HM TREASURY

TREASURY MINUTES

Progress on implementing recommendations on 19 Committee of Public Accounts reports (Session 2010-12); 3 National Audit Office reports; 12 updates from Treasury Minute progress reports (January 2012); and a progress report on Government Cash Management

Cm 8539 February 2013

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Forty Second Report

Department for Education

Getting value for money from the education of 16-18 year olds

Summary of the Committee's findings

In 2009, over 1.6 million 16- to 18-year-olds participated in some form of education and training at a cost of over £6 billion. Most of these young people studied full-time for Level 3 qualifications (such as A levels or National Vocational Qualifications) at a general further education college, sixth form college or school sixth form. The Government's approach is to encourage choice and quality of education through a market of providers. Young people choose where they want to study, subject to entry criteria, with funding following the student.

In a market, consistently poor providers should fail because they lose funding as students choose to study elsewhere. For the 16 to 18 education market to work effectively there needs to be consistent and relevant information so the department can assess value for money and students can make informed judgments about their courses and what they lead to. Also, where a provider's performance is poor, there must be clarity about the criteria for intervention, and the timing and extent of intervention. Neither is fully in place at present, leading to negative consequences for students, and limiting the speed and effectiveness of actions to deal with poor performance.

While participation of 16- and 17-year-olds in education and training has increased in recent years, further increases are required to reach the legislative requirement of full participation by 2015. The department must assess the impact of recent changes to policy, such as its replacement of the Education Maintenance Allowance, on its plans to have everyone up to age 18 in education or training by 2015.

In reaching its findings, the Committee took evidence from the department, the Young People's Learning Agency and the principals of three education institutions on the effectiveness and efficiency of the current education system for 16-18 year olds on 8 June 2011. The Committee issued its report on 16 August 2011 and the Treasury Minute – the Government's formal response - was published on 27 October 2011.

PAC RECOMMENDATION 1

The department's market-based delivery model will not deliver its objectives of improving choice and quality for students unless good comparative information between providers is available, relevant advice and information is provided to students, and the department intervenes effectively to address poor performance. The recommendations set out below include steps the department should take to help it achieve these aims.

1.1 The Government partly agreed with the Committee's recommendation.

1.2 The department is taking steps to improve the information that is available for young people about their choices post-16 in the areas of performance information, destinations and course level information.

Target implementation date

1.3 September 2013.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 From September 2012 schools are under a new legal duty to secure access for pupils aged 14-16 (years 9-11) to independent and impartial careers guidance on the full range of 16-18 education or training options, including apprenticeships. The department published statutory guidance in March 2012 to set out the key responsibilities of schools in meeting this duty. Schools are expected to work, as appropriate, in partnership with external and expert careers providers. Following a consultation, the department has announced that the duty will be extended down to pupils aged 13 (year 8) and up to 16-18 year olds in schools and colleges from September 2013.

1.6 Education Destination Measures were published for the first time on 17 July 2012. The Measures show the percentage of students leaving a school or college that went on to different kinds of education and training including school sixth form, college, higher education institution (with separate measures for those entering Cambridge University, Oxford University or other Russell Group institutions), apprenticeship or work-based learning. For phase two, the department will work on including the more complex employment destinations and, if the data are robust enough, education and employment destinations will both be published in summer 2013. The department is working towards comparable performance information between all 16-18 institutions and reviewing intervention actions where there is poor performance.

PAC RECOMMENDATION 2

The framework of accountability is too complex. To manage the burden of audit and performance reporting, the departments should clarify roles and eliminate duplication of demands on providers.

2.1 The Government partly agreed with the Committee's recommendation.

2.2 The department is taking forward a significant programme of work to clarify roles and eliminate the amount of administrative burdens and bureaucracy on providers as well as removing duplication. The Skills Funding Agency (SFA) and the Young Persons Learning Agency (YPLA) implemented a "Single Point of Contact" for general further education colleges and sixth form colleges in August 2011. This means all colleges are able to deliver education and training for young people and adults, but they only need to deal with a single agency for all accountability purposes including contract and performance management, payment, audit and intervention.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The department has implemented through the Education Act 2011 and other processes a series of amendments to the legislative and non-legislative framework for further education college corporations and sixth form college corporations, aimed at reducing bureaucracy and removing duplication. Mutual assurance is in place for the 2012-13 academic year and so any institution is only subject to one funding audit regime. An institution will only receive one audit (if selected) based on lead arrangements, which covers the assurance requirements of both the Education Funding Agency (EFA) which took over the role of the YPLA in April 2012, and the Skills Funding Agency.

PAC RECOMMENDATION 3

The department emphasises the duty and important role of local authorities. However, local authorities have limited powers and the effectiveness of their engagement with the sector varies. The department must address this issue so that those with obligations are able to enact those obligations effectively.

3.1 The Government partly agreed with the Committee's recommendation.

3.2 It is not for the department to dictate to local authorities how they should fulfil their role as they are best placed to assess the needs of 16-19 young people in their area. Nor is it the department's role to dictate how local authorities shape and influence providers to respond to local needs. The YPLA's *Statutory Guidance: Funding Arrangements for 16-19 Education and Training* sets out local authorities' important strategic role in securing education and training for young people, including supporting the replacement of poor quality provision and filling gaps. Guidance relating to the 2012-13 academic year was published on 1 August 2011. The YPLA also provides local authorities with information on the supply and demand for 16-19 provision, including learner participation and attainment in their area.

Target implementation date

3.3 July 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 Local authorities have statutory duties to secure sufficient suitable education and training provision for young people in their area and to support those young people to participate. Building on these, local authorities have the key role in making a reality of the commitment to raise the age of compulsory participation in education or training to age 17 in 2013 and age 18 in 2015. Decisions taken locally have a significant impact on participation rates. There is a significant range of performance amongst local areas on post-16 participation and the proportion of young people not in education, employment or training (NEET). The department is working in partnership with the Local Government Association and the Association of Directors of Children's Services to ensure local authorities and their partners have access to appropriate support to help them to deliver their statutory duties.

3.6 An additional 2,000 16-19 learning places have been funded in the 2012-13 academic year responding to local authorities identifying gaps in provision in their areas. Changes to the way High Needs Students are funded give local authorities the lead in commissioning appropriate provision and managing the budget for pupil-led funding. Youth Contract providers are expected to work closely with local authorities to engage and meet the needs of young people in the target group. The extent to which new institutions and providers wishing to receive a new EFA contract to deliver to 16-18 year olds have discussed their plans with local authorities is tested in the application process. For the forthcoming re-procurement for European Social Funded provision targeted at young people not in education, employment or training, EFA will use local authorities' analyses of local need to inform the procurement specification.

PAC RECOMMENDATION 4

The department should require providers to produce comparable cost information as benchmarks to increase the transparency of the costs of courses and drive efficiency.

4.1 The Government disagreed with the Committee's recommendation.

4.2 For schools, the department's website already provides advice and tools on key topics including strategic financial management and effective workforce deployment. The department does not provide specific guidance to governors on interrogating data about post-16 performance. However, governors have access to training on how to carry out their role effectively, including their role in considering performance information. Governors have access to published information that includes national benchmarks and should use this to compare the performance of their school with that of other, similar schools and other 16-18 providers.

4.3 The Government agrees that financial benchmarking is valuable and is aware that many schools, sixth form colleges and further education colleges carry out such benchmarking. However, the data on which schools benchmark is substantially different from that used by colleges. Requiring providers to provide information in a common format would impose a regulatory burden on them that would be inconsistent with the current Government's drive to reduce bureaucracy to free resources to be spent on the front line.

PAC RECOMMENDATION 5

The department should promote the benefits of effective collaboration between providers, and address anomalies between the way providers are configured and how their performance is assessed.

5.1 The Government partly agreed with the Committee's recommendation.

5.2 The Government agrees that collaboration is an effective means of ensuring that a wide range of courses are available and can improve efficiency by generating economies of scale and will seek to remove barriers to collaboration where possible. However, the Government believes that the decision of when and how to collaborate should be left to providers themselves. The department has already asked the National College for School Leadership to develop materials to help schools and colleges collaborate to good and better effect.

Target implementation date

5.3 September 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 Sixth form colleges, with their proven track record of high standards, can make a huge contribution to the transformation of school standards in this country and the standards in some of our most challenging underperforming schools. They are excellent at teaching 16-19 pupils and consequently the department is looking to them to play a larger role in transforming teacher training especially in secondary schools. That could be as a teaching school, sponsor of an academy / Free School, National Leaders of Education / Local Leaders of Education.

5.6 The department has introduced similar inspection frameworks for schools and colleges from September 2012 and expects to have comparable success rate data available for school inspections in 2013. The department has also extended the remit of the National College to ensure that it considers the needs of sixth form colleges about improvement support.

PAC RECOMMENDATION 6

The department should require all providers to compile and publish comparable performance information to support the assessment of value for money. The information should be sufficient for prospective students to use in choosing the right course, thereby improving student engagement and retention.

6.1 The Government partly agreed with the Committee's recommendation.

6.2 As set out in the Schools White Paper, the Government is committed to publishing comparable measures of performance across all 16-19 providers. The department is reviewing published performance measures for post-16 education and training, with the aim of having new arrangements, including comparable performance measures, in place by 2013. Where appropriate this will cover data relating to models of partnership delivery, such as collaboration through federations.

Target implementation date

6.3 March 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The department expects to have comparable success rate data available for all 16-18 providers in March 2013 and to publish this in performance tables. The Statement of Intent published on 30 July 2012 announced that the 2012 tables will publish results in A levels – both with and without other advanced level academic and vocational qualifications. The Key Stage 5 tables will also include value-added results for each school and college showing the progress made by students in different advanced level qualification types based on their prior attainment at Key Stage 4. Subject to the outcome of further exploratory work the department proposes to publish the results obtained in English and mathematics by students who failed to achieve English and mathematics GCSE at A*-C at Key Stage 4.

6.6 For future years and in line with the department's aims of securing full participation and raising attainment post-16, measures will be developed that capture student retention and achievement below advanced level, taking care to ensure that indicators are comparable across 16-18 providers.

PAC RECOMMENDATION 7

The department should clarify how it will address failing providers, whether they are school sixth forms or colleges, and the criteria that will determine the extent and timing of intervention.

7.1 The Government agreed with the Committee's recommendation.

7.2 In the Schools White Paper, the Government made clear that if any provider, including school sixth forms, falls below the minimum levels of performance agreed across all post-16 provision, it will be subject to improvement action. This could result in the provider no longer receiving funding. The department is reviewing the standards that should be applied to all 16-19 providers in order to establish, by 2013, a consistent approach to intervention where providers fall below minimum standards.

Target implementation date

7.3 September 2013.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The department remains committed to establishing a consistent approach to intervention and standards, but wants to consider the implications carefully to ensure there are no unintended consequences. Mechanisms introduced for standards and intervention processes will be as robust as possible. The department does not want to introduce standards that lead to the same perverse behaviour seen at Key Stage 4, where schools have entered pupils for easier qualifications in order to increase their position in performance tables and avoid intervention.

7.6 The department has announced interim minimum standards for 2012 that will apply to all schools and colleges delivering education to 16-18 year olds. These standards will measure vocational and academic qualifications separately and will be one of three triggers that will lead to intervention action. The other two triggers are receiving an Ofsted inadequate judgement or poor financial health or control. If a school or college falls below the minimum standards, or meets one of the other two triggers, and fails to improve, the department will move swiftly to ensure that further action is taken. This could be leadership and management change, withdrawal of funding or closure.

PAC RECOMMENDATION 8

The allowance is to be replaced in the 2011-12 academic year by a £180 million bursary scheme, which will be administered by providers. As the department develops its implementation plan for this policy change, it must assess the impact on participation, particularly for disadvantaged young people, and the burden on providers of managing the changes, including the costs of administration.

