



HM TREASURY

TREASURY MINUTES

Government responses on the Twentieth, the Twenty Third
and the Twenty Fifth Reports from the Committee of Public
Accounts Session: 2012-13



**Treasury Minutes on the Twentieth, the Twenty Third and the Twenty Fifth Reports from the Committee of Public Accounts
Session 2012-13**

20th Report Offshore electricity transmission: a new model for
delivery infrastructure
(Energy)

23rd Report Contract management of medical services
(Work and Pensions)

25th Report Funding for local transport: an overview
(Transport)

**Presented to Parliament by the Economic Secretary to the Treasury by
Command of Her Majesty**

March 2013

Cm 8586

£8.75

TREASURY MINUTES DATED 25 MARCH 2013 ON THE TWENTIETH, THE TWENTY THIRD AND THE TWENTY FIFTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2012-13

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This publication is also available on www.official-documents.gov.uk and http://www.hm-treasury.gov.uk/psr_treasury_minutes.htm

ISBN: 9780101858625

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID PO02548453 03/13 28360 19585

Printed on paper containing 75% recycled fibre content minimum.

Twentieth Report

Department for Energy and Climate Change

Offshore electricity transmission: a new model for delivery infrastructure

Committee of Public Accounts report summary

The Department for Energy and Climate Change (the department) estimates that offshore wind farms have the potential to contribute 8-15% of electricity by 2020. This will require a large investment in offshore infrastructure, including around £8 billion of investment in transmission assets (offshore platforms, cables and onshore substations) to bring electricity from offshore wind farms onshore to the national electricity grid.

The department and the Gas and Electricity Markets Authority (the Authority) have introduced an elaborate regime that licences operators of offshore electricity transmission assets following competitions. The terms of the transmission licences awarded so far appear heavily skewed towards attracting investors rather than securing a good deal for consumers.

The transmission operators receive their income from the National Grid which recovers its costs from electricity suppliers and generators. Although all concerned state that no public funds are directly involved, the future payments to licensees, which will amount to around £17 billion, will in fact be passed onto consumers through electricity bills.

The investors' estimated returns of 10-11% on the initial licences look extremely generous given the limited risks the investors bear. Licensees are guaranteed a fully retail price index linked income for 20 years regardless of the extent to which assets are used. Yet penalties are limited to 10% of expected income in any one year if the operators fail to provide the transmission facilities when required. Despite the lessons from the PFI market the Government has failed to ensure that gains secured, for example, from debt refinancing are shared. The department and the Authority must also ensure that the offshore electricity transmission market remains competitive and does not become an oligopoly both at the bidding stage and if and when initial investors sell shares to long term investors.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department of Energy and Climate Change, the Gas and Electricity Markets Authority, and industry representatives on the new licensing regime for offshore electricity transmission on 17 October 2012. The Committee published its report on 14 January 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

It is doubtful that this elaborate new licensing regime for offshore electricity transmission will deliver any savings for consumers. The new regime involves the regulator choosing transmission providers. This is more elaborate than alternative approaches, such as that used in oil and gas where production companies make their own arrangements for transmission, or using an existing onshore transmission company such as National Grid. The Committee has not seen convincing evidence to show that there will be savings for consumers from this scheme compared with potential alternatives. Indeed the new system could well lead to higher prices for consumers.

In applying the regime for future licences, the department and the Authority should:

- ***show clearly how the regime is expected to produce better outcomes than alternative approaches; and***
- ***introduce a rigorous system of evaluation to confirm whether projected savings are achieved.***

1.1 The Government and the Authority disagree with the Committee's recommendation.

1.2 The interests of the consumer already lie at the heart of the offshore electricity transmission regime. Following extensive consultation, the regime was designed by the department and the Authority to bring competition and investment into an area traditionally dominated by regulated monopolies, in order to drive down costs for consumers.

1.3 Following consultation, the department considered and rejected options that left offshore generators to build and operate network assets, or that extended an onshore electricity transmission company's monopoly offshore. We determined that cost savings and other benefits could be delivered through the introduction of competition, and savings and new sources of investment are now being delivered. Two of the three onshore monopolies have competed for offshore transmission assets, but have not been successful in offering the most competitive proposals for consumers.

1.4 The Authority has an established and rigorous system of evaluation. The Authority estimates that the competitive offshore transmission regime could save electricity bill payers at least £290 million in financing costs alone over 20 years, on the first £1.1 billion of assets to be licenced, compared with the regulated monopoly approach used onshore. £22 million of efficiency savings have already been realised from the first four projects (valued at £254 million) through disallowances from transfer values. Once the first tender round is complete, The Authority will assess its evaluation of the savings delivered by the offshore regime and intends to publish its findings in late 2013.

