as early as possible and has reduced the limitations on partnerships about how money is spent. In providing greater freedoms and flexibilities to CDRPs to use their budgets to support local crime reduction initiatives, the Home Office is seeking to further reduce the burden on them.

PAC conclusion (viii): The Home Office created a considerable administrative burden for Partnerships by introducing some fourteen different crime reduction initiatives over the last six years, each with its own grant fund, application and monitoring procedures. The Home Office has now taken action to streamline the number of schemes.

25. The Department agrees with this conclusion. It has reduced the number of departmental funding streams from 14 to three during 2005-06. The Safer and Stronger Communities Fund, which brings together ODPM and Home Office funding streams aimed at tackling crime, anti-social behaviour and drugs, empowering communities and improving the condition of streets and public spaces was rolled out to all Local Authorities in England in April 2005. The Safer and Stronger Communities Fund will be subsumed into the Safer and Stronger Communities block of Local Area Agreements which should exist in all areas by 2007-08.

PAC conclusion (ix): Lessons learned in reducing bureaucracy for Partnerships could also be applied to the police. There is a need to ensure that valuable police time is not taken up unnecessarily with paperwork and bureaucracy. Although the Home Office already review each year their requirements for police data, the simpler funding arrangements for Partnerships could provide a model for further reducing the administrative burden on the police.

26. The Department agrees with this recommendation. The Police Grant, the main grant paid to police authorities, is already paid subject to proof of propriety and regularity, in line with good financial practice and advice from National Audit Office. There is also a range of specific grants provided to meet particular local needs. A balance has to be struck between reducing controls on funding and encouraging new developments with financial support.

27. In line with Government policy overall, consideration is being given to possible amalgamation of several specific grants and to reducing 'ring-fences' that constrain their use. This should reduce the burdens on, and increase the spending flexibility available to, police forces.

PAC conclusion (x): The Home Office has failed to notify Partnerships of their funding allocations on a timely basis, making it difficult for Partnerships to start projects promptly. Funding allocations for 2004-05, for example, were only notified to Partnerships in March 2004. In its timetable for allocating departmental resources, the Home Office should give greater recognition to Partnerships' need for greater certainty of funding, if projects are to be a success.

28. The Department agrees with this recommendation. The Home Office seeks to make funding announcements as early as possible, and to reduce the limitations on Partnerships about how they use this money.

29. In 2004-05, for the first time, the Home Office consulted Government Offices about the Conditions of Grant. Following this consultation, the Conditions of Grant were issued on 10 March 2004. This is the earliest they have ever been issued and a substantial improvement on 2003-04 when Conditions of Grant were not issued until June 2003.

30. Grant conditions for 2005-06 have been issued for the police Basic Command Unit Fund and the CDRP Building Safer Communities Fund. These were revised prior to their release to take account of the need to minimise bureaucracy.

31. The Safer and Stronger Communities Fund will total at least £220million in 2006-07 and at least £230million by 2007-08.

PAC conclusion (xi): The Home Office should explore the scope for sharing successful initiatives from elsewhere. One option would be to adopt the zero tolerance of low level crime and disorder used in New York, which helped to underline that crime is unacceptable and contributed to the reductions in crime in the city.

32. The Department agrees with this recommendation. The Home Office has much to learn from around the world just as other countries can learn from its experience in substantially reducing levels of crime in recent years. In particular, the Department has looked at the approach taken in cities like New York and is open to fresh ideas and initiatives. The Director of the Home Office Police Standards Unit was previously the Commissioner of Police for Boston in the USA.

33. The Government's approach to community safety is very much driven by the need to involve local communities in the identification of priorities and solutions and to ensure that the concerns of the community are addressed.

34. The Government's strong commitment to neighbourhood policing has been developed by a desire to engage with people with the aim of identifying issues that affect their quality of life and make them feel unsafe so that local policing priorities can reflect the priorities of the community.

35. The Home Office's civil renewal agenda and the importance of community engagement are reflected in the commitments in the Police Reform White Paper "Building Communities Beating Crime" to empower local communities and make the police, police authorities and Crime and Disorder Reduction Partnerships more accountable to local communities.

Twenty-fifth Report

Highways Agency

Tackling Congestion by Making Better Use of England's Motorways and Trunk Roads

PAC conclusion (i): The Agency has shown a lack of leadership and urgency in tackling congestion on England's roads. It has been inhibited by a risk-averse culture, and so has fallen behind other leading countries in adopting traffic management measures. The Agency should learn more readily from the successful experiences of others, and become more innovative in tackling congestion than through new road building.

1. The Agency does not accept that it has shown a lack of leadership. It will continue to learn from others as it continues to operate a safe and reliable trunk road network.
2. The Agency along with the Department for Transport has implemented a wide range of traffic management measures aimed at tackling congestion. This includes major schemes such as widening existing roads and constructing new ones and also innovative measures. England's strategic road network carries some of the highest traffic flows in Europe and has one of the best records for road safety.
3. Innovative measures that are in the course of being put into operation include:
 - Traffic Officers patrolling motorways
 - National and Regional Traffic Control Centres
 - Ramp Metering on motorway entry slip roads
 - Variable Speed Limits on motorways and current trials being carried out include:
 - Active Traffic Management (on M42 near Birmingham)
 - Car sharing or High Occupancy Vehicle Lane trials (on M1 between Luton and St Albans).

PAC conclusion (ii): Where the Agency has trialled traffic management measures such as variable speed limits, ramp metering and dedicated lanes, pilots have been poorly designed and managed, leading to inconclusive results. The Agency should design pilots with clear objectives, budgets and timescales; choose suitable sites unaffected by other factors; and establish adequate data collection procedures prior to and during the trial; monitor progress regularly; and evaluate the outcome quickly to enable faster roll out if appropriate.

4. The Agency accepts this conclusion in respect of the two pilots considered in detail by the Committee but not in respect of other trials that it has carried out and services that it has delivered.
5. The Committee's comments are based on two pilots (ramp metering and variable speed limits) which took longer than anticipated and where the National Audit Office believed management was poor. However, the delays were mainly because it proved difficult to confirm their benefits to the required level of confidence. The Agency will invest only where it is confident that there are benefits to taxpayers.

6. The Agency supports the Committee's recommendation on design of pilots. Guidance on monitoring of trials already exists. The Agency is now working with the National Audit Office to produce guidance on planning and delivery of technology trials. An area of continuing difficulty is the selection of sites which are unaffected by other factors, given the range of interventions currently under implementation on the strategic road network.

7. The Agency has a proven track record of running successful pilots to improve safety and reduce congestion, most of which have been, or are being rolled out on the network. These include:

- Incident detection and warning systems (MIDAS). This system was successfully piloted on the M1 in the late 1980's and has since been rolled out to over 500 miles of the most congested sections of motorway, saving an estimated 13% of injury accidents each year where it has been deployed.
- Midlands Driver Information Service. This system provided advance warning of traffic conditions, including advice on alternative routes, over the Midlands area and the Midlands/London corridor. The system provided the forerunner to the national traffic control centre, which started operation in 2003.

PAC conclusion (iii): The Agency has done little to tackle the problems caused by lorries overtaking at slow speeds and on inclines even though they are a significant cause of congestion on motorways and dual carriageways. Lane restrictions and overtaking bans on inclines are possible mitigating actions. The Agency should also manage its relationships with interest groups such as motoring organisations and freight transport groups, so as not to give their views on tackling congestion undue weight relative to those of motorists in general.

8. The Agency does not accept this conclusion.

9. The Agency routinely monitors congestion on the trunk road network through surveys of traffic volumes and speeds and delays. It has provided crawler lanes on motorways where congestion as a result of slow moving vehicles has been identified.