8.1 The Government agreed with the Committee's recommendation.

8.2. From September 2011 young people aged 16-19 and in publicly funded further education in England are able to apply for support from the new £180 million 16-19 Bursary Fund. The most vulnerable - young people in care, care leavers, young people in receipt of income support and those in receipt of both Employment Support Allowance and Disability Living Allowance - will be eligible to receive £1,200 a year, which is more than they could have received under Education Maintenance Allowance (EMA).

8.3 The department will be monitoring the impact of the new arrangements to make sure that they reach and support those students with the greatest need, and do not place undue burdens on providers. The department will be commissioning an independent evaluation, covering a range of qualitative and survey information, to assess the reach and effectiveness of this support in addressing the financial barriers that some young people, especially the most disadvantaged, face to continuing in education.

Target implementation date

8.4 December 2014.

Current Status

8.5 Work in progress.

Action being taken to implement recommendation

8.6 An independent evaluation of the Bursary Fund process is underway and this will enable the department to understand the characteristics of applicants and recipients of bursaries; the perceived impact of the bursaries; the decision-making processes related to awarding bursaries; and to evaluate equality of opportunity between different groups of students. The evaluation will report at the end of 2014.

8.7 A second independent impact evaluation is also underway and will look specifically at the actual impact of the bursary fund on participation and academic attainment for learners with different socio-economic characteristics. Its aim is to help the department understand the impact of the change from EMA to the bursary - on participation and academic attainment. It will also help the department understand whether awarding bursaries to certain groups of 16-19 year olds in comparison to other groups has a greater impact on participation, drop-out and attainment. Both process and impact evaluations will report in late 2014.

Forty Third Report

Ministry of Defence

The use of information to manage the defence logistics supply chain

Summary of the Committee's findings

The Ministry of Defence (the department) sends supplies to forces deployed overseas for military operations, such as in Afghanistan and Libya, and to personnel stationed in permanent bases or taking part in training exercises. Staff deployed on operations determine what supplies are needed by front line troops, which are then sent to them through a supply chain that stretches back to manufacturers. The department spent at least £347 million in 2010-11 on transporting supplies overseas, but this underestimates the full cost as the cost of military supply flights is not included. Some 130,300 individual deliveries were made to Afghanistan alone in 2010.

The department is now seeking to resolve these information problems through a major initiative known as the Future Logistics Information Services project, expected to be implemented by 2014. Until then, the department will continue to store data in systems that are at critical risk of failure. Against the background of repeated failures to get to grips with asset tracking and allied information systems for logistics, it is vital that the department sustains its programme in order to secure value for money. Should this not be the case, the Committee will return to the issue.

Supplies are delayed because manufacturers miss their delivery schedules. In the six months to November 2010, over 40% of deliveries were 30 days or more overdue. The Committee has found in past reports on the Typhoon that lack of supplies led to cannibalisation of other aircraft. The department has yet to demonstrate that this is the best way to employ constrained resources. Other measures which could improve the efficiency of supply operations include putting more pressure on suppliers to deliver on time, keeping stocks at lower levels to reduce the risk of them deteriorating, and benchmarking performance against relevant comparators such as other armed forces. It is important that the department retains key skilled staff on the supply chain so that it can make improvements of this kind.

In reaching its findings, the Committee took evidence from the department on the use of information to manage the defence logistics supply chain on 13 June 2011. The Committee issued its report on 19 August 2011 and the Treasury Minute – the Government's formal response - was published on 27 October 2011.

PAC RECOMMENDATION 1

As a matter of priority, the department should implement measures to capture the full cost of its supply operations, quantify the full range of potential savings it could make, and take the actions necessary to manage the supply chain more cost effectively.

1.1 The Government partially agrees with the Committee's recommendation.

1.2 The department's principal focus is upon effectiveness on operations. The department is constantly reviewing the supply chain to ensure value for money. In 2010, for example, over £34 million savings were achieved by establishing a Sail-Fly line of communication with containers being moved to Cyprus by the current Liner Service Contract or Defence RORO vessels, and then onwards by charter aircraft direct to Camp Bastion. However, it is acknowledged that improvements are required to manage the supply chain more cost effectively, enabled by modern logistics information systems with greater integration with financial systems. A programme to deliver this enhanced logistic information system capability is underway and will deliver incremental improvements between 2011 and 2015.

Target implementation date

1.3 December 2015.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 A programme to deliver enhanced logistic information capability will deliver incremental improvements by 2015. The new systems will enable better decision making by providing greater end to end visibility of materiel in the supply chain, improved management information, and greater integration with financial systems.

1.6 Two separate 2* organisations were established in August 2011 (with Full Operating Capability in Feb 2012) to provide greater focus on key elements of the Defence Support Chain. As well as continuing the provision of commodity procurement and the storage and distribution of 'non-explosive' products to the Armed Forces, the Logistics Commodities and Services (LCS) Operating Centre is also undertaking the task of transforming how these services are delivered in the future. The LCS Transformation project is now entering its Assessment Phase, as announced by MinDEST on 16 July 2012, and aims to deliver a solution that ensures military supply in the medium to long term, whilst providing better value for money to the department. This project is currently looking to deliver a Main Gate Business Case for Investment Approvals Committee and Treasury consideration in late 2014.

1.7 The savings and benefits identified and presented at Initial Gate Business Case are subject to testing throughout the Assessment Phase by developing two options - an in-house developed value for money benchmark (which must be a deliverable solution) and an Industry led solution. The OJEU advert that is being prepared allows for the scenario in which all of the department's raw materials and consumables are managed through LCS(T) outsourcing and an alternative scenario where only those items currently managed by LCS are included.

1.8 A network-based Activity Based Costing model (i2 Strategist) has been implemented and populated with data to represent Defence Supply Chain activities and costs. The model is being used to provide forecast costs for the Op HERRICK Redeployment, to cost the baseline and options for warehousing and Depot operations and to provide the maritime component with alternative transportation costs to world wide ports. However, the potential of the model has yet to be fully exploited or adopted as part of routine business.

1.9 The department fully acknowledges that the costs of its logistics operations need to be fully understood and used to make value for money decisions records for subsequent audit purposes. The Drawdown from Op ELLAMY (Libya) proved that costs can be controlled and that a plan can be optimised against a challenging financial limit of liability. This same ethos will be rigorously applied to Op HERRICK Redeployment as well as wider training and operational support activities.

PAC RECOMMENDATION 2

The Committee welcomes the department's commitment to bringing together and upgrading many of its IT systems through the Future Logistics Information Services project, and the information provided to the Committee since the hearing about the project's milestones and costs. However, past plans to upgrade these systems have come to nothing as the department has focused on other priorities. To ensure progress is made this time, the Committee will hold the department to its promise to report back to it on progress in six and twelve month's time.

2.1 The Government agrees with the Committee's recommendation.

2.2 The department recognised that there has been historical underfunding in the department's logistics information systems and made the investment decision in the 2011 Planning Round to fund the replacement of the range of obsolete base inventory and warehouse systems. A comprehensive and funded programme is therefore now underway, which includes the Management of the Joint Deployed Inventory (MJDI) system for deployed assets, the Joint Asset Management Engineering Solution (JAMES) to improve the management of land equipment assets, as well as the Future Logistics Information Services project which will deliver the new Base Inventory and Warehouse Management Service capability.

Target implementation date

2.3 December 2015.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 MJDI and JAMES projects are currently being rolled out across the Armed Forces. Early increments of MJDI and JAMES are also being implemented in Op HERRICK in order to improve theatre logistics information in support of the Op HERRICK drawdown. MJDI and JAMES rollout is due to complete in 2014. The new Base Inventory and Warehouse Management Service (BIWMS) project is at the initiation stage and, subject to Investment Approvals Committee Approval, is scheduled to be implemented incrementally between 2013 and 2015. MJDI and JAMES implementation in Theatre is currently underway after which incremental improvements in Theatre logistics information are anticipated.

PAC RECOMMENDATION 3

The department should collect comprehensive information on the cost of all potential supply routes and use this information to identify the most cost-effective routes for both urgent and lower priority deliveries.

3.1 The Government partially agrees with the Committee's recommendation.

3.2 The department's principal focus is upon effectiveness on operations. However it is acknowledged that improvements are required to manage the operational supply chain more cost effectively. Work has recently been initiated as a Defence Research Goal with industry to enable a more comprehensive analysis and use of costs in the management of the supply chain and a DSTL project to deliver a cost capture model is now underway. Further improvements will be enabled by the replacement logistics information systems as they are delivered over the next three years.

3.3 The department is also in the process of implementing a new Supply Chain Modelling tool which when fully operational in 2012 will assist with the cost comparison of various supply routes and methods of delivery from MOD warehouses to the front line. This will deliver improved cost information to commanders with the responsibility of managing the operational supply chain day to day, and enable priorities and decision-making to be influenced not only be operational effectiveness, but also by the prime cost drivers.

Target implementation date

3.4 April 2013.

Current Status

3.5 Work in progress.

Action being taken to implement recommendation

3.6 A single recognised Defence database of transport costs has been established. All relevant departmental stakeholders have access and are responsible for reporting any changes in their area, which impact upon costs. A Transport Cost Comparator IT Tool was introduced in May 2012 in order to provide cost comparisons when developing Lines of Communications in support of operations and training. It will provide evidence that costs are included within the transport allocation decision making process. Work is ongoing to align the tool with current processes and Full Operating Capability is scheduled for March 2013.

3.7 The Supply Chain Modelling tool has captured the costs associated with different supply routes and methods of delivery. This is being used to support the Op HERRICK Drawdown Plan and current work is underway to fully exploit this tool on a routine basis.

PAC RECOMMENDATION 4

The department should set the terms of its contracts with suppliers so that manufacturers are better incentivised to deliver supplies in good time.

4.1 The Government partially agrees with the Committee's recommendation.

4.2 The department's standard practice is to include timeframes for delivery of equipment and services within its contracts with industry. However, it should be noted that the unpredictable nature of military operations and the difficulty in forecasting repair requirements for new vehicles, in advance, has resulted in provisioning delays from suppliers. This challenge is acknowledged and is addressed by continually reviewing performance of vehicles / failure reports, stock held in theatre and provisioning arrangements with suppliers. The use of modelling techniques on protected mobility vehicles, for example, has resulted in spares holdings forward in theatre and additional spares procurement which has improved provisioning arrangements.

Target implementation date

4.3 December 2015.

Current Status

4.4 Work in Progress.

Action being taken to implement recommendation

4.5 The department's Defence Equipment and Support Materiel Strategy has been established to address how the department can equip the Armed Forces in a more effective and efficient way. It aims to achieve a step change improvement in the delivery of Defence equipment, support and logistics and achieve greater value for money from a new operating model. The Logistics Commodities and Services (LCS) Transformation project is also undertaking the task of transforming how the services of storage and distribution of 'non-explosive' products to the Armed Forces are delivered in the future. The LCS Transformation project aims to deliver a solution that ensures military supply in the medium to long term whilst providing better value for money to the department. The Materiel Strategy and the LCS Transformation are both currently forecast to be in place by late 2015.

4.6 Work continues to review the effectiveness of the department's commercial arrangements, to identify best practice and seek ways to embed this into the business in order to improve and better incentivise suppliers. This will include a review of standard terms and conditions to ensure the provision by contractors of adequate information to meet the requirements of the department's annual accounts and the Treasury control framework and to ensure appropriate use of, and compliance with, departmental inventory systems and processes. A recent Defence Internal Audit into Contractor Logistics Support identified a range of areas for improvement consistent with and in addition to the NAO's findings in 2011. This is being investigated across DE&S as an ongoing initiative. Activity to improve Support Solutions will need to be timed with other initiatives such as implementation of the Materiel Strategy Programme and the Defence Inventory Strategy.

4.7 The delivery of key spares for battle-winning equipment in operational locations is treated with the highest priority. There is no policy for equipment to be 'cannibalised', although there will continue to be occasions, such as with seriously battle damaged equipment, where spares are harvested for sound value for money and capability reasons.

PAC RECOMMENDATION 5

The department acknowledged to us that it does not collect data on the amount of stock that may be damaged in such circumstances. The department should measure the condition of stocks in theatre and their deterioration rates to inform decisions about appropriate stock levels.