1.5 The Government therefore believes that a rigorous system of evaluation is in place, and that the benefits of the offshore electricity transmission regime are already being demonstrated.

PAC CONCLUSION AND RECOMMENDATION 2

There are fundamental weaknesses with the model applied to the first licence competitions. The terms of the licences awarded look too generous for the limited risks investors are being asked to bear. The licences awarded to date did not include any construction risk yet they provide licensees with a guaranteed retail price index linked income for 20 years regardless of the extent to which the assets are used. At the same time operators can only be fined a maximum 10% of their expected income in any one year if they fail to ensure their facilities are available and working.

Furthermore, investors are not required to share any gains made from debt refinancing or excessive equity profits. The department and the Authority argued that these terms were not overly generous as there was price competition, but did not produce evidence to demonstrate that these are the terms that offer the best prices for consumers.

For future licences and, where appropriate, licences already being competed, the Authority should:

- require investors to provide transparency over actual returns including those from sale proceeds, and to share gains from debt refinancing and excess equity profits;***
- reconsider whether a revenue stream linked to the retail price index offers better value for money for consumers than alternatives such as a flat or partially indexed revenue stream;***
- assess the benefits and risks of continuing with guaranteed income for 20 year licence periods compared with shorter licence periods or more regular price reviews within each licence period; and***
- consider higher penalties beyond the current 10% annual cap for failure to make assets available.***

2.1 The Government and the Authority disagree with the Committee's recommendation.

2.2 The terms of offshore electricity transmission licences have been determined through a long and extensive consultation process, which is comprehensively documented on the Ofgem website.¹ As with any

¹ <http://www.ofgem.gov.uk/NETWORKS/OFFTRANS/PDC/CDR/Pages/cdr.aspx>

new market that is established, at this early stage there are potential regulatory refinements to be considered for the future. It will be important that the licence terms continue to enable a strong and diverse range of bidders to compete against each other, as effective competition is the key driver of the extent of savings to consumers.

2.3 On 30 November 2012, the Authority launched a consultation: '*Offshore Electricity Transmission: Consultation on licence policy for future tenders*²', which closed on 22 February 2013. The Authority set out proposals for updating the offshore transmission licence for future tenders and requested responses to a number of aspects of the licence, including the revenue term; refinancing; indexation; the availability incentive; and the approach to merger considerations..

2.4 The Authority intends to publish a statement on the regime in the summer of 2013, following assessment of the consultation responses and further input from its technical and financial advisers. The department considers that identified licence terms should be kept under review for future licences. However, it would be inappropriate for the Authority to change any terms for future licences prior to consultation responses being thoroughly reviewed and considered.

PAC CONCLUSION AND RECOMMENDATION 3

The licensing system relies on effective competition to keep down prices for consumers but it is not clear that a diverse and competitive market has been created. The department and the Authority are seeking to develop a competitive market for offshore electricity transmission in contrast to the onshore monopolies. But the first six licences have been won by just two companies. The PFI market has also shown that even where there is a diverse market initially, there may be consolidation as the first investors sell to a smaller group of long-term investors.

The Authority should monitor the offshore transmission market and should refer the market to the Competition Commission if consolidation by a few companies undermines competition.

3.1 The Government and the Authority agree with the Committee's recommendation.

Target implementation date: Summer 2013.

3.2 The Authority already monitors the offshore electricity transmission market, which it believes demonstrates that a diverse and competitive market is in existence. The key metric for the competitiveness of the market is the number of bidders competing in tender rounds. In the first tender round, there was almost £4 billion of bids for £1.1 billion of assets, despite the challenging economic conditions in which the market was created.

3.3 Tenders were invited for nine different licences to cover these assets, which resulted in 29 expressions of interest. The Authority qualified a total of 13 different entities at the pre-qualification stage of the tenders, including existing onshore monopolies. Five different bidders were shortlisted, four of them being new entrants and three of these have gone on to be successful in the tender processes. A number of those shortlisted are consortia comprising a number of different equity and debt providers who have in turn been competitively sourced by the bidder.

3.4 The Authority's merger policy for onshore networks is set out in an open letter³ which states that the Authority will '*advise the merger authorities and government on any relevant mergers based on the relevant factors surrounding the merger in question*'. In the consultation '*Offshore Electricity Transmission: Consultation on licence policy for future tenders*', the Authority invited views on the degree to which differences between onshore and offshore networks lead to a need for a different merger policy. The Authority will publish a statement on the enduring electricity transmission regime in the summer of 2013, following assessment of the consultation responses and further input from its technical and financial advisers.