10. Following investigations begun in 2003, a trial daytime ban on lorries overtaking along a section of the M42 in Warwickshire is starting on 10 October 2005. Results from this trial will determine whether such measures are appropriate elsewhere on the trunk road network.

11. The Agency agrees with the Committee's recommendation concerning its relationships with the various interest groups as good practice. The Agency considers and has to balance the interests of all road users and those affected by roads. It regularly meets with representatives of motoring organisations including freight groups. These meetings are carried out throughout the Agency from the Chief Executive to officer level.

12. The Agency conducts an annual Road User Satisfaction Survey to canvass the views of both road users and those affected by roads. This is used to inform its discussions with all its stakeholders and is used to measure the Agency's progress against its key performance indicator for customer satisfaction.

PAC conclusion (iv): Other poor behaviour by motorists such as occupying the middle lane unnecessarily or driving too close to the car in front causes congestion and accidents. The Agency should work more closely with local police forces to consider how their respective activities could be better co-ordinated to influence driver behaviour more effectively.

13. The Agency is already working with other organisations to influence driver behaviour.

14. Over the past two years the Agency has had a formal programme using variable message signs on motorways to support different campaigns with messages such as 'Don't hog the middle lane', 'Keep left unless overtaking' and 'Keep your distance'. It works closely with local police to address particular problems on the network.

15. The Agency is pleased to see that other countries such as the Netherlands are following its lead in the use of such messages.

PAC conclusion (v): The Agency should provide drivers with accessible real time information at the roadside to help them avoid congested areas of the network. The Agency has put too much emphasis on information being available on the television, radio or the web whereas the motorist needs better information at the roadside. Message signs are not up-to-date and do not give motorists any indication of how long it would take to clear sections of congested roads, or for motorists to reach their destinations. Nor are motorists warned against joining a motorway if it is at a standstill.

PAC conclusion (vi): The Agency should use the significant information flows available at the new national Traffic Control Centre to provide motorists with more comprehensive and comprehensible messages on the location of congestion, impact on journey times and alternative routes.

16. The Agency accepts these recommendations.

17. The Agency's Business Plan for 2005/06 includes a key performance indicator to "make a demonstrable improvement to the accuracy of the variable message signs by March 2006 and develop an action plan for further improving their accuracy and effectiveness." To ensure full use of the technology the Agency is assessing how VMS is used in other countries, especially elsewhere in Europe.

18. The Agency has a continuing programme of installing strategic variable message signs to give road users information on traffic conditions and in the last year alone has provided an additional 10% taking the total number to 2,265 signs.

19. The Agency also recognises that information needs to be readily available to motorists both before and during their journeys through a variety of media. It therefore provides additional information through traffic and travel news broadcasts on the radio, the Highways Agency web site, and the Highways Agency Information Line and through an interactive telephone service that was introduced in July 2005. As an illustration of the widespread usage of such facilities there were approximately 22 million visits (page impressions) to the Agency's website and nearly 86,000 enquiries made to the Information Line during 2004/5.

20. As the availability and quality of information increases, further services will be delivered through the Agency's National Traffic Control Centre. Other initiatives are also being considered with the aim of allowing road users to make more informed

decisions on the route, time and mode of their journey. Responsibility for setting messages on variable message signs will be transferred from the Police to the Agency as the new Regional Traffic Control Centres are established over the course of this year and next. In taking over these functions, the Agency will be keen to improve the accuracy and timeliness of information carried by the signs.

PAC conclusion (vii): The Agency should provide information to motorists at roadworks to explain the retention of speed and lane restrictions where the sites are not being actively worked on.

21. The Agency accepts this recommendation.

22. Where it is necessary to keep works and speed restrictions in place, this is for the safety of the travelling public and the Agency's workforce. It is standard practice for signing at roadworks to give an explanation of what is taking place. Wherever possible, the Agency endeavours to remove roadworks and speed restrictions over bank holidays and during the busiest holiday periods. In some cases, it is not apparent to motorists precisely what work is being carried out as it may be taking place alongside or underneath the carriageway.

23. The Agency has been praised for the quality of information provided to drivers during the recent strengthening works on the M1 Tinsley Viaduct and recognises that this practice should be applied more consistently across its entire programme of works.

24. A recent Eurotest study carried out by national automobile associations from 11 European countries praised the Highways Agency for its management of motorway roadworks and its innovative approach to safety.

PAC conclusion (viii): The Agency expects to reduce the time taken to clear motorways after a major accident or incident, currently around 5.5 hours on average, through its new Traffic Officer role. The police will retain responsibility for investigating the incident, whereas the Agency will have responsibility for getting the traffic moving again as quickly as possible. The Agency should set targets, depending on the severity of incidents and accidents, for the time it should take its new traffic officers to clear motorways after the emergency services have completed their work.

25. The Agency accepts this conclusion and partly accepts the recommendation.

26. The Agency's Business Plan for 2005/06 already includes a key performance target relating to clearance times for incidents in which Highways Agency Traffic Officers are in the lead. In the West Midlands, Traffic Officers aim to clear 75 per cent of incidents for which they are in the lead within 30 minutes of taking full responsibility for re-opening the road to traffic.

27. In July 2005, the Agency was set the new Public Service Agreement (PSA) target of "By 2007-08, make journeys more reliable on the strategic road network". This will be achieved if the Agency secures by 2007-08 a reduction in the delay experienced by road users on the slowest 10% of journeys (for each link) made on the strategic road network compared with 2004-05 levels.

28. Over the next two years, the new PSA target for journey reliability will be the Agency's high-level external performance target in this area. The Agency will continue to monitor the performance of its Traffic Officers for internal purposes.

PAC conclusion (ix): Currently the Agency adopts the same cost benefit techniques to appraise all projects whether new roads builds, smaller construction projects or traffic management measures. The Agency should consider with the Treasury whether evaluations of traffic management measures should place more emphasis on the broader case for adopting them on the network rather than on producing and justifying business cases for each individual site where the measure might be appropriate.

29. The Agency accepts this conclusion.

30. All Highways Agency improvement projects are supported by business cases. These are based on guidance contained in 'the New Approach To Appraisal' (NATA) which considers the impacts of a scheme against the Government's five overarching objectives for transport: – environment, safety, economy, accessibility and integration. The NATA framework is used to appraise all transport schemes and therefore provides a consistent basis for comparison and prioritising between schemes. The extent of appraisal carried out on a given scheme depends on its complexity and costs.

31. The Agency recognises that it needs to be quicker and smarter in drawing conclusions from its trials. However, the requirements for acceptance and the wider use of measures are likely to remain more rigorous than in some other countries, to ensure value-for-money for the taxpayer.

PAC conclusion (x): The Agency has not aligned its technology strategy with its strategy for building new roads and widening existing ones, with the result that inappropriate and potential costly decisions have been made. The Agency started to install inappropriate signage technology in the South East through a decision to upgrade signs, but not to implement immediately the most sophisticated technology already being used in some areas in the North. This approach would have cost some £64 million more than phased introduction of the better technology and the Agency subsequently reversed its decision.

32. The Agency partly accepts this conclusion.

33. The Agency considers that it has taken decisions on the basis of the best information available at the time. In particular, it believes that it took a reasonable approach to investment risk when installing and upgrading signs in the South East, given the uncertainty surrounding the programme of motorway widening at that time. Motorway widening plans were under review through the Government's programme of multi-modal studies which were launched in 2000 and reported in 2003-04. Over this period there was uncertainty over which sections of motorway were likely to be widened and when. It would have been unwise to have installed costly technology which could subsequently have had to be removed to allow for widening. The Agency's technology strategy is now aligned with its Targeted Programme of Improvements.

PAC conclusion (xi): The Agency should target traffic management measures at the most congested parts of the network across the country as a whole rather than by region. Signage technology in the South East, for example, has fallen behind other regions even though the South East has some of the most heavily congested routes.