5.1 The Government partially agrees with the Committee's recommendation.

5.2 The department acknowledges that the high ambient temperatures and harsh operating conditions, particularly in forward locations, has resulted in some degradation of stock in the past. Until late 2010, some Theatre Force level stocks held in Camp Bastion were kept in sub-optimal storage facilities. Storage of supplies in Theatre has been addressed as part of the HERRICK Campaign Support Plan (HCSP), established as a recommendation of the HERRICK Campaign Support Review in June 2009 initiated by the Defence Logistic Board in January 2009.

5.3 Since 2010, the Bastion Supply Solution has improved the storage of General Stores, Equipment Support materiel and aviation stores with the provision of purpose built storage facilities in Camp Bastion. These facilities have enabled the move of stock that was previously stored in approximately 1000 ISO containers. The Force Primary Depot build commenced in October 2010 and further improvements in temperature controlled storage within the Force Primary Depot are planned which will further improve the lifespan of specified stocks.

5.4 The department constantly reviews the required stock levels to be held in theatre. This ensures that the majority of immediate demands in theatre are being met within available theatre stock and that stock levels are adjusted in light of the typical delivery times for transporting stock to theatre. The department acknowledges that stock deterioration should be tracked more accurately. The known shortcomings in the current logistics information systems do not currently allow a reliable cost figure to be easily derived across all of the materiel accounts. However, in line with the undertaking provided at the Committee's Hearing we are in the process of establishing a more effective system for managing this.

Target implementation date

5.5 March 2014.

Current Status

5.6 Work in progress.

Action being taken to implement recommendation

5.7 Current Logistics Information Systems are unable to provide the Theatre wide visibility of stock necessary to manage and measure stock deterioration in a more effective manner. The Management of the Joint Deployed Inventory (MJDI) system will deliver a more comprehensive Management Information capability and modernised business processes. MJDI will, when fully implemented in 2014, provide wider visibility of the entire deployed inventory and enable logistics commanders both in theatre and in UK to manage stock levels in Theatre more accurately. This global view, with improved business processes resulting from MJDI at the formation level, will ensure that stocks held are sufficient to support current operations and excessive stocks are not built up (when supply chain pipeline times are taken into account). MJDI is currently being fielded in theatre in Op HERRICK therefore incremental improvements in stock visibility information are anticipated henceforth.

5.8 The Permanent Joint Headquarters (PJHQ) routinely review the Sustainability Statement (SUSTAT) which sets the required inventory levels to be held in theatre balanced against the risk of delays across the various Lines of Communication. The SUSTAT for Op HERRICK ensures that operational capability is not compromised by the vagaries of operating a supply chain through countries which have presented frequent challenges. As the department begins the Redeployment from Op HERRICK, the SUSTAT (level of inventory held in Theatre) will be constantly scrutinised by PJHQ to ensure the department is not over insuring against that risk.

PAC RECOMMENDATION 6

The department should seek to benchmark the cost and performance of its supply chain against other nations which maintain armed forces of similar complexity, such as the USA and France.

6.1 The Government partially agrees with the Committee's recommendation.

6.2 The department has initiated Supply Chain benchmarking work. ACDS (Log Ops) has been appointed to lead the department's Supply Chain benchmarking work on behalf of CDM and initial discussions with Defence Analytical Services and Advice (DASA) emphasised the complexity of determining like-for-like comparison. As the Defence Audit Committee (DAC) has acknowledged, multi-national baselines, systems and targets are all different. Nevertheless, metrics have now been developed in specific areas including supply chain reliability, and supply chain velocity. These have been communicated at a senior level to the department's four principal allies – the US, France, Australia and Canada. The US and Canada have agreed to assist and detailed staff engagement is progressing; responses are awaited from France and Australia.

6.3 As a consequence of this exchange, ACDS (Log Ops) has been invited to join the US-led Joint Supply Chain Forum the inaugural meeting will be held in early October 2011 which will discuss benchmarking and data analysis. Allies understand the requirement for benchmarking to enhance the performance of the UK Supply Chain. However, the potential that one nation's performance may be perceived as being poorer than another could lead them to withhold information if it was going to be released into the public domain.

Current Status

6.4 No longer being implemented.

Reason for no longer implementing recommendation

6.5 Differing performance metrics and financial systems have prevented an accurate benchmark of cost and performance against other nations, however, more qualitative comparisons and sharing of best practice is now being achieved via the Joint Supply Chain Forum.

6.6 The department approached the United States, Australia, Canada and France to seek their engagement in benchmarking and to agree which metrics might be releasable and comparable. Metrics on Supply Chain volume, speed and reliability were agreed and data has been supplied by these nations. Based upon the data available and inconsistencies between allies in data definitions it was not possible to conduct a complete quantitative analysis to support benchmarking at the strategic level, although some Customer Wait Time comparisons were achieved. These reflect process differences in both Supply Chain operation and strategic Supply Chain design.

6.7 Director Joint Support Chain now attends the US-led Joint Supply Chain Forum along with representatives from Australia and Canada which provides the opportunity every six months to benchmark UK Supply Chain initiatives against similar initiatives in these countries.

Forty Fourth Report

HM Treasury

Lessons from PFI and other projects

Summary of the Committee's findings

The UK has 700 PFI contracts delivering a wide array of public assets and services with 61 further PFI projects in procurement and many other projects where PFI is being considered. Restrictions on capital budgets have meant that many of the assets delivered by PFI, including hospitals, schools, prisons, courts and roads might not otherwise have been built. In the present public expenditure climate there are legitimate concerns being expressed about the continuing financial cost of PFI for public organizations such as NHS Trusts. Some of the Government's case for using PFI has not been based on robust analysis, but on ill founded comparisons and invalid assumptions. On individual projects, the costs and benefits identified in business cases need to be revisited after contracts are signed and periodically thereafter, to inform future procurement decisions.

At present, PFI deals look better value for the private sector than for the taxpayer. Private sector funds have built up portfolios of PFI projects from the large market that government has created. The private sector manages these projects as a portfolio, benefiting from potential economies of scale without any obligation to share such volume gains. The Government, in contrast, has a fragmented approach and is not making use of its bulk buying power. The Committee accepts that contracts have got tighter over time and that the Treasury is seeking further efficiency savings, and would urge a bold and speedy approach. Achieving any savings on existing contracts will depend on voluntary agreements with investors and suppliers. The Committee look forward to the results of a pilot project seeking to identify opportunities for public sector wide savings from existing contracts. The onus is on the Treasury and Departments to negotiate tangible savings without putting the quality of public services at risk.

In reaching its findings, the Committee took evidence from the Treasury, the Major Projects Authority and certain prominent investors on lessons from PFI and the implications for future projects on 15 June 2011. The Committee issued its report on 1 September 2011 and the Treasury Minute – the Government's formal response - was published on 27 October 2011.

PAC RECOMMENDATION 1

The Treasury must properly consider all the alternatives to PFI and should rigorously explore radical improvements to the PFI model. The Treasury should issue new guidance setting out a more rigorous method for assessing the value for money of proposed PFI projects that includes these factors by autumn 2011.

1.1 The Government agrees with the Committee's recommendation.

1.2 The majority of investment in the UK's public services has been, and will continue to be, procured through conventional means. PFI has, however, been used to deliver infrastructure across a range of sectors, with some 700 signed contracts. These deals have successfully transferred risk to the private sector with facilities, in most cases, being delivered to time and to budget. In addition the public sector has been protected when projects have gone wrong, with losses being borne by the private sector.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Treasury has for some years sought to develop its advice on PFI, often drawing on the Committee's recommendations. The Government has already taken a number of significant steps to improve the cost effectiveness and transparency of PFI; for example, abolishing PFI credits at the Spending Review 2010 to create a level playing field for all forms of public procurement; introducing new assurance and approval arrangements in April 2011 to strengthen the approval process of all projects and, in July 2011, including PFI liabilities in the unaudited Whole of Government Accounts to improve transparency.

1.5 The Government announced its intention to reform PFI in November 2011. A call for evidence was subsequently launched. The conclusions of the review of PFI were set out at the 2012 Autumn Statement in a Treasury document, *A new approach to public private partnerships*. This set out a new approach to involving private finance in the delivery of public infrastructure and services through a long-term contractual arrangement, Private Finance 2 (PF2). PF2 seeks to provide access to wider sources of equity and debt finance to improve the value for money of financing projects; to increase the transparency of project arrangements, including introducing a new control total for off-balance sheet PF2 projects signed; to speed up and reduce the cost of the procurement process; and to provide greater flexibility in the provision of services.

1.6 The Treasury is clear that value for money is of primary importance when undertaking a project and that selecting the most appropriate delivery route is vital to ensuring value for money is achieved. There are a variety of contracting options which adopt different approaches, relative to PF2, to the allocation of design, construction, financing, asset maintenance and operational responsibilities between the public and private sector. Recognising the wide range of contracting options which is now available to procuring authorities the Government will update the existing Value for Money Assessment to reflect these alternatives. The updated and extended guidance will be published for consultation in spring 2013.

PAC RECOMMENDATION 2

The Treasury should measure the tax revenues from PFI deals and should ensure that this is taken into account in future assessments of PFI against conventional procurement.

2.1 The Government disagrees with the Committee's recommendation.

2.2 All appraisals of proposed capital contracts take account of tax. Managing Public Money directs procuring authorities to ensure that procurement decisions do not rely on any tax advantage that a particular bid may enjoy because of the tax status of the proposed contactor.

PAC RECOMMENDATION 3

The Treasury should introduce arrangements for sharing gains on the sale of PFI equity shares in new PFI projects. The Treasury should agree with investors how data on investor returns, including the value at which shares change hands, can be captured and made available to the Treasury.

3.1 The Government partially agrees with the Committee's recommendation.

3.2 The Treasury does not agree that it would be desirable to seek a share of gains arising from the sale of shares in existing contracts. Retrospective action such as this would undermine the binding nature of public sector contractual commitments. There would be a significant negative impact on the confidence of investors, particularly foreign investors, in the UK market and new investment in UK infrastructure would be discouraged.

3.3 The Treasury does agree, however, that greater transparency of PFI investor gains and losses from PFI projects, as well as of secondary market trading in PFI equity, would be helpful to inform public sector judgements about whether new PFI project pricing is reflective of the prevailing market and is likely to represent value for money. Consideration will be given to the balance of risk and reward for PFI equity investors, including the sharing of gains, as part of Ministerial decisions on the procurement and financing models to be used for future public infrastructure projects.

Current Status

3.4 Implemented.

Action taken to implement the recommendation

3.5 Where PF2 is used as the delivery route for a project, private sector investors will be required to provide actual and forecast equity return information to the Treasury, which the Treasury will publish periodically. To ensure the information can be easily understood and compared across projects the new standard contractual guidance, *Standardisation of PF2 Contracts*, sets out the precise way in which this should be calculated and provided. In addition, following the introduction of public sector equity as part of the PF2 approach, the Treasury will publish an annual report on the public sector's equity investments, including the actual and forecast equity returns of individual projects and of the portfolio.

3.6 PF2 contains a number of measures which curb the ability of the primary investors to generate excessive profits and consequently the potential for windfall gains on secondary market sales. These include:

- a mechanism to share in any unutilised funds in the lifecycle reserve;
- the public sector receiving a share of any gains achieved if project borrowing is refinanced during the contract term;
- the removal of soft services, where contractors have typically included a risk premium in the pricing;
- the likely de-leveraging of the capital structure, which has the impact of sharing efficiency savings across an increased equity investment;
- the introduction of equity funding competitions to encourage long-term investment into projects, which will reduce the instances and / or quantity of equity traded in the secondary market; and
- as a result of the introduction of public sector equity, the public sector sharing in the ongoing investment returns from the project.