² <http://www.ofgem.gov.uk/NETWORKS/OFFTRANS/PDC/CDR/2012/Documents1/Offshore%20Electricity%20Transmission%20Consultation%20on%20licence%20policy%20for%20future%20tenders.pdf>

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=284&refer=Networks/Policy>

PAC CONCLUSION AND RECOMMENDATION 4

It is unacceptable that the Treasury has allowed the department and the Authority to proceed with the new regime without incorporating lessons from previous government experience on PFI. Lessons learnt from the PFI market, such as the sharing of refinancing gains, have not been incorporated into the new offshore electricity transmission market. The Treasury's argument of not wanting to introduce any limitations on investors is concerning given that it used a similar argument with early PFI deals, only to reverse its position later.

The Treasury should be alert to any part of Government setting up a new market, and make sure they learn from previous experience.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 Development of the offshore electricity transmission regime is led by the department and the Authority. The Treasury works closely with both organisations.

4.3 There are some similarities between PFI and the offshore electricity transmission regime. Both share the characteristics of competitive procurement, availability-based payments and application to the operation of long-term infrastructure. However, there are a number of significant differences from PFI/PPP deals, including that OFTO licences are private-to-private transactions, do not currently involve the construction of an asset, do not lead to compensation in the event of termination and are relatively simple insofar as they do not involve the provision of extensive additional services.

4.4 The offshore electricity transmission regime also has many similarities with other areas of regulated utility activity such as the regulation of other assets in energy or water. In common with other areas where an independent economic regulator is responsible for delivery the Treasury's focus is on ensuring that the overall framework provides the right incentives and responsibilities. The Authority has a duty to protect consumers' interests, and having considered various options, the arrangements that have been developed for offshore electricity transmission are explicitly designed to get the best deal for consumers.

4.5 The Authority has sought to draw lessons from the full range of relevant examples, and they have identified £290 million in savings from financing alone through providing clarity and competition in the regime.

4.6 Infrastructure UK (IUK), is working across Whitehall and with the private sector to develop a new cross cutting approach to the planning, prioritisation and enabling of investment in infrastructure. IUK also supports the delivery of major infrastructure projects where there is capital investment from the public sector. The Government announced in the Autumn Statement 2012 that it will strengthen the mandate of IUK and increase its commercial expertise to boost the delivery of growth enhancing infrastructure projects across Government. This enhanced central capacity will also bolster the identification of lessons learnt and consolidation of best practice across Government.

Twenty Third Report

Department for Work and Pensions

Contract management of contract services

Committee of Public Accounts report summary

The Department for Work and Pensions (the department) relies on medical assessments to help its decision makers reach an appropriate decision on a claimant's entitlement to a range of benefits. Work Capability Assessments are used to assess new applications for Employment and Support Allowance and to reassess existing recipients of Incapacity Benefit. This is damaging public confidence and generating much criticism of ATOS, but most of the problems lie firmly within the department. The department has outsourced this work since 1998 and in 2011-12 paid its contractor, Atos Healthcare, £112.4 million to carry out 738,000 assessments. From April 2013, a new medical assessment will be introduced for the Personal Independence Payment.

The Work Capability Assessment process is designed to support a fair and objective decision by the department about whether a claimant is fit for work, but in far too many cases the department is getting these decisions wrong at considerable cost to both the taxpayer and the claimant. The department's decisions were overturned in 38% of appeals, casting doubt on the accuracy of its decision-making. Poor decision-making causes claimants considerable distress, and the position appears to be getting worse, with Citizens Advice reporting an 83% increase in the number of people asking for support on appeals in the last year alone. The Committee found the department to be unduly complacent about the number of decisions upheld by the tribunal and believe that the department should ensure that its processes are delivering accurate decision-making and minimising distress to claimants.

The Work Capability Assessment process has a disproportionate impact on the most vulnerable claimants. The standardised "tick-box" approach fails to adequately account for rare, variable or mental health conditions and this can lead to greater inaccuracies in decision-making for these particular claimant groups. The Committee welcomed the efforts made to improve the process and encourage the department to continue to review the operation of the work capability assessment for vulnerable groups

The department does not know the full cost of the overall decision-making process. Its processes have financial effects across government, for example, in the National Health Service, and high levels of appeals increase the department's own administrative costs yet it has not assessed the overall cost to the taxpayer. Without this information the department will be unable to assess the value for money of its decision-making processes.