34. The Agency accepts this recommendation.

35. The Agency believes that traffic management measures have been targeted at the most congested sections of the network. However, owing to uncertainty over motorway widening in the South East (and particularly the M25), this region has had less investment in traffic management systems than, for example, the West Midlands and North West. The programme for investment from 2005-06 onwards set out in the Agency's leaflet on tackling congestion which it published on 24 June 2005 seeks to redress this imbalance.

PAC conclusion (xii): The Agency did not take advantage of the introduction of the Licensing Act 2003 to become a body to be consulted when promoters of events such as sporting or entertainments events apply to local authorities for a licence. As a result, it has not been well informed about likely traffic congestion arising from such events, and so has not been well prepared to deal with it. The Agency should take steps to become such a body.

36. The Agency partly accepts this conclusion inasmuch as it was disappointed not to have been made aware of the opportunity to be included as a statutory consultee when the Licensing Act 2003 was being drawn up.

37. Following the National Audit Office report, the Agency made representations to the Department of Culture, Media and Sport (DCMS) but DCMS did not consider that the Licensing Act 2003 provided a mechanism whereby a body could be a statutory consultee for selective licence applications, such as only those which were likely to have an impact on the trunk road network.

38. The Agency is still seeking to resolve this issue with DCMS and, in the meantime, works closely in partnership with police and local planning authorities so that it is made aware of major events likely to affect the network.

39. The Agency has a record of successfully working in partnership with the organisers of major events to mitigate the effects of generated traffic. Recent examples include:

- Introducing a contra-flow system on the A43 serving Silverstone over the weekend of the British Grand Prix;
- Dedicating two lanes of the Dartford Crossing for motorcyclists following the World Superbike meeting at Brands Hatch in August 2005; and
- Receiving praise from the organisers of Royal Ascot for making sure that drivers were well informed and that the network coped with greatly increased volumes of traffic when the event was held in York in 2005.

Twenty-sixth Report

Ministry of Defence

The Rapid Procurement of Capability to Support Operations

PAC conclusion (i): A third of Urgent Operational Requirements to support the war-fighting phases of operations in Iraq were to fill previously identified gaps in capability which the Department considered too low a priority to fund from its regular procurement budget. As part of its contingency planning the Department, working with potential suppliers, should routinely put in place suitable plans to mitigate the risk that known capability gaps cannot be filled in a timely and effective manner.

1. The Department accepts this recommendation in part. Owing to the asymmetric and dynamic nature of the present and future threat, it is increasingly difficult to predict where future conflicts will be fought, against which adversaries and under what specific conditions. The Department therefore considers that it is not cost-effective to buy equipment for every conceivable requirement. The Urgent Operational Requirement (UOR) process is the means by which the Department ensures that equipment needs are rapidly tailored to a particular operation.

2. As part of the Department's contingency planning, scoping studies are routinely carried out to assess the cost and time implications associated with procuring identified capability shortfalls. The MoD continues to work to ensure that it has effective means of procuring equipment from industry at short notice when required. The Capability Gap Register and the Joint Operation Priority List are already used to inform routine procurement as well as identify potential Urgent Operational Requirements. However, the MoD is careful to avoid introducing nugatory work into its existing processes. It considers that working up contingency plans with industry for every conceivable scenario on a "just in case" basis would be an open-ended and resource intensive task for both the MoD and industry. This would for the most part tie up the Department's front line and central staffs unnecessarily and possibly creating unrealistic expectations within industry.

3. The Department accepts, however, that its UOR acquisition process can be improved upon and continually looks to identify better ways of working with its industrial partners to facilitate rapid procurement when needed. The ability to satisfy UORs is being considered as part of the developing Defence Industrial Strategy (DIS). For example, DIS will consider (for key capabilities) whether the provision of technology from overseas could jeopardise our ability to practically source UORs in the timescales required.

PAC conclusion (ii): Over half of the Urgent Operational Requirements procured to support operations in Iraq are now planned to be retained permanently by the Department. Yet the Department's planning processes still assume that the equipments will be retained for just one year. Where there is a prospect that an Urgent Operational Requirement may be retained for longer than one year the Department should specifically consider longer term ownership costs in developing the business case to support its initial procurement.

4. The Department does not accept this recommendation as it runs counter to the principle which underpins the UOR procurement process; that identified capability gaps are filled *rapidly*. Although value-for-money arguments are taken into account,

when meeting a capability shortfall identified by means of an Urgent Statement of User Requirement, the Department is not aiming to buy equipment with the lowest long-term ownership costs but rather to acquire and deliver to the front-line the theatre-specific capability required in a time-frame commensurate with the operation. Although essential for routine procurement, identifying the cost of ownership associated with a given capability can be a resource-intensive process and increases the time taken to formulate a business case. If the equipment community were required to provide more long-term costings, this would risk delaying the delivery of urgently required equipment.

5. Furthermore, choosing or designing equipment with reduced whole life costs may increase the time and cost of procurement activity. In a significant number of cases, this would be wasted money. Fundamentally, formal consideration of the follow on cost of ownership for each UOR could jeopardise the key requirement to *rapidly* procure new capability.

6. The Department does however give careful consideration to longer-term support costs at the appropriate decision point down-stream, when deciding whether to retain capability procured through the UOR process. If equipment procured through UOR activity proves successful in theatre and if it is cost-effective to do so, it is retained rather than disposed of. The UOR process is, by design and necessity, a streamlined version of the Department's normal procurement processes and this is a key example of how it is achieved.

PAC conclusion (iii): With the on-going commitment of the Armed Forces to a wide range of operations, flexible and responsive means of supplementing or enhancing existing military capability are likely to become increasingly central to the Department's business activity. As a starting point, the Department should re-examine whether the Urgent Operational Requirement process should still be viewed as a separate activity from mainstream acquisition. If it decides to retain a separate Urgent Operational Requirement process, it should consider re-allocating existing resources to work directly for the Senior Responsible Owner, so he can better discharge his duty to provide for rapidly emerging equipment needs.

7. The Department has considered whether to reallocate resources to work directly for the Senior Responsible Owner (SRO) in the way suggested. It judges, however, that it would be inefficient to create a 'full' team specifically for this purpose as these resources would be under-utilised most of the time. The UOR process is a streamlined version of the usual procurement procedure, and as such the 'core' staff responsible for it are already identified and embedded within the Equipment Customer Area, as is the SRO. It is essential that this core team remains within the usual procurement process to retain coherency and to allow cross-fertilisation of the benefits derived from the UOR process and routine procurement activity. There are some resources already in place which are dedicated to the collation and scrutiny of UOR business, and the flexibility remains to divert staff from existing posts and to draw in the necessary expertise as and when the operational tempo dictates. At that point, UOR activity is the top priority of the Equipment Capability area and ultimately it takes precedence over core business as required.

PAC conclusion (iv): The Department has no system for comprehensively tracking the cost, timely delivery and use of Urgent Operational Requirements, and it had to undertake a one-off exercise to provide the information for this Committee's enquiry. The Department should introduce a management

information system to facilitate the full and timely capture of data on the progress of Urgent Operational Requirements and their effectiveness in use, and ensure it is accessible to the many different parts of the Department, such as the Equipment Capability Customer and Defence Procurement Agency, who require this information.

8. The Department accepts this recommendation. At the time of the NAO Report, the Department did not track UORs centrally but rather captured the information at the most appropriate point in the delivery chain. It considered reporting by exception to be an effective means of identifying and addressing capability shortfalls and retaining the flexibility, speed and ingenuity of the UOR process which have been praised by both the PAC and NAO reports.