PAC RECOMMENDATION 4

Freedom of information should be extended to private companies providing public services. The Treasury should define commercial confidentiality and the exceptional circumstances where it applies.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The Government does not currently have any plans to extend the Freedom of Information Act (FOIA) to contractors. However, the Government is committed to increasing transparency and accountability in its spending and in its procurement processes. The Government's Open Data Consultation is consulting on an extension to the types of organisations to which an open data policy would apply. The FOIA will also be subject to post-legislative scrutiny to see how it is working in practice. In light of the evidence drawn from both sets of work, the Treasury will consult with the Cabinet Office and the Ministry of Justice as further policy in this area develops.

4.3 The FOIA provides an exemption for information if any harm would, or would be likely to, arise from its disclosure, to the commercial interests of any person including the public authority holding it. This is subject to a public interest test. Where a member of the public considers that information has been withheld inappropriately, those decisions may be challenged to the Information Commissioner and beyond. It is not for the Treasury, but for case law and the Information Commissioner, to interpret the intention of the FOIA in respect of the exemption for commercial interests.

PAC RECOMMENDATION 5

The Major Projects Authority and the Treasury should identify and publish lessons from the PFI experience to improve the public sector's commercial skills across all projects. This should include safeguarding commercial skills capability during the current public sector reorganisation to ensure there is adequate contract management of the PFI portfolio.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Government has recognised the need to make better use of commercial skills and has established a number of work streams within the Efficiency and Reform Group (ERG) of the Cabinet Office to improve commercial skills in central Government. In particular, the Government is focused on building procurement and project management skills to improve the successful delivery of projects.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Major Projects Leadership Academy has been established by the Government to train senior leaders to successfully deliver major projects. The curriculum addresses commercial capability and draws upon lessons learned from a range of projects including PFI. All project leaders in the Government Major Projects Portfolio are now required to commence the programme by the end of 2014, with the aim that in future only Academy alumni will be appointed as Government major project leaders. In addition, the Cabinet Office is also introducing a number of reforms to improve commercial skills across Government including, as set out in the Civil Service Reform Plan published in June 2012, a five year capabilities plan for the whole of the Civil Service which will identify which skills and capabilities are in deficit and how these gaps will be filled. Commercial skills will feature strongly in this plan.

5.5 In the 2012 Autumn Statement, the Government announced plans to strengthen the mandate of Infrastructure UK (IUK) and increase its commercial expertise to boost delivery of growth enhancing infrastructure projects across Government. With the MPA, IUK is assessing major Whitehall infrastructure departments' ability to deliver infrastructure. This assessment will be completed by Budget 2013.

5.6 The Treasury has worked with departments to establish operational savings reviews covering contracts in all PFI sectors to identify efficiency and savings opportunities as well as lessons and good practice that are relevant to the sector and more widely across PFI projects. Following validation by the NAO in summer 2013, the Treasury will publish case studies of specific reviews to highlight further key learning.

PAC RECOMMENDATION 6

The Treasury should update the Committee by November 2011 on the extent of the savings to be achieved, where and how they have been achieved, and how it is minimising the risk of compromising service quality in individual PFI projects and across the programme. The Committee wishes to be advised of any companies that do not agree to make savings and expect the Treasury to consider whether the Government should continue to do business with these companies.

6.1 The Government partially agrees with the Committee's recommendation.

6.2 A plan to deliver £1.5 billion savings across the 495 operational PFI projects in England was announced by the Treasury in July this year. The Government is committed to ensuring taxpayers get value for money from PFI contracts and this initiative is part of an ongoing programme of reform to improve the cost effectiveness and transparency of PFI contracts.

6.3 The operational savings programme will build on the lessons from the pilot project reviews undertaken in health and defence and will target savings from over-specified or unnecessary services, areas where cost can be removed without adversely affecting services to the customer, and in increasing efficiency of use and management of PFI assets.

Current Status

6.4 Implemented.

Action taken to implement recommendation

6.5 Across central Government and the wider public sector just over £1.5 billion of committed current and future efficiencies and savings have been reported to the end of November across approximately 100 projects out of the 700 being targeted. In addition there are around a further £1 billion of savings in discussion as at December 2012.

6.6 In order to ensure that the quality of services is maintained, contract savings are only included in the numbers if they show a current or near term benefit, represent good value for money and imply no material detriment to core services to the customer or taxpayer. It is, however, for each contracting body to decide how best to realise the efficiencies in their contract. Any savings made and benefits achieved will be retained by contracting authorities and made available to be recycled back into frontline services.

PAC RECOMMENDATION 7

The Treasury must set out how it will maximise the Government's buying power to improve value for money for users and taxpayers in the context of the declared policy on localism.

7.1 The Government partially agrees with the Committee's recommendation.

7.2 The Government recognises it always needs to manage competing agendas. There is no intentional conflict between localism and making the best use of the Government's buying power, but the Government recognises that the objectives are potentially conflicting, and will work to ensure that the impacts are minimised.

Current status

7.3 Implemented.

Action taken to implement recommendation

7.4 The Government is encouraging departmental centralisation of procurement under PF2, where appropriate, to enable economies of scale and efficiencies to be achieved across a procurement programme. The first PF2 programme, the Priority Schools Building Programme (PSBP), will be procured by a central unit, within the Education Funding Agency (EFA), in the Department for Education. This centralised approach to PSBP procurement will enable a number of benefits including the deployment of a central team of experts to run the individual procurements and the use of a standard form documentation which needs very little tailoring. Other departments with PF2 pipelines will be encouraged to establish a central procurement unit when they embark on a PF2 programme where appropriate.

Forty Fifth Report

Department of Health

The national programme for IT in the NHS: an update on the delivery of detailed care records systems

Summary of the Committee's findings

The National Programme for IT in the NHS (the Programme) was an ambitious £11.4 billion programme of investment designed to reform how the NHS in England uses information to improve services and patient care. The Programme was launched in 2002, and the Department of Health (the department) has spent some £6.4 billion on the Programme so far. This report is concerned with a central part of the Programme, where the aim was to create a fully integrated electronic care records system, which is expected to cost around £7 billion in total. The original objective was to ensure every NHS patient had an individual electronic care record which could be rapidly transmitted between different parts of the NHS, in order to make accurate patient records available to NHS staff at all times.

NHS trusts will take over responsibility for care records systems from 2015-16, but they do not currently have the information they need about potential future costs. After the implementation of forthcoming health reforms, the organisations currently managing the Programme will no longer exist and the risks will transfer to NHS trusts. However, at present these trusts have no direct contractual relationship with existing suppliers and no information about the likely cost of using care records systems beyond 2015. The Committee are further concerned about the problems it and the National Audit Office (NAO) have faced in getting timely and reliable information from the department. Information provided has frequently been late, has contained inconsistencies and has contradicted other evidence. This has hampered the Committee's ability to scrutinise the Programme on behalf of Parliament.

In reaching its findings, the Committee took evidence from the Department of Health and its contractors BT and CSC on the delivery of care records systems under the National Programme for IT in the NHS on 23 May 2011. The Committee issued its report on 3 August 2011 and the Treasury Minute – the Government's formal response - was published on 27 October 2011.

PAC RECOMMENDATION 1

The department should review urgently whether it is worth continuing with all elements of the care records system, to determine whether the remaining £4.3 billion could be used to better effect to buy systems that work, are good value and deliver demonstrable benefits for the NHS.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Programme has successfully delivered a number of national applications and essential infrastructure upon which the NHS now relies; these include the Spine, N3 network, NHSmail, Choose and Book, Secondary Uses Service and Picture Archiving and Communications Service. However, it is clear that the top-down approach to implementation of local systems has not delivered the benefits expected and that the NHS has not been sufficiently engaged in the delivery of local care record systems.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The department, working with the Major Projects Authority (MPA), announced in September 2011, that the National Programme for IT had been dismantled. A full review of the department's informatics programmes, projects and services, including local care record systems, was subsequently completed in January 2012. Governance and accountability has been strengthened through the identification of Senior Responsible Owners (SROs) for each programme. The SROs are responsible for ensuring that each programme or service they lead delivers good value for money and that benefits are realised from the investment.

1.5 From April 2013, new organisational arrangements will come into operation. The department will have responsibility for informatics policy, the NHS Commissioning Board will have a key strategic role in supporting the department in the commissioning of systems and services and the Health and Social Care Information Centre will be responsible for the delivery and maintenance of these systems and services. As part of these changes there will be an increased level of localisation of decision-making. In addition, an Informatics Services Commissioning Group (ISCG), which will include representation from the department, the NHS Commissioning Board, Public Health England and other parts of the health and social care system, will take on responsibility for commissioning and overseeing the delivery of informatics in the NHS.

1.6 A robust benefits realisation approach has been developed for each of the programmes previously managed under the National Programme for IT and a statement of benefits arising from the individual programmes is currently being prepared for publication.

PAC RECOMMENDATION 2

Given the department's failure to secure a good deal in its contract renegotiation with BT, and its weak position with Computer Sciences Corporation (CSC), the Committee considers it essential that the Major Projects Authority now exercises very close scrutiny over the department's continuing negotiations with CSC, and that Government gives serious consideration to whether CSC has proved itself fit to tender for other Government work.

2.1 The Government partially agreed with the Committee's recommendation.

2.2 The department is working with the Cabinet Office and all suppliers to secure best value for money for the taxpayer and will continue to do so as it develops a new approach to providing informatics support to the NHS.

Target implementation date

2.3 31 March 2013.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The department worked with the Cabinet Office, the Treasury and suppliers to secure best value for money for the taxpayer and develop how informatics support can be delivered in the future in a modernised NHS.

2.6 The department's efforts have focused on renegotiations with CSC to secure best value for money for the delivery of the Lorenzo patient administrative system software to the NHS. A legally binding interim agreement was signed between the department and CSC on 31 August 2012, reducing the contractual commitment to CSC by over £1 billion. Work has commenced to confirm the contractual changes and the delivery of defined actions within the agreement. Negotiations associated with the overall contractual reset, including all formal governance, are due to be completed by 31 March 2013.

PAC RECOMMENDATION 3

The department should, by September 2011, provide the Committee with an updated statement of benefits to March 2011, which the Committee will ask the National Audit Office (NAO) to audit.

3.1 The Government partially agreed with the Committee's recommendation.

3.2 The original concept of the Programme was to deliver an integrated care record service. In 2008, this terminology was refined into a detailed component and a summary component. Work is progressing rapidly on the latter component – some six million people now have a summary care record[1] and over thirty million patients have been written to about creating their record. The department will however provide an updated statement of benefits along with a revised financial baseline. This will form part of the review of the portfolio of applications and services, which will be provided in future. The department will work closely with the NAO on this and agree a suitable timeframe for its production. The department will keep the Committee fully informed of progress.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The department shared the *Final Benefits Statement for programmes previously managed under the National Programme for IT* with the Committee in July 2012. The NAO are currently reviewing the statement and following this review the statement will be published by the department. This is expected by the end of March 2013.

PAC RECOMMENDATION 4

The department must address possible compromises in data security.

4.1 The Government agreed with the Committee's recommendation.

4.2 The department has provided the NHS with clear guidance on the management of information risk and appropriate security measures through a Code of Practice and a range of Good Practice Guidelines. The protection of sensitive patient information has always been a priority for the NHS. A recent joint letter from Sir David Nicholson, NHS Chief Executive and Christopher Graham, the Information Commissioner to NHS chief executives, sent in September 2011, underlines this importance along with the intention of the NHS and Information Commissioner's Office to work together to support the delivery of good information governance.

Target implementation date

4.3 Ongoing.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The larger NHS organisations undertake an annual assessment of information governance, which includes risk management and security arrangements, with a minimum performance level enforced by commissioners of health and social care services. Information Security and Information Risk Management are ongoing business requirements for all NHS organisations. Performance assessments, published in March 2012, indicate that most Trusts had adequate arrangements in place though a minority indicated that they still have some areas of weakness to be addressed in 2012-13. The national contracts are being strengthened to provide commissioners with greater leverage in order to drive performance in this area. Pharmacies are contractually bound to undertake a similar assessment and are meeting requirements. The department is exploring the scope for introducing similar requirements into GP and other independent contractor contracts.