The department is currently dependent on one supplier to undertake all medical assessments. In the 14 years since the service was outsourced, the department has never awarded the contract to a new supplier; it has only ever changed hands due to a company takeover. The inability of the department to develop a competitive market for medical assessment providers has left it vulnerable, with limited leverage to remedy poor performance.

The department is not using all the mechanisms it has at its disposal to manage the contract for medical assessments effectively. The Committee saw no evidence that the department was applying sufficient rigour or challenge to ATOS given the vulnerability of many of its clients, the size of the contracts and its role as a near monopoly supplier. The Committee is concerned that the profitability of the contract may be disproportionate to the limited risks which the contractor bears.

The Department's evidence was not always consistent with the views expressed by the Committee's other witnesses. The Committee heard different interpretations of statistics such as the proportion of successful appeals, the accuracy of decision-making and on whether overall contract performance is improving. As a result the Committee was unable to arrive at a clear conclusion about whether the overall performance is improving and the Committee recommends that the National Audit Office should provide a further report focussing on up-to-date performance data.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from Citizens Advice, Disability Rights UK and the Department for Work and Pensions on the contract management of medical services on 19 November 2012. The Committee published its report on 8 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The decision-making process for new Employment Support Allowance applications and Incapacity Benefit reassessments all too often leads to the wrong decisions and is failing far too many people. Claimants have successfully challenged these decisions in 38% of appeals. In one third of these cases, the appeals have been upheld simply because the Tribunal disagrees with the original decision rather than because new evidence is provided on the day. This raises serious questions about the quality of the overall decision-making process. The department represented appeals as an inherent part of the process, but it does not have the information to judge whether the current rate of appeals indicates serious weaknesses in the decision-making process which could be rectified. The Committee welcomes the recent actions by the department to obtain feedback from HM Courts and Tribunals Service.

The department must collect the detailed information needed to understand why there are so many appeals and why so many of them are successful, so that the contractor can improve its performance and the department can change its assessment process if necessary.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

1.2 Whilst agreeing with the Committee's recommendation, the Government disagrees with the Committee's conclusion that this raises serious questions about the quality of decision making, in what is a probably the most difficult area of social security legislation.

1.3 Appeals against a fit for work decision must be lodged within one calendar month of the original decision, although in special circumstances the time limit may be extended by a further 12 months. The number of appeals heard by October 2012 was 289,300, with 63% found in favour of the department. When compared to the total number of fit for work decisions the rate of overturned decisions is therefore around 15%. Recent analysis, as provided to the Committee, shows that 27% of cases covered were overturned on the basis of 'different decision on substantially the same facts'. If this figure is representative of the past period, then the effective rate of 'overturned' decisions is only 4%.

1.4 Nonetheless the Government agrees that the causes of successful appeals need to be better understood, and appropriate improvement put in place. The department has already established a pilot scheme, in July 2012, which requests Tribunal judges to record their primary reason for overturning a decision made by the department on appeal. This scheme helps the department improve standards of decision making where necessary and change the assessment process. Initial findings from the new scheme were published on 19 November 2012.⁴ Judges can provide only one primary reason for their decision, these results showed that only 0.3% were because medical or functional assessment reports relied on by the department's decision makers contained errors.

1.5 The department will continue to monitor the findings of the scheme in order to gauge whether the level of feedback received is sufficient and to what extent the feedback is helping to identify improvements needed for the decision making and appeals process.

PAC CONCLUSION 2

The Work Capability Assessment may unduly penalise people with specific health problems. The one size fits all approach is not appropriate for particular groups, for example, people with mental health, rare or variable conditions. The process is too inflexible and makes it extremely difficult for individuals with particular conditions to demonstrate the impact of their conditions on their ability to work. Too often the process is so stressful for applicants that it can impact on their health.

⁴ http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/sscs_appeals.pdf

PAC RECOMMENDATION 2

The department should assess whether the Work Capability Assessment process is unfair to these claimant groups by looking at whether its initial decision is less accurate in these cases and, if so, make changes to its processes where appropriate. The Committee welcomes the initial efforts made to improve the process and encourages the department to continue to review the operation of the work capability assessment for vulnerable groups.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 October 2013.

2.2 The Government has already put in place arrangements for the independent review of the operation of the work capability assessment (WCA). Following Professor Harrington's second independent review⁵ in 2011, the Department is reviewing how fairly the WCA is applied. A central element of the department's continuing work to improve the WCA is an evidence based review of the functional descriptors used during the assessment process. This review focuses on how fairly and accurately the descriptors assess cognitive, intellectual and mental function as well as fluctuating conditions.