9. However, recognising the need for increasing central visibility of the UOR process, the Department has since acted upon the NAO's recommendations and has introduced a shared database for UORs. The database is a centralised repository for all key information associated with the procured equipment such as UOR delivery date, cost and effectiveness. The Department is now using the system for all new UOR business and currently populating this unitary database with historical data where it is effective to do so. The database is hosted on the Defence Information Infrastructure (DII). Although available off-line to all UOR stakeholders, work is ongoing to allow live access for all.

PAC conclusion (v): The NAO's report identifies significant weaknesses in the current monitoring systems for Urgent Operational Requirements, which make it difficult to assess how well the existing processes are working and to identify how best to develop these processes and ensure they are applied to consistently high standards. The newly appointed Senior Responsible Owner should develop Performance Indicators covering both the efficiency of the various activities undertaken to cost-effectively deliver Urgent Operational Requirements when they are needed, and the extent to which the delivered equipments meet the operational needs of the Armed Forces.

10. Following the recommendations made by the NAO, an inaugural SRO-led audit of UORs was held in April 2005. It provided the opportunity for key stakeholders to review UOR policy and handling, consolidate lesson learnt and take stock of future UOR activity. A new Standing Instruction for the UOR process has been issued to improve end-to-end guidance for the process and to clarify roles and responsibilities. As part of this guidance, plans have also been drawn up by individual business units which outline the processes and activities specific to them.

11. A number of changes have been implemented to allow the SRO to gain assurance that the UOR process is efficient. The Standing Instruction, which is a living document, is subject to scrutiny by a wide-ranging body of stakeholders and Subject Matter Experts. It is reviewed annually and, as an evolving document, it is revised as necessary in accordance with emerging best practice. In addition, a Stakeholder Working Group convenes on a regular basis to review existing and emerging UORs and to ensure that the required capability is delivered to the right place at the right time. Finally, the constant monitoring of UOR data and the quest to incorporate lesson learned to improve the timeliness and effectiveness of UORs gives the SRO further confidence in the process. It is felt that the design of specific additional metrics would not add corresponding value but would introduce an administrative and bureaucratic burden into an already taut process.

PAC conclusion (vi): In a number of cases, notably the urgent procurement of Global Positioning Systems, the Department met a proportion of its requirements by procuring lower capability commercial systems which met the required performance at a tenth of the cost of the military version. As part of its regular procurement activity the Department should examine the costs and benefits of utilising commercial off-the-shelf equipments to meet its requirements.

12. The Department accepts this recommendation in part; however, in some cases the specific military requirement means only bespoke equipment will provide the capability needed. In the normal procurement cycle, both Commercial-Off-The-Shelf (COTS) and Modified-Off-The-Shelf (MOTS) solutions are already routinely considered as procurement options. Agile Acquisition, which is being introduced as part of the Acquisition for Network Enabled Capability (AfNEC) change project, encourages an evolutionary approach to capability uplift, driving projects towards technically mature off-the-shelf procurement solutions where appropriate.

13. In the case of the GPS systems that were procured for use in Iraq, the Department accepted the significantly reduced performance afforded by the commercial equipment in order to get the large quantities of kit commensurate with the scale of the operation to theatre quickly. Although the initial purchase costs of the civilian specification GPS were lower than those of the military GPS variant that was also used in Iraq, the latter provides the high degree of accuracy and precision required by our Armed Forces and has much lower whole life costs associated with it, and therefore represent better value-for-money in the longer term.

PAC conclusion (vii): Many of the Urgent Operational Requirements to support operations in Iraq were successfully developed and introduced into service in very short time-scales. Much of the Department's regular procurement is to deliver items of similar cost and complexity, yet takes much longer. The Department should examine what lessons it can learn from its flexible approach to Urgent Operational Requirements, including the less bureaucratic streamlined processes used to conduct competitions, and apply these more consistently to its routine procurement activities.

14. The Department accepts this recommendation in part and would wish to see the benefits of the UOR procurement system transferred to routine acquisition where it is appropriate to do so. For instance, the Department already has a streamlined procurement process for lower cost programmes, which are of a similar value to capability procured under the UOR process. Agile Acquisition encourages an evolutionary approach, similar to that adopted for many UOR purchases, as part of a programme of capability uplifts. However, while there are lessons that the Department can learn from its flexible approach to UORs, there are sound reasons for the differences between the urgent and routine procurement processes. For instance, a key difference between regular procurement and UORs is that the latter are procured for a very specific role, whereas, by definition, regular procurement has to consider a wider set of scenarios and possible uses for the equipment, meaning a more complex and potentially longer procurement path.

PAC conclusion (viii): Under the pressure of conflict, the Department and its industrial partners have shown considerable resourcefulness in coming up with good solutions to address urgent shortfalls in capability. The delivery of equipment such as the Shallow Water Influence Mine-sweeping System showed how the Department and industry can innovate quickly and economically. These successes contrast with the recurring interminable time and cost

problems reported regularly in the Major Projects Report. The Department needs to refresh its approach to its mainstream procurement activities to capture the verve and élan it regularly demonstrates in a crisis, with timely solutions that work instead of an open-ended quest for perfection.

15. The Department accepts this recommendation in part; staff within each of the specialised equipment areas carry out both UOR and regular procurement activity precisely so as to allow the cross-fertilisation of experience and expertise between routine and accelerated acquisition. However, it is not a fair comparison to contrast the major projects, such as the Typhoon Programme, which owing to the necessary complexity of the technologies involved, spend a long time in development, with UORs, which tend not to be as technically demanding and therefore not as expensive, often involving technologies which are already proven and available off the shelf.

16. Whilst the Department is glad that the PAC report acknowledges its record of excellence in equipment procurement, it would wish to challenge the assertion that it pursues “an open-ended quest for perfection.” The Department strives to equip the Armed Forces, within defined cost and time parameters, with the capability they require to defend the interests of the United Kingdom at home and abroad. In the case of UOR activity, time is the key driver; the aim is to ensure that equipment needs are rapidly tailored to a particular operation and delivered into theatre as quickly as possible. However, routine procurement often involves larger and more technically complex capabilities with an in-service life of several decades, meaning that the balance between time, cost and performance is necessarily more complicated.

17. The Department is however constantly working to improve and build upon the principles of Smart Acquisition and work is in hand to look at transferring efficiencies gained in the UOR process to routine procurement practices. For instance, there are initiatives such as the AfNEC project which aims to foster Agile Acquisition by applying many of the lessons learnt from the evolutionary and flexible nature of the UOR process. Programme teams are also being established under this project to address how best to improve military capability across projects and Lines of Development.

Twenty-eighth Report

Department for Transport

Network Rail: making a fresh start

The Department took a conscious decision when Railtrack was put into administration not to have a network operator in the public sector. This option, along with other structural reforms, was also considered in the Rail Review that led to the *Future of Rail* White Paper and the Railways Act 2005. The Department concluded that the key features of Network Rail (NR) – a company with a private sector status and ethos, but ‘not for dividend’ and answerable to a membership representing rail stakeholders and the public interest – remained appropriate.

Network Rail has vindicated this decision to date; it is on course to deliver the 31% efficiency saving target set by the Office of Rail Regulation (ORR) while train punctuality performance has increased almost back to 85%. It has however, a lot more to do in fully delivering its efficiency target and in making further improvements to train performance, as well as meeting other challenges arising from the Rail Review. The Department believes that the reforms in the Future of Rail white paper and the Railways Act 2005 provide a structure that should allow Network Rail to tackle these issues effectively.

PAC conclusion (i): The Department will need to set strategy more effectively than did the SRA. The SRA was over reliant on Network Rail’s own commitment to strategic goals, but Network Rail remains in a strong position to pursue its own agenda.