4.6 The current period of NHS transition may increase the risk of incidents occurring. The department is taking steps to mitigate against this, including issuing guidance; mandating annual

[1] As of January 2013 the number of people with a Summary Care Record had increased to 21 million.

information governance training; and ensuring that effective data handling is a component of the authorisation process for establishing new bodies. The department has also secured an agreement with the Information Commissioner to share details of incidents and will be introducing a new on-line reporting system in May 2013. The transition is providing an opportunity to review existing standards and guidance on information security. Using powers provided to the NHS Commissioning Board in the Health and Social Care Act 2012, key guidelines are reaffirmed in a form that will have a degree of legal force.

PAC RECOMMENDATION 5

Sir David Nicholson has not been able to fulfil his duties as the Senior Responsible Owner for the Programme effectively, given his significant other responsibilities, weakening accountability for the Programme's extensive delays and increasingly poor value for money. It is essential that there is proper accountability for the Programme, especially since the current health reforms, according to Sir David, make it "quite difficult to shift a system like that into that environment". Sir David should now expect much closer scrutiny and oversight of his actions by the Major Projects Authority, but he must remain Senior Responsible Owner for the Programme so there is a clear line of accountability and responsibility for performance as well as continuity in managing the substantial risks that remain.

5.1 The Government partially agreed with the Committee's recommendation.

5.2 The Government agrees about the importance of good governance and will be reviewing the current arrangements in the light of the recent announcement on the future of the Programme and the conclusions reached by of the Major Projects Authority in their review of the Programme. Sir David Nicholson will remain Senior Responsible Officer to ensure a clear line of accountability whilst this work is underway and new governance arrangements are put in place to support more local decision making.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Government accepts the importance of good governance and has reviewed the current arrangements in light of the announcement in September 2011 that the National Programme for IT had been dismantled, and the conclusion reached by the MPA in their review of the Programme.

5.5 Refreshed governance on how national IT programmes and projects are managed was completed in January 2012. The portfolio of programmes comprising the former National Programme for IT is no longer being managed as a single programme of work with only one SRO responsible for the entire portfolio. The department has interim governance arrangements, ahead of new structures, for the future management of informatics, which will come into effect from April 2013. Individual programmes continue to have their own programme boards led by a suitably qualified SRO, all of whom have now received refresher training on their responsibilities. Oversight of the SRO will take place through the line-management arrangements in their originating organisation, in most cases the NHS Commissioning Board, and via an agreed assurance plan which is currently under consideration.

5.6 The Benefits Statement provided to the Committee sets out the new governance arrangements.

PAC RECOMMENDATION 6

The department should write to every NHS Trust making clear the detailed implications of their future responsibilities for care record systems, and in particular the financial liability to which each trust will be exposed. This information should include information about exit costs from the LSP contracts and future maintenance and running costs for those Trusts that continue with the Programme and this information must be provided within two months. It should also specify the support that the centre will provide to Trusts procuring outside the Programme, particularly where such systems can be shown to represent value for money to the NHS or greater functionality.

6.1 The Government agreed with the Committee's recommendation.

6.2 The department will make clear to NHS Trusts their responsibilities for care records systems when the changes are announced for the future management arrangements for NHS informatics.

Target implementation date

6.3 31 March 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 '*Informatics: The future – An organisational summary*', published in July 2012, confirmed that as national contracts expire NHS providers will be asked to consider local options through local funding and will be responsible for their own investments in informatics, including care records systems. Funding for local solutions will be provided through other mechanisms which have yet to be agreed, as there will be no further central funding of local systems once the existing national contracts expire. Options for funding local investment in informatics are presently being considered along with how information standards can be used to influence local informatics investment decisions.

6.6 In addition, the department is considering recommendations from an independent assessment on overseeing the delivery of benefits from the two remaining Local Service Provider (LSP) contracts with BT and CSC. It has also commissioned a delivery assurance review on the status of the delivery obligations against which the department is contractually bound by these contracts. The scope of the review includes looking at the financial and commercial risks associated with managing these contracts through to expiry and the future move to local contracting in order to ensure there is robust exit planning in place by the NHS in time for the cessation of services by the LSPs (in 2015 and 2016 when the main contracts end).

6.7 The department will be working with Trusts and SHAs to ensure they are fully prepared for the ending of these contracts and an action plan with recommendations for future work in this area is scheduled for completion by the end of March 2013.

PAC RECOMMENDATION 7

Basic information provided by the department to the NAO was late, inconsistent and contradictory. The Committee are surprised that in its memorandum to the Committee of 7 June 2011, two weeks after the hearing, the department did not mention that it made an advance payment to CSC of £200 million in April 2011. The department must provide timely and reliable information in future to support effective accountability to Parliament.

7.1 The Government agreed with the Committee's recommendation.

7.2 The department notes the Committee's observations and is working with the NAO to strengthen relationships to ensure better and more timely sharing of information in future and thereby avoid such situations occurring again.

Target implementation date

7.3 Ongoing.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The department is working with the NAO to ensure more timely sharing of information. Meetings at senior level have taken place between the department's NHS Informatics Directorate and the NAO on the *Final Benefits Statement for programmes previously managed under the National Programme for IT*, with further meetings planned.

Forty Sixth Report

Department of Health

Transforming NHS ambulance services

Summary of the Committee's findings

Ambulance services provide a valuable service that is held in high regard. Eleven regional ambulance services operate across England. In 2009-10, they handled 7.9 million emergency calls, and spent £1.5 billion on urgent and emergency services. Ambulance services are expected to make 4% efficiency savings year-on-year, in line with the rest of the NHS, at a time when public demand for their services continues to rise. Until 1 April 2011, the department measured the performance of ambulance services against three response time targets. These were introduced in 1996 to focus attention on improving basic standards and achieving consistency across the country. But the incentive to meet response time targets has led to some inefficiencies.

A more integrated emergency care system is required to ensure that ambulances are not kept waiting outside accident and emergency, can hand over patients faster and get back out to help others. The department has plans to align the objectives of those involved in the provision of urgent and emergency care providers. There are also varying levels of collaboration between ambulance, fire and police services which should be strengthened and the Committee look to Government to investigate the scope for further co-operation to identify savings in areas such as procurement and back-office services.

In reaching its findings, the Committee took evidence from the department, the ambulance service and ambulance service commissioners on the value for money ambulance services provide on 29 June 2011. The Committee issued its report on 16 September 2011 and the Treasury Minute – the Government's formal response - was published on 19 December 2011.

PAC RECOMMENDATION 1

Wide variations exist in unit costs and efficiency across ambulance services. Better benchmarking and sharing of best practice could help to reduce these variations. Monitoring and interventions at a national level are needed to increase efficiency and achieve better outcomes and value for money. The recommendations set out below are intended to help the department, commissioners, and ambulance services achieve these aims.

1.1 The Government welcomed the Committee's report and its findings.

PAC RECOMMENDATION 2

The department should clarify roles and accountabilities for the emergency care system and quickly develop an intervention regime to protect '999' services in situations where providers fail.

2.1 The Government agreed with the Committee's recommendation.

2.2 Under the Government's proposals, all NHS ambulance trusts will become foundation trusts. As with all other foundation trusts, the Board of an ambulance service would be responsible for delivering efficiencies and for responding to any financial or clinical difficulties. However, all foundation trusts will be subject to the framework for securing continued access to NHS services set out by the Health and Social Care Act. Under this framework, commissioners will be responsible for securing continued access to NHS services, including ambulance services, to meet the healthcare needs of their populations.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 Monitor, the independent regulator of NHS foundation trusts supports commissioners to secure continuing access to NHS services, through proactive regulation, to prevent providers becoming unsustainable. As part of an ongoing assessment of risk to provision of NHS services, Monitor's licensing regime allows a range of interventions that could be applied, including:

- the ability to access a provider's records and premises;
- requiring a provider to supply additional information;
- requiring a provider to produce a turnaround plan to reduce the unacceptable risk to continued access to NHS services; and
- requiring a provider to appoint turnaround experts to increase Board capacity to resolve the issues facing the organisation.

2.5 The department expects providers ordinarily to return to normal operation and to deliver high quality care. However, in rare circumstances, it might be possible that the interventions are unsuccessful and the provider becomes unsustainable. In these circumstances, Monitor will appoint a Trust Special Administrator to take control of the provider's affairs, and develop a plan to secure the long-term viability of those services. Additionally, the administrator will have access to further funding, from the financial mechanisms set up by Monitor, to help secure access to NHS services.

2.6 Monitor will publish guidance on how their continuity of service regime will operate, which will include the metrics Monitor will use to determine when to intervene on a distressed provider and, as a last resort, when to appoint an administrator. Monitor is consulting on aspects of its licensing and continuity of services regime throughout 2012-13, including licence conditions for securing continuity of services[2], guidance for commissioners on determining services that should be protected[3], and guidance on how the regime will operate.

2.7 Providers of ambulance services are required to register with the Care Quality Commission (CQC) and to meet the essential levels of safety and quality. Where an ambulance service does not meet these levels, the CQC has the power to take enforcement action to bring about improvements.

2.8 The Permanent Secretary serves as Principal Accounting Officer of the department and is accountable to Parliament for the proper stewardship of the resources allocated to the department. The Accounting Officers responsibilities are set out in chapter 3 of the Treasury guidance *Managing Public Money.*[4]

PAC RECOMMENDATION 3

The department must clarify how ambulance services will be commissioned and what choice commissioners will have over the providers of emergency and urgent care.

3.1 The Government agreed with the Committee's recommendation.

3.2 The new commissioning architecture will devolve responsibility for most commissioning to local clinical commissioning groups, supported and held to account by an independent NHS Commissioning Board

[2] http://www.monitor-nhsft.gov.uk/home/news-events-and-publications/our-publications/consultations/consultations-and-engagement-monito-0

[3] http://www.monitor-nhsft.gov.uk/home/news-events-and-publications/our-publications/consultations/consultations-and-engagement-monito-1

[4] Dear Accounting Officer 01/11 – Accountability: http://www.hm-treasury.gov.uk/d/dao01_11.pdf

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 Clinical Commissioning Groups (CCG) will be responsible for commissioning urgent and emergency care, and ambulance services for their patients. The department expects CCGs to use providers that are best placed to provide high quality clinical services. The NHS Commissioning Board will provide guidance, supported by the department's fact sheet on responsibilities[5].

3.5 CCGs, in the same way that Primary Care Trusts (PCTs) operate, can choose to act collectively to coordinate care over larger geographical areas, for instance by adopting a lead commissioner model to negotiate and monitor contracts with urgent care providers. Through the NHS standard contract, commissioners will set standards, quality requirements and outcomes that providers such as ambulance trusts will have to meet in the delivery of services to patients.

PAC RECOMMENDATION 4

The department should set standard definitions for the data to be measured by each ambulance service to enable benchmarking, and certify the quality of data-generating systems. Commissioners should use this data as a basis on which to seek service efficiencies. Ambulance services should use it to share best practice and maximise efficiency.

4.1 The Government partially agreed with the Committee's recommendation. The department agreed with the spirit of the recommendation, but not with the mechanism to achieve this, as it is not appropriate for the department to set standards for the service.

4.2 The department has introduced ambulance clinical quality indicators that focus on the outcomes and quality of care delivered for all ambulance calls and it is valuable that the Committee recognises this. The department believes it would be beneficial for ambulance trusts to collect information based on standard definitions, where appropriate, and that this would help to reduce variation. However, it is not for the department to specify such definitions due to the operational nature of the service and the need for local services to best collect data to meet their needs.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 Substantial progress has been made in reporting performance against Ambulance Clinical Quality Indicators. These indicators focus on the outcomes and quality of care delivered for all ambulance calls:

- the department is currently producing an annual review of the indicators, which will inform any further work required;
- the annual national benchmarking work programme will continue as a valuable data source to inform evidence-based decision making;
- the National Ambulance Commissioning Group uses benchmarking to support improved efficiency in and commissioning of ambulance services;
- there is a standard national utilisation rate definition to allow national benchmarking to be conducted, which was implemented December 2011. Operationally, ambulance trusts also use their own internal utilisation rate measures; and
- work continues to be taken forward in Ambulance Trusts in relation to utilisation rates as another means of benchmarking to improve efficiency.