2.3 The department has agreed, with stakeholder representative groups, a single draft alternative assessment which combines recommendations from both mental function and fluctuating condition working groups. The department will be testing this alternative assessment, alongside the current assessment, and expects to produce a final report on the findings in summer 2013.

2.4 As part of the ongoing work of assessing the quality of decisions, the department already reviews a random sample of decisions every week against a quality assurance framework to consider the content and accuracy of the decision making process. The department will conduct a feasibility study to assess the data gathered during this process, which could be used to identify issues concerning particular conditions.

2.5 While committed to improving the WCA in this way, the Government does not accept the Committee's conclusion that the WCA is a 'one size fits all' process, nor that it is inappropriate for certain customers.

PAC CONCLUSION AND RECOMMENDATION 3

The Department does not know the full cost to the taxpayer of the overall decision-making process for Work Capability Assessments. Whilst some costs are known, such as the £26.3 million paid to HM Courts and Tribunals Service for its work on appeals, there is little information on the cost and impact on the National Health Service or on some of the internal interactions within the Department. Without a full understanding of these costs, the Department cannot come to an evidence-based conclusion on the value for money of its current decision-making process.

The Department should establish the full costs of the process so that it can benchmark with relevant organisations on the cost effectiveness of its approach.

3.1 The Government agrees with the Committee's recommendation.

Target Implementation date: September 2013.

3.2 The department accepts the recommendation to establish the full cost of the decision making process in relation to ESA and Incapacity Benefit Reassessment (IBR) WCA. However, there are inherent difficulties in completing the required analysis due to the complex nature of the end to end WCA process and the number of organisations involved.

⁵ <http://www.dwp.gov.uk/docs/wca-review-2011.pdf>

3.3 Costs can be described as falling in to two broad categories - the end to end direct costs of delivering an ESA benefit decision, and the indirect costs more broadly associated with the WCA process. The direct costs include: obtaining and inputting data from claimants for new claims and existing claimants following a change of circumstances; processing benefit claims and making referrals to the WCA provider; conducting the work capability assessment; the department paying for further medical evidence, so that a fully informed benefit entitlement decision can be made; the department making a decision on benefit entitlement, following receipt of the medical assessment report from the provider; and the department reconsidering decisions on appeal.

3.4 The indirect costs include: the cost to HM Courts and Tribunals Service (HMCTS); the cost to the NHS of doctors' time, where they are contacted by the claimant to support their case or where they are required to provide further medical evidence for appeals; and the incremental costs to the NHS relating to the impacts of supporting individuals, who are not awarded ESA.

3.5 The direct costs of delivery are monitored and reported on by the department, but the indirect costs are not. The department will commission work on the feasibility of collaboration with other agencies to estimate the full cost of the WCA process by September 2013.

PAC CONCLUSION AND RECOMMENDATION 4

The department has failed to develop a competitive market for medical services. The market for medical service providers is under-developed and Atos Healthcare is currently the sole supplier for all the department's medical assessments. It has also been awarded two of the three current contracts for the Personal Independence Payment. The department is too relaxed about the risk to value for money resulting from a dependence on a monopoly supplier, and on the limitations this has on the department's capacity to remedy poor performance.

The department should assess the risks associated with the use of a monopoly supplier and actively pursue opportunities to develop a competitive market through the deployment of its framework contract.

4.1 The Government agrees with the Committee's recommendation

Recommendation implemented.

4.2 The department is well aware of, and not relaxed about, the limited market structure for medical assessment. This is evidenced by the department having already addressed the Committee's recommendation in delivery the framework agreement on the procurement of *Personal Independence Payment* (PIP).

4.3 The competition generated 19 bids from six framework suppliers. All met the minimum criteria from which the department selected the most economically advantageous bids and awarded contracts in July 2012 for lots 1 to 3. The contract for Lot 4 was awarded in November 2012. The department now has two suppliers contracted to deliver health assessment services.

4.4 The department has already agreed a management approach that will ensure all ten framework organisations are actively engaged through on-going dialogue. The department will continue to meet with framework suppliers to share insight into existing and future departmental requirements. The department will also continue to use this engagement to test future contract packaging options and work with framework suppliers to support them in building capability to respond and increase competition.