1. The report recognises the fundamental change introduced in the Railways Act 2005 to give the Secretary of State responsibility for deciding the key outputs to be delivered on the railway – and the resources available to achieve this – over each 5 year Control Period.
2. This provides an important opportunity for the Government, not available to the SRA, to set strategic goals for the whole industry. It also provides a new mechanism for the Department to work closely with Network Rail and the Office of Rail Regulation in the development of the High Level Output Specification (HLOS). The Department intends to use this development process to give Network Rail a better understanding of our strategic goals and, at the same time, inform ourselves of how Network Rail proposes to deliver them. The objective is not simply to produce a clear set of objectives but to underpin these with a thorough shared understanding of how they will be delivered and what they will cost.
3. The Secretary of State’s proper role is as principal public sector customer and funder of the railway, acting on behalf of taxpayers. Scottish Ministers are also a key public sector customer and funder. NR has a range of other customers including freight and open access operators and, of course, fare paying passengers. In future, it will be for the funders to decide what they want to buy from the railway, through the HLOS. It is for ORR, as independent economic regulator, to establish what Network Rail needs to do to deliver the HLOS, to determine a fair price for Network Rail to do this, and to take enforcement action if the company fails to deliver. The White Paper and Railways Act 2005 clarify and strengthen this customer-supplier relationship between the Department and Network Rail as a private sector company operating at arm’s length.

PAC conclusion (ii): In taking on its new responsibilities, following the abolition of the SRA, the Department should recruit enough staff with commercial and technical skills and with the stature necessary to deal effectively at the highest levels of the railway industry. The new framework will not be likely to lead to improvements if the Department treats this new function as a routine civil service task.

4. The Department agrees with the recommendation. To be successful, it must be resourced appropriately to carry out its new roles, for example in preparing the HLOS as well as in letting and managing passenger rail franchises.

5. Dr. Mike Mitchell was appointed as the new Director-General Rail in February 2005 after an open competition, in a process managed by the lead Civil Service Commissioner, Baroness Prasha. Dr Mitchell has over 30 years' experience in the transport sector working with British Rail and FirstGroup. The Department has also appointed a number of other individuals with direct commercial and technical experience of the rail sector to positions in the new Rail Group.

6. The Rail Group is made up of 250 posts with a further 50 posts in related areas of the Department. Good progress is being made in filling posts, with a full complement expected shortly. Two thirds of posts filled have been recruited from the SRA and about a quarter from the Department. The remaining posts, including technical and commercial staff, have been advertised in national and specialist media. The Department has also been successful in working with the rail industry to arrange a number of secondments.

7. Those with appropriate commercial and technical skills elsewhere in the Department will also work closely with the Rail Group where needed, for example the Corporate Finance Director and team.

PAC conclusion (iii): Network Rail should develop long term financial indicators to help judge whether it is meeting its performance objectives in a cost effective way over time. These should help Network Rail manage the cost of track maintenance and renewal over time, after taking account of the number of passenger miles undertaken. Adjusted for differences such as the age of the network, such measures would also facilitate regional and international comparisons.

8. A number of indicators are used to assess Network Rail's *overall* financial performance. These allow an assessment of the company's financial performance over time through an examination of actual or projected movements in their values. In comparison, a simple measure based on maintenance and renewal costs per passenger mile would have a number of disadvantages: for example it could mask inefficiency or a failure to renew the network adequately. Moreover, some of the indicators are essentially 'balance sheet measures' which should reflect the cumulative impact of long term financial performance. These indicators are assessed at periodic or interim reviews and also on a continuing basis through their inclusion in reports such as the Regulatory Accounts, the Network Rail Monitor and Network Rail's Business Plan.

9. ORR establishes, monitors and enforces targets for Network Rail. ORR and DfT both recognise the importance of securing sustained long-term cost reductions in order to minimise the financial burden of the railway on the taxpayer. Access charges reviews (ACR), undertaken periodically by ORR, already set out clear expectations of the rate of efficiency improvement by Network Rail. The ACR2003

final conclusions expect Network Rail to measure its unit costs and to monitor its progress against ORR's assumption that it should be able to reduce its unit costs by 31% by the end of Control Period 3 (2009). Early indications suggest that NR is delivering the required efficiency savings, although clearly much more work is needed to achieve the full 31%. The next ACR will establish the efficient cost of Network Rail's activities through Control Period 4 (to 2014) and an indication of the position for Control Period 5 (to 2019).

10. Lowering the cost of the railway remains a priority. In order to ensure long-term financial efficiency ORR is working with Network Rail to develop a more comprehensive measure of expenditure efficiency, based on the unit cost of delivering a wide range of Network Rail's activities. To ensure that Network Rail's financial savings do not detract from its performance objectives ORR monitors the causes of any Network Rail underspend to ensure financial efficiency is the product of outperformance and unit cost reduction not under-delivery of outputs or of work needed to sustain the network over the longer term.

11. ORR will closely monitor Network Rail's level of spending, the causes of any underspend/overspend, whether it has delivered its output targets and unit costs and its progress in reducing these in line with ORR's unit cost efficiency assumptions in the ACR2003.

PAC conclusion (iv): As the Department ultimately stands behind Network Rail's financial liabilities, it should establish effective oversight of the risks. The Department cannot rely on regulatory oversight to protect its financial risk, as the Office of Rail Regulation (ORR) has to balance a wide range of interests. The Department for Trade and Industry has a similar responsibility for the risks to the taxpayer arising out of British Energy's financial performance. The DTI's Shareholder Executive is predominantly staffed for that function by experts with an investment background, separate from the civil service teams that deal with policy and regulatory matters. There could be advantages in following a similar model in this case.

12. The Railways Act 2005, in providing for the Secretary of State to set the railways' high level outputs and to specify its budget, changed the nature of risk associated with Network Rail financial performance, transforming this from a budgetary risk to the Department of Transport into a service risk to the user.

13. The Department considers that the arrangements it has in place, following the Rail Review, provide it with effective oversight of any residual risk that Network Rail's performance ultimately results in financial liabilities to Government. These arrangements include the Department being party to information that is provided by Network Rail to ORR under the regulatory body's monitoring requirements, which have been made more thorough in recent years. They also include the Department's own reporting requirements with Network Rail.

14. The Department agrees that it is important to understand and learn good practice in assessing financial risks from other bodies within Government. Notwithstanding this, the relationship between DTI and British Energy is not particularly analogous. The context of the relationship differs from that of the relationship between the Department and Network Rail in a number of important respects, but in particular that British Energy is not price regulated by an independent regulator.

15. The Department believes that ORR plays a very important role in monitoring and protecting government against the financial risks that could ultimately fall to it. In this respect, ORR has a duty to have regard to the funds available to the Secretary of State. It also has a duty to have regard to Network Rail's financeability, which in turn reduces the prospect of financial failure. As described above, in exercising these duties, ORR performs significant monitoring of the company's financial performance through such means as Network Rail's business plan and the Network Rail Monitor, supported in some cases by licence conditions. It also seeks that the company has appropriate incentives and governance arrangements to encourage good financial performance. Whilst ORR does have a number of diverse duties to balance, these objectives receive equal priority and the Department is confident that ORR provides effective oversight in these areas.

16. The Department's oversight of these risks needs to leave it still at arms length from Network Rail. It is important for the efficiency of the company's performance – and therefore ultimately for the efficiency of Government funding – that Network Rail, as a private sector company, is allowed to exercise appropriate discretion in managing the risks and finances of its business without excessive intrusion and interference. This is also important in supporting the independence and stability of Network Rail's regulatory environment and thereby, over time, investors' perception of the company's credit quality.

PAC conclusion (v): The Government should justify explicitly the extra cost of private finance rather than conventional public funding of Network Rail. The new arrangements are less costly than the company's previous plans because they now benefit from direct Government support. They are still more expensive than direct public sector financing. It is not clear how private sector lenders can provide the necessary discipline on the company to offset the extra cost of private finance.

17. The Department considers that the arrangements it provides for supporting Network Rail's debt are justified by achieving efficient financing costs for the company whilst giving it a genuine private sector character.