[5] http://www.commissioningboard.nhs.uk/files/2012/07/fs-ccg-respon.pdf

PAC RECOMMENDATION 5

The department should review how response times are measured to ensure ambulance services have sufficient flexibility to identify the most appropriate response to calls before resources are deployed.

5.1 The Government agreed with the Committee's recommendation.

5.2 NHS Ambulance Services in England have some of the fastest 999 call answering and ambulance response times in the world and the service has worked hard over the past ten years to achieve significant improvements.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 From 1 June 2012, Category A (defined as immediately life-threatening incidents) was split into Red 1 (immediately time critical calls) and Red 2 (serious, but less immediately time critical calls). For Red 2 calls, a clock start has been introduced which allows control room staff up to an extra 60 seconds after the call is connected to obtain information on a patient's condition. This reduces the inappropriate and multiple dispatch of resources by ambulance trusts immediately on knowing the address of incidents, resulting in a response based on patients' specific clinical needs. More ambulance resources will then be available to respond to emergency calls, leading to improved response times. Red 1 calls continue to be timed from the moment the call is connected to the control room to ensure that the most critical cases are prioritised.

5.5 The department is currently working on a report that reviews operation of the ambulance clinical quality indicators, suggesting ways to reduce variation in performance between trusts and improve efficiency.

PAC RECOMMENDATION 6

Over one-fifth of patient handovers from ambulance crews to Accident and Emergency staff at hospitals take longer than the 15 minutes recommended in guidance. If ambulances are queuing in hospitals, they are not available to take other calls. Commissioners should take a consistent approach to penalising hospitals that do not adhere to the guidance of 15 minute handovers and the department should also develop a quality indicator for hospital trusts on hospital handover times.

6.1 The Government partially agreed with the Committee's recommendation.

6.2 The department introduced clinical quality indicators for Accident and Emergency Departments in April 2011. One of the indicators measures the time to initial assessment for all patients arriving by ambulance. The indicator can be used by commissioners locally to drive improvement. Data on this indicator are published monthly for each provider. This means that hospital trusts are already, via an indirect route, monitored against their ability to perform timely patient handovers as initial assessment cannot occur until a patient is handed over from the ambulance crew.

Target implementation date

6.3 April 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The department wrote to the NHS in June 2012 to express concern over this issue and stated that delays to ambulance handovers were unacceptable. Additionally, the department has met with CQC and Monitor to discuss what more can be done to reduce delays to handovers. CQC and Monitor agreed to take appropriate action where delays continue to be problematic, using their 'Duty of Co-operation' to ensure an effective collaborative approach is taken at the interface of health care organisations.

6.6 A national event on handover was held by the NHS Confederation and Ambulance Service Network, which brought together Ambulance Trusts, Primary Care, Acute Sector, Commissioners and other key stakeholders. Ambulance handover was recognised as a system wide issue. A number of recommendations from the event are being instituted, including: revising national best practice guidance; ensuring consistency of data; and seeking to align Key Performance Indicators (KPIs). The national best practice guidance on ambulance handover has now been published by the Ambulance Service Network (ASN). It makes a number of recommendations, and looks at data collection and key performance measures. The department is involved in further discussions on including handover in the planning and performance approach for 2013-14.

PAC RECOMMENDATION 7

The Efficiency Reform Group should work with the departments responsible for fire, ambulance and police services to commission an independent review. The review should examine what efficiencies and enhanced service delivery could be achieved by increased joint-working across the emergency services and should look to maximise opportunities for co-location, for example in the empty regional fire centres.

7.1 The Government partially agreed with the Committee's recommendation.

7.2 Cabinet Office would be receptive to being approached by the emergency services organisations to explore the potential for efficiency savings through more collaborative procurement and back office shared services while respecting local autonomy. Emergency services can already access some of the central procurement categories if they are able to aggregate and commit spend. Cabinet Office is also developing a shared services strategy which, in due course, may be a model the emergency services wish to follow or learn more about.

7.3 The Government is also keen to encourage closer joint working between the emergency services as it will result in a more effective overall response to civil emergencies. To drive this work forward, the Government committed in the Strategic Defence and Security Review to "*improve the way the emergency services work together in an emergency*". Ministers are working jointly with the emergency services to identify how this might be achieved.

Target implementation date

7.4 Ongoing.

Current Status

7.5 Work in progress. (This recommendation is being partially implemented).

Action being taken to implement recommendation

7.6 The Joint Emergency Services Interoperability Programme (JESIP) is fulfilling the aim of the recommendation by examining options for enhanced delivery of the blue light services. The JESIP is led by senior representatives of the police, fire and rescue and ambulance services. The Programme's aim is to ensure that the blue light services are trained and exercised to work together as effectively as possible at all levels of command in response to major or complex incidents, so that as many lives as possible can be saved. The work is overseen by a joint Ministerial Board chaired by the Home Secretary, and supported on a day to day basis by officials from the Home Office; Department for Communities and Local Government; Department of Health; and the Cabinet Office.

7.7 A team incorporating staff from the police, fire and rescue and ambulance services is in post and a two year work plan is being finalised. Working with officials, the team will facilitate joint agreement on national priorities and joint operational issues and establish suitable delivery structures. This will support the emergency services in planning, exercising and learning together. The programme is running in parallel with a range of projects at national and local level, aimed at driving greater response capability, effectiveness and efficiency across all emergency responders.

Forty Seventh Report

Department for Work and Pensions

Reducing costs in the Department for Work and Pensions

Summary of the Committee's findings

As part of the Government's target to reduce the budget deficit, the Department for Work and Pensions (the department) has to reduce its running costs by £2.7 billion by March 2015. The department intends to achieve over half of this reduction in 2011-12. It is important that the reductions in the £7.8 billion running costs do not lead to an increase in expenditure on benefits and pensions (currently estimated at £156 billion). The Committee are concerned that the department lacks a clear plan to deliver these savings.

Work is underway to streamline the corporate functions in the department and to reduce staff numbers in Jobcentre Plus, but it is not clear how the department will operate as a result. The department is currently unable to reconcile its proposals for reducing costs, for example by improvements in administrative efficiency, with the spending cuts required for the Spending Review (£1.45 billion in 2011-12). The absence of a clear model of how the department will operate in future creates uncertainty and risks unsettling staff whose morale is already low, and the Committee expects the department to provide detailed plans as soon as possible.

In reaching its findings, the Committee took evidence from the department on its plans for reducing costs and reforming its services on 27 June 2011. The Committee issued its report on 13 September 2011 and the Treasury Minute – the Government's formal response - was published on 19 December 2011.

PAC RECOMMENDATION 1

The department's plans for headcount reductions, or how services will be maintained, lack clarity. The department should develop a clear, fully-costed model of how it expects to operate in future. It should keep staff informed of plans to achieve its model, in particular the extent and timing of planned headcount reductions.

1.1 The Government agrees with the Committee's recommendation and is continuously communicating with its staff as the Organisational Design Review is implemented.

1.2 The Comprehensive Spending Review was published in November 2010, in parallel with a Structural Reform Plan for major changes to create a welfare state fit for the 21st Century. Given the magnitude of the change which this requires, and – as the Committee should expect – the consequential need to rethink its operational models, the department considers that it has operated at pace. For example: the Universal Credit Programme has been established, and has already delivered a third of the core IT for user interface and rules processing as well as a strategy for migration from existing benefits. Both of these necessarily inform choices now to be made about the detail of operations from October 2013.

1.3 In addition, the requirement to deliver a 40% reduction in the cost of the Corporate Centre has been quickly translated into a programme now well underway. By the end of March 2012, the baseline pay bill of the centre will have been reduced by 28% in one year.

Current Status

1.4 Implemented.

Action taken to implement recommendation

1.5 The department has implemented its Corporate Centre re-organisation, keeping staff informed of planned headcount reductions through the re-organisation, and is on track to achieve the pay bill savings it set itself. The department engages in regular, thorough and in-depth multi-year planning which brings clarity to how it is achieving sustained efficiency savings, together with the impact of efficiency savings on performance and service levels. In parallel to this, the department's business strategy function will continue to develop the operating model, showing how the department's services will be structured in order to deliver its current and future strategic objectives.

PAC RECOMMENDATION 2

The department should test the realism of the plans by Jobcentre Plus to process 80% of Jobseekers Allowance claims online and prepare a detailed plan for what it can achieve. It must also spell out alternative actions if the assumed savings from customers using services online are not achieved.

2.1 The Government agrees with the Committee's recommendation and plans to prepare a detailed plan by the end of March 2012.

2.2 Jobseeker's Allowance Online is a popular service: over one million claims have been made online to September 2011 and over 80% of people who have claimed online are satisfied with the service.[6] Take-up is increasing and the figure quoted of 17% is out of date. In September 2011:

- the proportion of all JSA claims submitted online was 30.4%, an increase of over 60% from the 18.8% submitted in March 2011; and;

- the proportion of JSA claims completed online was 16.2%, an increase of over 55% from the 10.4% completed in March 2011. Not all claims submitted online are completed online, for some this is because they are either withdrawn or closed.

Target implementation date

2.3 September 2013.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The department has plans and a programme in place to support the achievement of its target of 80% of JSA claims online. As at September 2012, 39% of claims were made online. Through its continuous planning process, the department can assess alternative actions to achieve cost reductions should the forecast savings from JSA online not be achievable.

PAC RECOMMENDATION 3

The department should allocate clear responsibility for scrutinising progress of the welfare reforms alongside cost reductions, develop a clear understanding of the risks to each and how they will be managed and encourage staff to report any emerging problems early.

3.1 The Government agrees with the Committee's recommendation.

3.2 The department has already changed, and strengthened, its ability to manage these risks. The Departmental Board is now chaired by the Secretary of State, and includes experienced, non-executive directors; the department's executive team has been restructured, and Executive Agency Boards removed, to bring clear, senior leadership across the department's agenda; clearer personal accountability has been established for each of the major welfare reforms, supported by a new Portfolio Management Unit; and the department is significantly tightening its grip on financial and performance data.

[6] From user feedback, the proportion of users leaving feedback is small.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The department has introduced additional controls and governance in three key parts:

- all formal governance gates are held at Portfolio Board (executive team level) unless the Board agree that the Portfolio Management Committee (chaired by Finance Director General) can be delegated approval authority;
- details of the department's major programmes is now provided via investment reporting templates, providing both financial and non-financial data and a more rounded view of progress; and
- a portfolio report has been developed summarising the overall health of the portfolio against key risk indicators, with a risk assessment of the department's overall ability to deliver key welfare reform changes.

PAC RECOMMENDATION 4

The additional sums available for Universal Credit and other welfare reforms cannot be used to hide the need for efficiency savings during the Spending Review. For each business unit, such as Jobcentre Plus, the department should publish baseline costs and regular updates on progress in securing cost reductions each year, including outturn against plans for key projects that contribute to the savings, such as the implementation of Universal Credit.

4.1 The Government agrees with the Committee's recommendation, and will report further in the 2012-13 Delivery Plan.

4.2 There is, of course, transparency in the aggregated spending plans for 2011-12, and later years, which were set out in the Comprehensive Spending Review 2010. The Structural Reform Plan also detailed the planned welfare reforms, including Universal Credit. These plans made clear the level of efficiency savings required. The department will, however, consider what further information could be provided, in its 2012-13 Delivery Plan, to demonstrate the relative financial impacts of efficiency, volumes, and investment..

Current Status

4.3 Implemented.

Action being taken to implement recommendation

4.4 The department published its latest Delivery Plan in June 2012.

PAC RECOMMENDATION 5

The department should develop and apply a methodology for measuring the impact of running cost reductions on benefits and pensions expenditure. The department and the Treasury should clarify how any variances in the cost of benefits and pensions would be funded.