PAC CONCLUSION 5

The department lacks sufficient rigour in managing the contract with Atos Healthcare. It has adopted a light-touch approach to managing this contract and placed too much reliance upon information provided by the contractor. The department seems reluctant to challenge Atos Healthcare. It has failed to withhold payment for poor performance and rarely checked that it is being correctly charged for work. The lack of challenging targets for medical quality allows the contractor to conduct thousands of poorly administered tests each year without sanction.

PAC RECOMMENDATION 5

The department needs to reduce its dependence on the contractor's information and processes by adopting a more active and interventionist approach to contract management. This should include obtaining more of its own assurance on information provided by Atos Healthcare, active enforcement of the sanctions available to it through the service credit regime and the setting of more challenging targets on the quality of medical assessments.

5.1 The Government agrees with the Committee's recommendation.

Target Implementation date: July 2013.

5.2 The department is not reluctant to challenge its contractor. A robust approach is taken to management of the contract with Atos and Service Credits have been applied appropriately. Where Atos has been responsible for underperformance, recovery plans are put in place and redress has been sought in the form of service credits. When the department significantly altered their requirements, the application of service credits was temporarily suspended to enable Atos to accommodate the revised requirements.

5.3 Although systems to validate invoices have been in place for a significant time, the department recognised that further improvements could be made if more stringent data validation processes were introduced. In February 2012, a revised checking methodology was piloted and sample sizes agreed. Checking of the statistically valid sample began with May 2012 invoices. To date, the checks have not identified any discrepancies.

5.4 The department has provider assurance teams in place for some contracts. These teams visit contractors to examine governance arrangements, service delivery, financial procedures, and data security. The aim of this is to ensure that contract payments are made in accordance with the department's requirements, the protection of public funds and participant data and that value for money is obtained. The department is currently investigating whether the provider assurance team model could be adopted for this contract and will report these findings by July 2013.

5.5 The Department is already in discussion with Atos Healthcare about extending the medical quality target from 5% to 4%.

PAC CONCLUSION AND RECOMMENDATION 6

The department cannot explain how the contractor's profits reflect the limited risk that it bears. Moreover, in a new contract for the Personal Independence Payment, Atos Healthcare is subcontracting to the National Health Service for part of its work, suggesting it is transferring risk back to the public sector.

The department should explain how the profitability of the contract reflects the actual transfer of risk for both the Work Capability Assessment and the Personal Independence Payment medical assessment contracts.

6.1 The Government disagrees with the Committee's recommendation.

6.2 The department does understand the balance of and transfer of risk. The risk for delivery of WCAs lies with the provider. Where Atos fails to deliver in accordance with contract terms, Atos are liable for service credits, which reduce profitability for Atos.

6.3 The department and Atos agreed a price resulting from the original competitive procurement in 2005. The department also required open book arrangements with Atos and capped profit margin. This agreement protects the taxpayer from the risk of paying excessive profits and the supplier from a lack of reasonable profit, so long as the supplier performs in accordance with terms and performance targets.

6.4 For PIP, the department does not believe that risk has been passed back to the public sector. The department will hold Atos to account for performance and will apply performance measures and, where appropriate, service credits. Atos will in turn have performance targets and under performance measures for

their subcontractors. The subcontractor, in this case the NHS, will have designed their business model, cost and profit margin commensurate with their confidence in delivery and potential level of financial exposure.

PAC CONCLUSION AND RECOMMENDATION 7

The size of the department and its impact on individuals and on the public purse requires the Committee to have the utmost confidence in the capability of the department to deliver. Robust systems are a crucial part of this. The Committee is concerned that the department is unduly complacent regarding the quality of the decision-making process, particularly given the hardship which can be caused to individuals when the decision is wrong.

The department must improve its internal processes to improve the quality of decision-making and contract management.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 The department is not complacent about its decision making, and is also very aware of the complexity which lies behind the legislative intent to support claimants while ensuring tax payers funds are properly used. With millions of decisions made each year the Department aims continually to improve, and has processes in place to do so.

7.3 In December 2012, the department reviewed the governance supporting the delivery of the Atos Healthcare contract to deliver health assessments. Personal Independence Payment (PIP) is due to be introduced in April 2013. The department has reflected on lessons learned over the last year and, in January 2013, introduced a revised governance structure that will be the starting point for governance arrangements for all health and disability assessments contracts.

Twenty Fifth Report

Department for Transport

Funding for local transport: an overview

Committee of Public Accounts report summary

The Department for Transport (the department) works with local partners to deliver many of its policies. Local authorities play a key role in planning and commissioning transport services, such as bus and light rail, and providing and maintaining roads and other local infrastructure. They spent a total of £8.5 billion on transport in 2010-11. The department provided around a quarter of this (£2.2 billion), with the rest raised locally from council tax, from the £411 million surplus raised from parking levies, or from the Department for Communities and Local Government formula grant.