18. The cost of capital achieved by Network Rail under the Government's Financial Indemnity is around 20 basis points above gilts. This shows that the cost of Network Rail's debt under the Financial Indemnity is much closer to that achievable from direct public sector financing than it is to the level of interest rates associated with private sector debt that does not benefit from government support. The extra cost of private finance is therefore relatively small.

19. At the same time, Network Rail's performance to date suggests that they are making good progress in delivering the very significant efficiency savings set at the last regulatory review, whilst improving output measures such as train performance at the same time. Network Rail's achievement of these cost and output improvements will be of very significant value to government.

20. In starting to deliver in these areas, Network Rail is demonstrating the sort of behaviour that is expected from a private sector company responding to incentive regulation. Experience has shown that public sector bodies do not respond nearly as effectively. Ensuring the company remains part of the private sector, in part by financing through private sector capital, serves to reinforce the private sector ethos, which we believe will be vital to success.

Twenty-ninth Report

HM Revenue and Customs

Inheritance Tax

Until April 2005, responsibility for Inheritance Tax was vested in the Inland Revenue. The Commissioners for Revenue and Customs Act 2005, which received Royal Assent on 7th April 2005, provided the legal basis for the new integrated Department, HM Revenue and Customs, which was launched on 18th April 2005. HM Revenue and Customs exercises the functions previously vested in the Inland Revenue and HM Customs and Excise. References below to “the Revenue” cover both the functions of the Inland Revenue up to 18th April 2005 and the new HM Revenue and Customs (HMRC).

PAC conclusion (i): The Revenue has no measure of the gap between the Inheritance Tax theoretically payable and the actual amount collected, but it now intends to draw on the experience of the US Internal Revenue Service to estimate the tax gap on undeclared or under-valued assets. It should also analyse data it collects on the composition of estates to identify cases for enquiry where there is an unusual mix of assets.

1. The Department accepts the need to develop an improved estimate of the Inheritance Tax (IHT) gap and, as part of a wider programme to improve its understanding of the direct tax gap, this work is already under way. Enquiries on which the estimate will be based take time to settle but the Department hopes to have indicative results by the second half of 2006.

2. The Department is examining how best to identify estates that have an atypical mix of assets, so that it can make that part of the risk assessment process.

3. PAC conclusion (ii): The 2004 Finance Act introduced new disclosure obligations on those marketing some avoidance schemes, but so far the regulations do not apply to Inheritance Tax schemes. The Revenue currently monitors artificial schemes and seeks to block them through litigation or changes in legislation. The Revenue should consider extending the regulations on disclosure to Inheritance Tax avoidance schemes.

4. The Department notes this recommendation. The Government remains committed to tackling abuse of the tax system, including tax avoidance. The disclosure rules sought to increase transparency in the marketing and use of certain tax avoidance schemes, to enable more effective targeting of tax avoidance. The Department keeps the disclosure rules under review and will recommend appropriate action where necessary.

PAC conclusion (iii): The average penalty levied after applying abatements has been only 7% of the maximum available, rising to 12% in cases where the Revenue discovered the negligence. The 1999 Finance Act increased the maximum penalties for fraud or negligence in Inheritance Tax. The Revenue should also restrict abatements of penalties, not only to encourage representatives to disclose errors voluntarily, but also to deter them from being negligent in submitting inaccurate returns in the first place.

5. The recommendation is accepted. HMRC Capital Taxes has re-organised the way it handles penalty cases to ensure a consistent approach to culpability and the level of penalty applied. The system of abatements it uses is based on the approach adopted across the whole direct tax system. Changes to that will be considered as part of the overall review of powers announced by the Paymaster General during the second reading of the Commissioners for Revenue and Customs Bill.

PAC conclusion (iv): In recent years the Revenue has processed Inheritance Tax cases more quickly, and reduced the backlogs of long-outstanding cases, but it still has nearly 900 cases over three years old and 83 over ten years old. The Revenue has invariably secured the co-operation of representatives once it has issued directions to obtain information, but since 1999 it has only used these powers on 82 occasions. The Revenue should set targets to reduce further the number of long-running cases, making full use of its powers to issue directions to secure the information it needs to conclude enquiries.

6. These recommendations are accepted. HMRC Capital Taxes has reduced the number of cases over ten years old to 54 and it now has under 800 over three year old cases. By March 2006 the aim is to have reduced the number of over three year compliance cases from 569 in April 2005 to 300. Separate targets have been set to reduce the numbers of cases that are more than two years old. The management of older cases is being changed to achieve these targets and that includes making earlier use of directions where that is appropriate.

PAC conclusion (v): Given the difficult circumstances in which people have to deal with Inheritance Tax, the Revenue should make it as easy as possible for representatives to meet their obligations. The Revenue has improved the tax returns, but the main form is still difficult for the lay representative to complete. The Revenue could simplify the language and the layout. In redesigning the forms, it consulted Inheritance Tax professionals. It should make forms easier to complete, also taking into account the views of lay representatives.

7. The Department accepts this recommendation. The main form is designed to collect the information HMRC needs to calculate the Inheritance Tax due and so minimise subsequent requests for additional information. The form will be revised this year to reflect the requirements of the Civil Partnership Act.

8. HMRC will bring forward the next full review of the form with a view to making the layout design and language more accessible. So that customers are not presented with too many revisions, it will take that opportunity to re-brand the form following the creation of the merged department. After consultation with both professional & non-professional representatives, HMRC expects the new form will be available for use in the first half of 2007.

PAC conclusion (vi): The Revenue should co-operate with other departments to develop a co-ordinated bereavement website, providing all the information and advice people need when dealing with the death of a relative. Such a website could help people to deal with the various authorities they need to contact when someone has died. It might include an electronic service for filing Inheritance Tax and probate returns.

9. The general thrust of this recommendation is accepted. HMRC is working with other government departments in implementing the recommendations of the Regulatory Impact Unit's "Making a Difference – Bereavement" report. One of the

activities already underway is that of producing new customer focused content for the Directgov website (www.directgov). By the end of 2005 the site will provide access to the main information needs of bereaved people and will link to other websites including that of HMRC.

10. Other priorities mean that the Department will not be able to offer an electronic filing service in the immediate future, but it is looking at other ways in which it might improve its electronic communication with customers in the meantime.

PAC conclusion (vii): As well as responding to individual enquiries, the Revenue should make it easier for people to obtain guidance on Inheritance Tax from its website and leaflets. More information might be provided on the acceptability or otherwise of the more common types of avoidance schemes, and attention could be drawn to websites that representatives can use to value properties without the expense of professional valuations. There are also uncertainties about how properties funded by Islamic mortgages should be valued for Inheritance Tax purposes and the Revenue should consider issuing general advice on their tax treatment.

11. These recommendations are accepted. HMRC is increasing and improving the amount of guidance available on its website. The joint IHT and Probate Helpline is dealing with an increased number of enquiries and surveys demonstrate how much customers value this service. The extent to which HMRC will comment on tax avoidance is limited by the general policy not to comment on the effectiveness of tax avoidance schemes.

12. HMRC is looking to identify other Government websites that would assist people in arriving at accurate valuations of land and property and the Directgov website will provide an opportunity to promote greater awareness of IHT rules and requirements including the importance of having a will.

13. HMRC will publish additional guidance about the treatment of Islamic mortgages.

PAC conclusion (viii): The requirement to pay Inheritance Tax before probate can be obtained is an important safeguard, but it has been a problem for representatives who have had to obtain a loan to pay the tax. The Revenue has provided a facility to pay by instalment and arrangements to access funds held in an estate's bank accounts. But it does not have information on how many estates still have insufficient liquid assets for representatives to pay the tax and secure probate. It should review the extent of the problem.