5.1 The Government partly agrees with the Committee's recommendation.

5.2 The department will develop by March 2012 its ability to quantify (and hence manage) the impact of operational cost reductions on benefit and pension expenditure. It is worth noting, though, that most of the savings being achieved are driven by productivity improvements through benchmarking performance of individual units against their peers, through the use of lean techniques, and through the introduction of technology. The Government does not believe that these approaches will put benefit and pension expenditure at risk. The department recognises its responsibility to save operational costs in a way which does not put larger benefit and pension spending at risk. It is not, therefore, seeking an agreement with the Treasury on a mechanism for funding variances it seeks to avoid.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The department has put in place changes to ensure the effective alignment of policy, operational and analytical functions to ensure that policy and operational changes, including efficiency measures, are better understood and quantified, and that any residual risk of negative effects on benefit expenditure are managed.

PAC RECOMMENDATION 6

By October 2011, the department should review the main risks to securing efficiency savings in 2011-12 and the adequacy of the contingencies it has available.

6.1 The Government agrees with the Committee's recommendation.

6.2 The second, of three, reviews this financial year began in September 2011, and is due to complete shortly. New opportunities for savings are already being identified, for example, through benchmarking performance of individual units against their peers, which is driving improved productivity. The scale and complexity of reform in future years is challenging. The department is significantly tightening its grip on the financial and performance data necessary to manage these challenges, with the aim of clarifying appropriate contingencies. Again, early indications from the current review are that plans across the Spending Review period are consistent with the funding available.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The department has a continuous planning process which assesses the risks to secure its efficiency savings and the adequacy of the contingencies it has available.

Forty Eighth Report

Foreign and Commonwealth Office

Spending reduction in the Foreign and Commonwealth Office

Summary of the Committee's findings

Around half of the Foreign and Commonwealth Office's (the department) budget is spent in foreign currencies. As a result of a decline in the value of sterling, in September 2009 the department faced overspend of £91 million on its 2009-10 budget (£72 million centrally and £18.8 million overseas), out of its total budget of £1.6 billion. The Committee recognises that the department did well to reduce spending so quickly, which enabled it to live within its budget. However, many of the spending cuts the department made were short term in nature, and involved simply delaying or stopping some activities, rather than making lasting efficiency improvements. The department did not do enough to monitor and measure the impact of its cuts and there is a risk that such short term cuts can lead to increased spending in the future.

The Committee looks forward to seeing whether the department's new charging agreement with users of its premises abroad successfully encourages other Government departments to share its premises. A cross-government approach is important if Government as a whole is to achieve the savings required to reduce the deficit.

In reaching its findings, the Committee took evidence from the Foreign and Commonwealth Office on why it needed to make such drastic cuts to its budget, the action it took to reduce its spending, and the lessons for the department and Government more widely on balancing the need for short term spending reductions with longer term efficiency gains on 22 June 2011. The Committee issued its report on 30 September 2011 and the Treasury Minute – the Government's formal response - was published on 19 December 2011.

PAC RECOMMENDATION 1

The Treasury should review whether the management of exchange rate risk could be better co-ordinated across government and whether relaxing the conditions it imposes on forward purchasing would enable departments to secure better value for money.

1.1 The Government disagreed with the Committee's recommendation.

1.2 When the Treasury allows any department to manage its own currency risk, it is always essential to ensure that the department has sufficient skills in depth to carry out the necessary assessment, monitoring and trading; and avoid speculation or any appearance of speculation.

1.3 In 2008, with Treasury agreement, the department began to make its forward purchases on a single day each month to build in regularity and avoid undue speculation with taxpayers' money, reduce foreign currency administration costs, provide greater certainty in departmental cash management and partly to average risk over time. The Government believes that it is necessary to protect the Department's overseas spend from excessive currency fluctuation. Subsequently, as part of the wider 2010 Spending Review negotiations, a new Foreign Currency Mechanism was introduced. The department now shares the risk of currency movements with the Exchequer. The department along with the Department for International Development also participates in the tri-departmental currency pool operated by the Ministry of Defence.

1.4 The Treasury considers that management of currency risks should be determined in the context of each department's operational requirements, level of expertise and the specific foreign currency risk they face, provided that the principles set out in *Managing Public Money* are respected. It is therefore unnecessary to conduct a cross departmental review.

PAC RECOMMENDATION 2

In future cost reduction programmes, the department must assess whether proposed cuts will lead to additional spending later on and take this into account when selecting areas to cut.

2.1 The Government agreed with the Committee's recommendation.

2.2 The department has learned important lessons from the urgent spending cuts it had to undertake in 2009-10. It has already taken steps to ensure that future cost reduction programmes will be sustainable over the longer term. The spending cuts made by the department in 2009-10 were a short-term response to the immediate problem caused by the significant fall in the value of sterling against a number of foreign currencies

Target implementation date

2.3 31 March 2015.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The department has made a programme of strategic and structural savings to meet the reduction in its budgets. The department continues with its programme of savings designed to enable it to live within its 2010 Spending Review Settlement while maintaining and in some cases enhancing its front-line activity. The SR10 settlement envisaged real cuts of 10% to the department's baseline during the settlement period. Higher than expected UK inflation, and the impact of overseas inflation, means that the department will need to go beyond this. The department will also work to ensure that the further budget reductions announced in the Autumn Statement will be delivered through further efficiencies and will not impact upon its frontline activities.

2.6 The department's annual administration costs will reduce by approximately £100 million per year by 2014-15 as a result of three savings programmes: restructuring the department's corporate services; making estates savings including revising the department's policy on residential accommodation overseas to align it more closely to standards staff could expect to enjoy in the UK; and reducing the number of junior UK based staff at posts. Further savings are being made to the departments IT and programme budgets. These savings will provide ongoing reduction to its baseline.

2.7 The department monitors savings to ensure sustainability and value for money, without affecting front-line operations. Savings are regularly reviewed by the Operations Committee, the Whitehall-wide Network Board and the department's Management Board.

PAC RECOMMENDATION 3

The department should develop clearer metrics to select future financial cuts in a more rational way and concentrate efforts and resources where they are most valuable..

3.1 The Government agreed with the Committee's recommendation.

3.2 The department is pursuing its current savings programme (see above) in a way that is based on clearer metrics than during the previous Spending Round. It continues to work on improving its ability to measure the impact of its efforts and resources. The Management Board assesses departmental impact against its agreed policy objectives each month.

Target implementation date

3.3 31 March 2015.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The department continues to develop its business planning process, which is the main tool for monitoring and evaluating overall performance to deliver the Government's foreign policy priorities. The department's updated business plan was published in May 2012. Business plans are regularly reviewed to assess whether the department is on track to deliver against its published plans, including mid-year reviews of individual country business plans. More detailed metrics to measure the impact of the department's activities in priority areas, including support to British business, have been developed and are scrutinised monthly by the department's Board.

3.6 Improvements to the system for aligning resource allocation more closely to business plan priorities over the medium-term are currently being put in place. This will provide more detailed information on the planned costs of delivering the department's objectives, enabling resources to be focused where they are most effective and to inform decisions on the impact of making future cuts.

PAC RECOMMENDATION 4

The Treasury should ensure that government organisations secure efficiencies through co-location where feasible, so that Government as a whole benefits, rather than one department benefitting at the expense of another.

4.1 The Government agreed with the Committee's recommendation

4.2 Treasury guidance is clear (*Managing Public Money*, Chapter 3) that Departmental Accounting Officers should ensure that value for money is achieved for the public sector as a whole, not just for the Accounting Officer's organisation. As the Committee recognised, the department introduced a new charging system in April 2010, which has reduced the costs for other Government departments which co-locate with the FCO overseas. This was designed to encourage more departments onto the FCO's platform.

Target implementation date

4.3 31 March 2015.

Current status

4.4 Work in progress.

Action being taken to implement the recommendation

4.5 All departments have now agreed with the principle of co-location. It is good for the taxpayer as it reduces overheads. Excluding the UK Border Agency (UKBA), which is consolidating its overseas effort into a reduced number of regional hubs, there has been a 20% increase in the number of UK Government departments, Non-Department Public Bodies (NDPBs) and Devolved Administration staff co-located in UK Embassies since the introduction of a new charging regime for partners in April 2011.

4.6 The British Council (Council) and the Department for International Development (DFID) are the only stakeholders that had traditionally maintained separate platforms overseas. Co-location projects usually have long lead-in times because of the number of staff involved and the need for extensive construction work to fit them in.

4.7 30 Council staff moved into the UK Trade and Investments (UKTI) building in Johannesburg at the beginning of FY 2011-12, alongside a number of smaller moves elsewhere. However, future moves are problematical due to the Council's commercial activities (for example: English Language Training, public examinations) which, under the Vienna Conventions, are incompatible with diplomatic and consular premises, unless kept physically separate. 42 DFID staff moved into the British Embassy in Pretoria during summer 2012. 100 DFID staff will follow into the British High Commission in New Delhi in September 2013. A newly constructed building for 75 DFID staff, on the British High

Commission compound in Dhaka, is due for completion in April 2013. There are also plans to accommodate both DFID and the Council onto a redeveloped compound at the British Embassy in Kathmandu by March 2015.

4.8 Co-location with other partners has been easier due to smaller numbers involved. Visit Britain has 17 of its 25 offices overseas co-located onto the FCO platform. Some of the UKTI offices of the Devolved Administrations overseas (Scottish Enterprise, Invest Northern Ireland, International Business Wales) have also increased their presence onto the FCO platform. In addition to co-location, a majority of OGDs operating overseas already obtain their corporate services in-country from the FCO.

PAC RECOMMENDATION 5

The department should develop contingency saving measures to hold in reserve so that it can respond to unexpected worldwide events without affecting its ability to make necessary efficiencies and stay within its budget.

5.1 The Government agreed with the Committee's conclusion.

5.2 In line with Treasury budgetary guidance, the department holds £10 million as a departmental unallocated provision (DUP) in reserve to meet unforeseen costs. In recent years, the department has been able to use the DUP to help deal with adverse currency movements. The department's Consular Department also has a Crisis Contingency Fund which is the first port of call to fund crisis work. Where the costs of a crisis overseas involving British nationals exceed the specified threshold, the department may apply to the Treasury for access to the Emergency Disaster Reserve (EDR) which is funded by an element of the passport fee. This arrangement was confirmed in the 2010 Spending Review settlement and there is therefore no requirement to establish additional reserves above that of the department's DUP and the EDR.

Target implementation date

5.3 31 March 2015.

Current status

5.4 Work in progress.

Action being taken to implement the recommendation

5.5 The department has developed its financial risk management capability to support more flexible financial management and contingency planning. By actively managing the financial risks through a central risk register, the department can provide the FCO Board with a range of outturn scenarios, based on the department's assessment of cost pressures and under-spend risks. The Board therefore has options available should the department be required to redeploy resources to meet urgent, unplanned funding requirements at short notice.

5.6 The department currently holds the £10 million DUP as a contingency. To hold more than this in reserve would present a risk of significant under-spend at year end.

Forty Ninth Report

Cabinet Office

Efficiency and Reform Group's role in improving public sector value for money

Summary of the Committee's findings

The Efficiency and Reform Group (the Group) was established within the Cabinet Office in May 2010 to lead efforts to cut Government spending by £6 billion in 2010-11. Its long term aim is to improve value for money across Government by strengthening the central coordination of measures to improve efficiency. The Group's core objectives are closely aligned with the Committee's own role in seeking to improve value for money across Government. The Committee welcomes the creation of the Group. It has made a good start in its first year towards ensuring central Government better coordinates its activities.