In 2011-12, the department provided £1.2 billion to local authorities for highways maintenance and small transport projects in the form of two un-ring fenced formula-based grants. Local authorities were free to spend these funds on any capital projects of their choice, including projects without any transport element. The department does not monitor how un-ring fenced grants are spent and there is insufficient information to determine the impact of the department's contribution on local authorities' spending decisions and therefore to achieving the department's objectives.

The department plans to devolve more control over its funding to the local level (raising the proportion of resources which are not ring fenced portion from 60% to around 80%); and new local transport bodies will take on some decision-making responsibilities previously held centrally. Full details of how the new system will work are still to be determined and there is uncertainty over how the arrangements will work in practice. The department could not clearly define how it would ensure cross-boundary projects would be funded and agreed in the new landscape. It accepted that it will have to rely on local goodwill and departmental influence. The department accepts that transparency of data will help make local accountability work, but it needs to define what information is needed to judge value for money, monitor transport risks including those arising from local budget cuts, and clarify under what circumstances it may intervene in response to poor performance.

Implementing these changes may weaken the existing limited accountability and transparency arrangements, and the Committee is not confident that the Government has thought through these risks. The department believes that local bodies will naturally work together to fund and deliver large transport projects. But there is a risk local transport bodies, in a period of substantial funding pressure, will not take sufficiently strategic and joined-up decisions, putting national or regional investment objectives at risk.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Transport, as well as from local government and academic representatives, on the department's funding for local transport on 28 November 2012. The Committee published its report on 5 February 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The department's mechanisms for controlling the use of its funding are not clear. In 2011-12 the department provided £1.2 billion to local authorities, principally for highways maintenance and integrated transport, in the form of non-ring fenced grants that local authorities could spend on any capital projects, including non-transport ones. In practice local authorities spent £2.9 billion on transport projects, significantly more than they received from the department, but there is insufficient information to determine whether and how the department influenced local decisions so that the funding it provides met the policy objectives it had set.

The department should set out the basis on which it determines the level of funding for local transport, and clarify its processes so that it can measure what impact this funding is achieving in meeting its objectives for local transport. The Committee is concerned that the rigid procedures which the department requires to be applied in deciding how to distribute funds will be less effective than clear criteria for reporting outcomes and judging value for money.

1.1 The Government disagrees with the Committee's recommendation.

1.2 Funding from the Government for local transport cannot be considered in isolation from the department's other priorities, nor those of the Government beyond transport. Decisions also need to be taken within the context of the wider fiscal conditions at the time funding is determined. In calculating the level of local transport funding from the department, the Government also needs to take into account the overall levels of resources available to local government. This will include both funding provided by other departments, which can be used for local transport, and other local sources of funding available to local authorities.

1.3 The department monitors a range of transport related data (for example: national road safety statistics, public transport patronage, air quality) which help it to understand the impact its policies and funding are having on local transport outcomes. Additionally, it continues to work with the sector to improve public understanding of both outcomes and the value for money the funding provides. For instance, it included a section on value for money and transparency in its recent consultation on the formula for Integrated Transport block funding.⁶

1.4 The department is also working with the Local Government Association (LGA) and local authority analysts to advise on the key transport measures and spending information for inclusion on *LG Inform*, an online benchmarking tool to enable comparisons between local authorities. The inclusion of these metrics on *LG Inform* will allow better assessment of the impact of local transport funding. *LG Inform* is due to be launched publically later in 2013.

PAC CONCLUSION AND RECOMMENDATION 2

Better local transport data is needed to monitor local authority performance and drive value for money. The lack of consistent and comprehensive local transport data means that the department cannot assess the impact of budget cuts on performance and prevents comparisons being made between local areas to help to identify unsatisfactory performance.

The department should specify what data are needed to assess local performance and take the necessary steps to ensure it is available, whether working in partnership with others or mandating minimum data requirements. The department should ensure that transparent mechanisms are in place to ensure that funds raised from parking charges are spent on transport.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

2.2 The department already publishes a number of datasets⁷ at local authority-level. Examples include bus punctuality measures, reported road accidents (including a split by severity of accident and road user type), road conditions and congestion on locally managed A roads. In addition, the Department for Communities and Local Government publish local authority capital and revenue income and expenditure across all services, including transport. Examples include support to bus operators, road maintenance and parking.