14. HMRC accepts this recommendation and work has already started on this review.

PAC conclusion (ix): The Revenue has so far renegotiated better public access with 16 of the 44 owners with the more significant collections of exempt chattels, but it could do more. The 1998 Finance Act introduced a higher quality standard for exempting chattels and a requirement for some degree of open access for the public. Now that the Special Commissioners have upheld the principle that it could review existing agreements, the Revenue should use its powers to negotiate better public access to all significant collections of tax-exempt heritage chattels.

15. HMRC accepts this recommendation. The Special Commissioners made it clear that any variations of the access arrangements should not place unreasonable burdens on owners. In particular they should not lead to significantly greater risk to the safety and security of the owner's household, or to the loss or damage to the possessions found there, or to the owner being exposed to unreasonable costs or inconvenience.

16. HMRC Capital Taxes has discussed with representative bodies the balance that has to be struck between the interests of owners and the public. There is general agreement that it may be possible to achieve better public access to significant collections of conditionally exempt objects via schemes such as Heritage Open Days. The Department does not expect negotiations to be swift or straightforward. But including the 44, it expects to examine the possibility of additional access in about 150 cases.

Thirtieth Report

Department of Health

Reforming NHS Dentistry

PAC conclusion (i): The Department has set itself an ambitious programme for reforming NHS dentistry. Some key milestones have been missed, and the planned introduction of the new base contract was deferred by six months, to October 2005..... Primary Care Trusts will need to give high priority to developing sufficient expertise in dentistry if the Department is to meet its new target of April 2006.

1. The Department accepts the main parts of this conclusion. Following the NAO report and the Committee hearing, we announced that we were deferring the start of the new arrangements by six months in order to allow Primary Care Trusts (PCTs) and dentists more time to develop a closer working relationship. The British Dental Association (BDA) welcomed this announcement.

2. The Department is on track to complete the main elements that will be needed at national level to support the new local commissioning arrangements. The consultation on patient charges began on 7 July 2005 and closes on 30 September 2005. Draft regulations covering new General Dental Services contracts and Personal Dental Services agreements were published on 1 August, along with an explanatory guide, to allow dentists and other interested parties as much notice of the proposed new arrangements as possible. The draft regulations include details of how weighted courses of treatment (or ‘units of dental activity’) will be calculated and how these will underpin the new local contracts between PCTs and dentists. We have indicated that we will issue PCT budgets for dentistry by the end of November 2005, together with information on the Minimum Annual Contract Values that dentists can expect from the new arrangements.

3. PCTs already have some experience of commissioning local primary care dental services, based on their experience of Personal Dental Services pilots – and drawing as well from their experience of commissioning other primary care services including General Medical Services. Over 2,300 practices (26 per cent of all practices) are now practising in PDS, with over 6,700 dentists (32 per cent of all dentists).

4. The Department has nonetheless recognised the need to develop further expertise in commissioning dental services, and we agree that Primary Care Trusts need to give this high priority. The Department has enlisted *NHS Primary Care Contracting* to provide support to PCTs in developing commissioning capacity and expertise.

PAC conclusion (ii): The Department is proposing to move from patient charges for 400 different items of treatment, to a small number of price bands. This radical upheaval to the historical system of charging may have unintended consequences both for dentists’ willingness to provide treatment and for patients’ willingness to pay..... The Department will need to pay close attention to the results of their consultation on dental charging if they are to emerge with a system which commands the assent of all parties.... [It] will also need to avoid creating incentives to offer private treatment to registered NHS patients at a lower cost than the NHS charge... The Committee is concerned that the time needed for the consultation and ministerial debate will leave little time for convincing dentists to agree to the new charges by April 2006....

5. The Department agrees that it will need to pay close attention to the results of the consultation.

6. The proposed new system of patient charges is based on the recommendations of an expert group led by Harry Cayton, the National Director for Patients and the Public. The group's work involved considerable input from patient representatives and other stakeholders. Consumer groups, including *Which?*, *Citizens Advice and Help the Aged*, have welcomed the simplicity of the proposed new system. The consultation closes at the end of September and we will, of course, look carefully at the responses received.

7. In doing this, we shall of course pay careful attention to views given by dentists and - in presenting final regulations (for consideration by Parliament) – ensure that there is time to explain to the profession the rationale for the new system and for any changes made following consultation. We anticipate, however, that the more significant factor affecting dentists' decisions on whether to accept new contracts will be the details of the contractual regulations. The proposed charging system does not alter the levels of gross NHS income to which practices will be entitled, nor the number of weighted courses of treatment (or 'units of dental activity') that they are expected to provide in return for this annual contract value, nor their right to exercise their clinical judgement to decide what care or treatment to provide within these courses of treatment.

8. The Department has considered potential unintended consequences associated with the proposed new charging system and has set out some of the issues in the partial Regulatory Impact Assessment (RIA) published with the consultation document¹. The full RIA will give further consideration to these issues in the light of the public response to the consultation.

PAC conclusion (iii): Dentists will no longer have a financial incentive to try and collect debts from patients who fail to pay the correct NHS charges for the treatments they receive because, under the new system, dentists' income is guaranteed for three years and is not dependent on the level of charge income. Primary Care Trusts will need to monitor outstanding debt to see whether dental practices are as rigorous in collecting payments... as they were under the old system...

9. The Department does not fully accept this conclusion. Dentists' contract values will be calculated in gross terms, i.e. before taking into account charges collected from patients. The monies due to be collected as patient charges will then be netted off the monthly payments that dentists receive from the NHS. Failure to collect patient charges would have a direct impact on the dentist's net income.

10. To demonstrate they are carrying out the levels of activity agreed in their contracts, dentists will need to submit data showing the types of course of treatment they have undertaken. Because of the link between weighted courses of treatment and patient charge bands, these forms will also indicate what level of patient charge is due (if the patient is liable to pay charges). This will considerably strengthen the arrangements in many of the current Personal Dental Services pilots, where the absence of an agreed activity measure has clearly weakened the incentives for practices to collect charge income promptly and efficiently.

¹ <http://www.dh.gov.uk/consultations/liveconsultations>

11. We agree nonetheless that PCTs will need to monitor levels of activity and charge income against the levels anticipated – and work with practices to understand the reasons for any shortfalls against expected levels of charge income.

PAC conclusion (iv): The move away from a system where dentists are paid per item of treatment will mean that the Dental Practice Board will no longer be able to monitor dentists' performance by collating information on treatments carried out..... The new arrangements being introduced by the Dental Reference Service will need to provide effective accountability arrangements, including clinical audit and evidence based quality assurance arrangements...

12. The Department does not fully accept this conclusion. The Business Services Authority (which will take over the functions of the Dental Practice Board from April 2006) will collect information on PCTs' behalf about the number and type of courses of treatment carried out by dentists. This will not provide as much detailed information about treatment as is currently collected, but it will nonetheless provide the key measures that PCTs will need to monitor contract performance.

13. As the Committee acknowledges, the Department has already revised the role of the Dental Reference Service to ensure that its role reflects the changing nature of dentists' NHS contracts. We will continue to work with the Dental Reference Service to ensure that the services it provides support PCTs in discharging their responsibilities for clinical audit and quality assurance.

PAC conclusion (v): Indicators of oral health, which have tended to focus on children, show that children in England average lower levels of decay than their European neighbours, but with strong regional variations in the extent of dental decay in adults and children.....

14. The Department accepts this conclusion. The Government is committed to reducing inequalities in health, including oral health. The Health and Social Care (Community Health and Standards) Act 2003 gives PCTs new functions in relation to dental public health in their area. One of the aims of the new contractual arrangements is to support PCTs in promoting oral health by enabling them to commission a wider range of services than those provided for in the current system of dental remuneration based on items of treatment.