2.3 However the department acknowledges that it can do more to make comparison and benchmarking between different authorities easier and so it is exploring the use of the LGA's online tool *LG Inform* as a mechanism for presenting data for assessing local transport performance and enabling useful and consistent comparisons between local authorities. *LG Inform* is due to be launched publically later in 2013. The department is working with the LGA and local authority analysts to advise on the form and content of transport data reported on *LG Inform*.

2.4 Revenue received from on-street parking charges and local authority parking enforcement is ring fenced in Section 55 (as amended) of the Road Traffic Regulation Act 1984 to meet transport and environmental objectives. It is the responsibility of local authorities to comply with legislation.

⁶ <https://www.gov.uk/government/consultations/integrated-transport-block-funding>

⁷ <https://www.gov.uk/government/organisations/department-for-transport/about/statistics>

PAC CONCLUSION AND RECOMMENDATION 3

The department is not clear when or how it will intervene in cases of local transport failure. While there are examples of the department intervening in response to high-profile crises (such as the winter salt shortages) it is not clear how the department identifies areas at risk or poor performance and what circumstance would trigger the powers of intervention. Although legislation sets out around 300 transport-related statutory duties for local authorities, these are of limited use as they are framed very broadly with no defined minimum standards, for example, on road condition.

The department should clearly set out, in its accountability systems statement, the information it will use to identify a failure or an unacceptable reduction in the standard of provision, the circumstances under which it would intervene, and what form that intervention would take.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2013.

3.2 The department will be updating its accountability system statement as part of its work to produce its *Annual Report and Accounts 2012-13*. The department's system statement will set out what information it will use, or will encourage the sector to use, to help identify areas at risk of poor performance, the circumstances under which the department or the sector might intervene, and what form that intervention might take.

PAC CONCLUSION AND RECOMMENDATION 4

As major project funding becomes more decentralised, there is a risk that local transport bodies will not take sufficiently strategic and joined-up decisions. The department created new local transport bodies as voluntary partnerships primarily between local authorities and local enterprise partnerships. From 2015, they will decide which transport projects should be prioritised within their area and oversee effective delivery. However, there are a number of risks around how they will operate in practice given their relatively small size, including what incentives there will be for neighbouring bodies to work together and how larger, sub-national projects will be approved.

The Committee expects the department to work with local bodies to identify risk areas, design ways to encourage collaboration and to pilot its proposed approach before it is implemented.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The department believes that via the process already in place for local transport bodies to submit assurance frameworks, and have them subject to review, the department has sufficiently identified the areas of risk. Additionally, the department has always encouraged collaboration throughout the design of the process, but it will continue to facilitate this where it can.

4.3 The department consulted on the concept and process of devolved local major transport schemes and received overwhelming support to proceed as quickly as possible. Given the long lead time for these projects and with funding due to start in 2015, the department does not see piloting this approach as a realistic option. However, there may be some aspects that can be tried, most likely through the *City Deals*⁸ process, earlier than 2015. The department will endeavour to take these opportunities where it can.

PAC CONCLUSION 5

The accountability arrangements for the new non-statutory local transport bodies are unclear. The new local transport bodies will have an accountable body, usually a local authority subject to its own audit arrangements, to account for funding received. But there appears to be no audit arrangements which will allow Parliament to scrutinise local transport bodies' spending decisions.

⁸ <http://www.dpm.cabinetoffice.gov.uk/content/city-deals>

PAC RECOMMENDATION 5

The department should ensure that the C&AG has full audit access to local transport bodies.

Similarly, the Treasury should ensure that all other departments who provide funding to non-statutory local bodies, such as local enterprise partnerships, have adequate assurance arrangements over how their funds are spent or allocated, and that the C&AG has full audit access rights.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2013.

5.2 The department believes that the Comptroller and Auditor General (C&AG) already has full audit access rights to local transport bodies' spending decisions under the scheme as designed. Nevertheless, it is working with the C&AG to give confidence to both parties that this is the case, and if not, the department will ensure that full audit access rights are provided for.

5.3 For organisations funded by central Government, departments set out in writing the purpose of the funding. It is for departmental Accounting Officers to then satisfy themselves that these organisations have adequate assurance arrangements.

5.4 Local Enterprise Partnerships (LEP's) do not receive funding directly from the Government. In the case of the Growing Places Fund, for example, LEPs identified a lead local authority that would receive and account for the funding on behalf of all the members of the partnership, via a section 31 grant. The fund is subject to the same accountability procedures, as any other payment that the Department for Communities and Local Government makes to Local Authorities, directly through this mechanism.



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ISBN 978-0-10-185862-5



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