15. At a population level, the fluoridation of water offers the best prospect of reducing inequalities in oral health. Strategic Health Authorities (SHAs) now have the power under the Water Act 2003 to fluoridate the water supply, where the SHA can demonstrate a local consensus. The Department issued guidance on fluoridation to the NHS on 8 September 2005.

16. We are also developing an oral health plan, encompassing best practice guidance for PCTs. This will give clear advice to PCTs on how to reflect oral health needs in their commissioning of dental services and how to develop preventive programmes (working with partners across regional and local government and the voluntary sector). It is also aimed at helping people adopt healthy choices, thereby keeping more of their teeth for life.

PAC conclusion (vi): Poor oral health tends to be associated with social deprivation, and some deprived areas have relatively few dentists as it can be difficult to attract them to set up practices in these areas..... The Department should consider whether initiatives such as using access centres and mobile dental units... have been given a sufficiently high priority under the new system. Primary Care Trusts will need to use their new commissioning responsibilities... to influence dentists to provide NHS dental services in areas of greatest oral health need.

17. The Department accepts this conclusion. We agree that PCTs will need to use their new commissioning responsibilities to influence dentists to provide NHS dental services in areas of greatest oral health need. From April 2006, the new local commissioning arrangements will give PCTs greater influence over where new dental services are established and what form these should take (which could include considering dental access centres or mobile units). Over time, this will increasingly enable PCTs to attract new dentists to areas of greatest need. By contrast, the current system allows dentists to set up a practice when and where they want and provide NHS services to the extent they wish.

18. The 2003 Water Act now requires Water Companies to fluoridate water supplies if SHAs can show there is support following appropriate local consultation. We hope that PCTs and SHAs in areas of high dental diseases will take up the opportunity of consulting on fluoridation and, where there is local support, implementing new schemes.

PAC conclusion (vii): The Department has not attempted to assess demand for NHS dentistry, although it estimates that currently there are about two million people who would like to register with an NHS dentist but are unable to do so.... Strategic Health Authorities and Primary Care Trusts need to improve their understanding of both need and demand for local NHS dental services through modelling the requirements of their local health economies.

19. The Department agrees that SHAs and PCTs need to improve their understanding of need and demand for local NHS dental services. The dentistry support team established by the Department has worked with a number of PCTs to help set up or use help lines to identify patients who are looking for routine access to an NHS dentist.

20. One of the intended benefits of the new commissioning arrangements is to provide a basis for PCTs to make steady, sustained improvements in access to services. We consider that the application of the new guidelines issued by the National Institute for Clinical Excellence (NICE), combined with a move away from the item of service ‘treadmill’ for which the current General Dental Services arrangements have been criticised, will generate capacity that can be used to improve access to NHS dental services. At the same time, we agree that PCTs will be best placed to address access issues where they have modelled need and demand within their local health economy.

PAC conclusion (viii): Matching demand and supply of NHS dentists over the long term is dependent on the Department and Primary Care Trusts developing a clear understanding of dentists’ reasons for switching to PDS contracts in advance of the new contracting arrangements. The Department should undertake a survey... to understand more fully their reasons and determine whether the expected increase in commitment is being realised.

21. The Department supports this conclusion in principle, but considers that PCTs are best placed to review the experience of PDS pilots with local dentists. At a national level, the Department has already taken into account the main learning from PDS pilots in developing the new contractual framework for local commissioning.

22. PCTs will be better able to match demand and supply in the future because they will have the responsibility for local commissioning of services. The current distribution of services has been determined by dentists’ business decision as to where to establish a practice. In the future when a contractor ceases to provide NHS services locally the resources will return to the PCT and the PCT will be able to use these resources to commission new dental services. Over time this will give PCTs greater influence over where new services are established.

23. The new contractual framework to support PCT commissioning is designed to make available to all dentists many of the benefits that some dentists have already derived from PDS agreements, including the move away from a system driven by 'item of service' payments, the opportunity this provides to spend more time with patients and more time on preventative work, and greater certainty and stability of NHS income.

24. We agree that PCTs will benefit from reviewing PDS pilots with local dentists and building on this experience to ensure that all local dentists are able to realise these benefits through the new local commissioning arrangements.

PAC conclusion (ix): England has one of the highest ratios of people to dentists of all the European Union and G7 countries, and in 2002 the Department estimated that in 2003 there would be a shortage of 1,850 dentists. The shortfall in dentists is being met in the short term by international recruitment initiatives. In the long term the Department is increasing the number of dental training places by 25% and is quadrupling the number of dental therapist places. The Department needs to explore options for incentivising these additional dentists to commit to the NHS.

25. The Department accepts this conclusion. The Department has implemented a major programme of recruitment over the last year. We expect to meet our target of recruiting 1,000 whole time equivalent dentists by the end of October. In the longer term we are addressing overall dental workforce capacity through a 25 per cent expansion of undergraduate places from October this year. We will continue to explore options for maximising the NHS commitment of these additional dentists.

26. Skill mix is intended to play a key part in addressing potential shortfalls in supply. This is one of the factors driving the major expansion in dental therapist training to which the Committee refers in its report. Dental therapists and dental hygienists are already required to be registered with General Dental Council and may undertake certain defined functions involving the practice of dentistry. An Order made in July 2005 empowers the GDC to register additional classes of dental care professionals including dental nurses, dental technicians and clinical dental technicians. The Order also gives the GDC more flexibility in regulating both the practice and business of dentistry. These changes, which will start to come into effect during 2006, will give new impetus to the development of team working in dentistry.

PAC conclusion (x): The Prime Minister's pledge that everyone should be able to see a NHS dentist by phoning NHS Direct requires up to date information on dentists' capacity, but the data provided to NHS Direct by Primary Care Trusts is often out of date.... Primary Care Trusts need to... develop a more accurate system of providing the necessary data. NHS Direct should introduce a feedback system so that it can track the accuracy and effectiveness of its advice.

27. The Department accepts this conclusion in principle. We are working with NHS Direct to improve the quality of the data held on availability, taking account of the current difficulties that arise from variations in practice acceptance policies. The new local commissioning arrangements will provide a better opportunity for PCTs and practices to work together to agree ways of providing accurate and up-to-date information about capacity.

28. New provisions in the Health and Social Care (Community Health and Standards) Act 2003 will require the PCT to publish information about the services for which it makes provision in its area.

PAC conclusion (xi): The National Institute of Clinical Excellence's 2004 advice on changing the dental recall period, from the 6 months used by most dentists to between 3-18 months depending on clinical need, should also help free up capacity. There is however a risk that the existing incentive for dentists to see their patients too often will be replaced by an incentive to reduce patient visits to below the optimum frequency for oral health. The Department should provide posters and leaflets... so that patients understand any proposed variation in their recall period.

29. The Department accepts this conclusion in principle. As indicated above, we agree that the application of the NICE guidelines should be an important factor in generating capacity that can be used to improve access to services. The recommended recall period varies from 3-24 months (not 3-18 months) for adults.

30. We are developing a patient communications strategy, which will seek to address the most effective and cost-efficient ways of explaining the guidelines to patients.

PAC conclusion (xii): There is a lack of consensus on suitable measures of oral health.... The National Audit Office used an Oral Health Index devised by the University of Birmingham... The Department should consider adopting this index, or agree on a more suitable oral health measure.

31. The Department accepts the need to improve the range of oral health measures available to PCTs. There are already a number of established oral health measures, including those derived from the decennial surveys which the Department commissions of child and adult dental health. For children, there are also the NHS surveys coordinated by the British Association for the Study of Community Dentistry. These are conducted at more frequent intervals and provide data on the prevalence of dental disease for individual PCTs.

32. The Department accepts that PCTs will require more detailed data to monitor the effectiveness of local commissioning in putting new emphasis on prevention. We are currently developing guidance for PCTs on evidence-based good practice in improving oral health.



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