The scale of the challenge to deliver efficiencies is huge. The Government intends that half of the £81 billion reduction in spending planned over the next three years should come from efficiencies rather than through cuts to services or delays to important projects. Many of the efficiencies must be achieved in areas where the Group currently has a limited influence, or by local bodies, where it has none. The Committee looks to the Group to set out how it will operate to ensure that its approach can be replicated across the wider public sector, while respecting the objective of devolving decision making authority to local bodies.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Cabinet Office on the Group's progress during 2010-11 and its longer term plans to improve Government efficiency on 28 June 2011. The Committee issued its report on 11 October 2011 and the Treasury Minute – the Government's formal response - was published on 19 December 2011.

PAC RECOMMENDATION 1

The Group and the Treasury should be clear and open about their defined areas of responsibility and need to develop strong partnership working to maximise the impact on Government efficiency.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Cabinet Office has responsibility for promoting efficiency and operational reform across government in partnership with the Treasury, which has responsibility for finance. To support this shared agenda there is a strong organisational framework in place. Both the Public Expenditure Committee and the Efficiency and Reform Board are co-chaired by the Minister for the Cabinet Office and the Chief Secretary to the Treasury. In the case of the Efficiency and Reform Board, the Head of the Finance Profession also attends. Furthermore, the Cabinet Office and Treasury share a headquarters building, with all levels enjoying strong working relationships.

1.3 There is also strong partnership work on finance matters, with the Permanent Secretary to the Cabinet Office as head of the Efficiency and Reform Group sitting on the Finance Transformation Programme Board chaired by the Economic Secretary to the Treasury. The Treasury and Cabinet Office are jointly developing a Management Information Strategy for Government, a recommendation from the Efficiency and Reform Board. The Treasury's responsibility for finance matters is clearly set out in documents such as *Managing Public Money* and *Managing Taxpayers Money Wisely.*

Current Status

1.4 Implemented.

Action taken to implement recommendation

1.5 The Cabinet Office continues to have responsibility for all central efficiency and operational work, with the exception of finance, which is the responsibility of the Treasury. The Treasury sets departmental budgets and the Group helps ensure departments meet those budgets including by providing support and expertise on standardisation, aggregation, consolidation of expertise and commercial knowledge. The Cabinet Office has been delegated ten spending controls by the Treasury to approve spending decisions.

1.6 The Cabinet Office is responsible for implementing cross-government policy. Together with long term structural reform programmes, the Cabinet Office controls are a core component of the work to reduce wasteful spending and help to reduce the fiscal deficit. Some of the Cabinet Office controls require Treasury powers of delegation whilst others are agreed through the Public Expenditure (Efficiency and Reform) Committee – PEX(ER). Furthermore, for some Cabinet Office controls, the Treasury has lowered the level of delegation and will not approve spending without prior approval from Cabinet Office.

1.7 In 2011-12, of the £5.5 billion of savings delivered by departments, 70% came in areas where a Cabinet Office control operates. These controls are also supporting better value for money, encouraging alignment across Government, and driving substantial transformation of services. The Cabinet Office has taken steps to drive improvement and work more collaboratively with departments, including supporting departments and ALBs in developing their internal challenge functions, so that there is greater scrutiny of spending.

1.8 The Cabinet Office published comprehensive guidance[7] on its controls in summer 2012, which outlines the process which will be followed in processing cases. This guidance, which was developed in close consultation with departments and the cross-Whitehall finance director community, has been widely welcomed. The Cabinet Office has also ensured that there is a single point of contact for departments to liaise with over the application of Cabinet Office controls.

1.9 The Cabinet Office continuously works to improve how it engages with departments on the Cabinet Office controls. For example: introducing a new digital case management system, which will improve the tracking of cases and deliver a better service. Looking to the future, the Cabinet Office is looking at how it can reward departments who engage early and demonstrate robust challenge, and also consider how its controls can better support departments as they find greater savings.

1.10 The Treasury and Cabinet Office continue to work together on the transformation of public services through structural change. This has included work on commercial models and digital achievements such as gov.uk.

1.11 The Government asked Dr Martin Read to review Government Management Information (MI), and make recommendations on how to deliver short-term improvements to the way it is collected and used. He delivered his findings this summer, which are included in the Civil Service Reform Plan. The Government has implemented the majority of these recommendations including eliminating unnecessary data requirements, simplifying and strengthening the Quarterly Data Summary, setting clear, rigorous data standards and improving reporting to allow Ministers and Senior Civil Servants to challenge performance using the data. These datasets will enable departments to better manage their core business, and will support the centre to better monitor the impact of ERG activity.

1.12 Established in June 2010, the Efficiency and Reform Group's (ERG) relationship with the Treasury is continuing to evolve. Although there is further to go, there are already clear examples of the centre of Government becoming more joined up, including around the preparation of the Autumn Statement.

PAC RECOMMENDATION 2

The Cabinet Office should confirm that the head of the Group is accountable to Parliament for the transparency of its decisions and the impact of its activities on value for money across Government.

2.1 The Government agreed with the Committee's recommendation.

2.2 The natural role of the centre in any large organisation is to ensure efficiency, whilst

[7] http://www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance

maintaining operational integrity. The efficiency and reform agenda increases clarity of accountability. Cabinet Office-led measures increase assurance that Accounting Officers are exercising their responsibility to provide value for money. Accounting Officers remain responsible to Parliament for their spending decisions. The Government confirms that, as part of his role as Accounting Officer, the Permanent Secretary at the Cabinet Office is accountable to Parliament for the transparency of Cabinet Office decisions and their impact on value for money.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Cabinet Office supports, advises and offers expertise. It also has the ability to stop spend via its controls process. However, the Cabinet Office does not take decision making away from departments. In fact, the efficiency and reform agenda does not diminish, but rather increases, clarity of accountability.

2.5 The Treasury guidance *Managing Public Money (MPM)* requires Accounting Officers to be able to assure Parliament and the public of high standards of probity in the management of public funds. Acting within the authority of the Minister(s) to whom he or she is responsible, the Accounting Officer should ensure that the organisation, and any ALB it sponsors, operates effectively and to a high standard of probity. This includes ensuring that the organisation's procurement, projects and processes are systematically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste, judged for the public sector as a whole, not just for the Accounting Officer's organisation.

PAC RECOMMENDATION 3

The Group should seek to maintain a high degree of transparency in future reporting on savings, and in particular provide clear and accurate statements which set out: the level of savings delivered across government; whether savings arise from efficiencies or reductions in service; whether savings are permanent and sustainable; and the extent of any independent assurance on the reliability and accuracy of the reported savings.

3.1 The Government agreed with the Committee's recommendation.

3.2 In the last year, significant improvements have been made in how savings are reported. This was acknowledged by the Committee's endorsement of the Cabinet Office savings approach. Raising standards for clear reporting remains a key focus for the department. The Cabinet Office is committed to reporting savings clearly and transparently. The Cabinet Office's approach to efficiency has a focus on specific granular reforms; such as consolidating the London estate, mutualising *My Civil Service Pensions* and centralising some areas of common central government procurement. Benefit reporting mirrors this focus on granular reforms and the Cabinet Office intends to report at a detailed level the benefits derived in specific areas. Where different methodologies are used, the Cabinet Office will report this openly.

3.3 Following independent verification of the 2010-11 savings figures, the Cabinet Office published the auditors' findings to further strengthen transparency. The Cabinet Office intends to build further on this open level of reporting and work is currently underway with audit partners to ensure satisfactory systems are in place to provide the Committee with assurance that this recommendation is complete.

Current Status

3.4 Implemented.

Action taken to implement recommendation

3.5 The Cabinet Office will continue to report openly. It is committed to work with audit partners to enhance systems of control around reported savings. Following independent verification of the 2011-

12 savings figures, the Group announced savings of £5.5 billion. In October 2012 for the first time, the Cabinet Office has invited financial analysts to scrutinise savings figures for this financial year. Interim results show that in the first six months of this year, the Government has saved over £3 billion. The Government is continuing to protect priority front line services and jobs by tackling waste and inefficiency. The Group will support departments to assist with the 1-2% reduction in departmental spend announced in Autumn Statement 2012.

PAC RECOMMENDATION 4

The Group now needs to set out more clearly its aims over the spending period, specifying quantifiable measures of success. It should also put in place adequate management information systems to measure progress accurately and objectively.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Government views efficiency and reform as two sides of the same coin. The Cabinet Office welcomes this scrutiny from the Committee. Operational savings will derive from much of Cabinet Office's work and the Government expects this will be the equivalent of roughly one quarter of its planned deficit reduction. However, efficiency is not a short term endeavour. It is a core priority of the Cabinet Office to focus on deeper structural change. The Cabinet Office has created cross-cutting bodies (such as the Major Projects Authority) who support departments in embedding centrally modelled best practices; reform across areas as diverse as civil servants' pay and pensions; public bodies and civil society. The Cabinet Office is undertaking essential measures to build a leaner, higher performing civil service. The Cabinet Office agrees that metrics should be put in place to assess how well this is done.

Current Status

4.3 Implemented

Action taken to implement recommendation

4.4 In October, the Government set out its long term aim to deliver annual efficiency savings of at least £20 billion by 2014-15. The Government will continue to host briefing events for analysts and issue regular statements on progress against this objective.

4.5 The Cabinet Office agreed that metrics should be put in place to assess the level of progress being achieved. In line with this a new management information system, centred around the refreshed Quarterly Data Summary (QDS), is now in operation providing core metric information to assess progress. Each department published this management information in the new format of the QDS for the first quarter of 2012-13 in November.

PAC RECOMMENDATION 5

The Group must give further consideration to how the benefits of its approach could be replicated across the wider public sector, while respecting the powers of local decision making bodies. For commodity procurement in particular, the Group should develop and promote arrangements for the wider public sector to take up the best deals, including triggers to mandate actions if progress is slow.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Cabinet Office has concentrated the efficiency and reform programme on spend within central government control. This approach has been successful with departments achieving savings worth £3.75 billion in the first year. The Cabinet Office intends to build upon this achievement to embed long-term transformational change across the civil service. This will require sustained focus across central Government departments.

5.3 At the same time, the Cabinet Office recognises that the majority of Total Managed Expenditure (TME) is spent within the wider public sector and that joint working has the potential to deliver significant benefits. The Cabinet Office also recognises the importance of specialist expertise in local bodies who are best placed to determine their requirements; a prescriptive approach would run contrary to the localism agenda and may lead to perverse outcomes. The Cabinet Office is, therefore, receptive to working with wider public sector on mutually beneficial programmes. For example: the Government Procurement Service already manages procurement spend for a range of local bodies in the wider public sector. Moreover, some centralised procurement categories have been made accessible to local public sector bodies if they are able to aggregate and commit spend.

Target implementation date

5.4 Ongoing process.

Current Status

5.5 Work in progress.

Action being taken to implement recommendation

5.6 The Cabinet Office has primarily concentrated the efficiency and reform programme on spend within central Government control. To be effective in this and to meet its stretching objectives the Cabinet Office will sustain its primary focus on central Government departments. However, the Cabinet Office will also work with the wider public sector (WPS) on mutually beneficial programmes. Central to this engagement is the tight / loose approach. The Cabinet Office will not dictate how frontline services should be delivered in line with the loose approach; but there are a number of areas where the Cabinet Office is already playing a supportive and collaborative role with the WPS. The Cabinet Office work on transparency is yielding results in central government and there is potential for this to help the WPS drive efficiency savings.

5.7 Through taking up Government Procurement Service (GPS) central contracts for the procurement of energy, the average department will save 6% per annum on their Gas and Electricity costs, delivering estimated savings in central government of around £30 million in 2012-13. Many WPS organisations have voluntarily made use of the good deal offered by these central GPS energy contracts, saving an estimated £63 million in 2012-13. The Cabinet Office does not intend to mandate moving WPS organisations into centrally negotiated contracts, but this example provides a clear illustration of the substantial benefits the WPS bodies stand to gain if they choose to do so.

5.8 The Group's radical programme of procurement reform is making it simpler and faster to do business with Government, as well as opening up opportunities to small and medium enterprises. The Cabinet Office is setting an example to industry and the WPS by paying 80% of undisputed invoices within five days and requiring prime contractors to pay Government sub-contractors within 30 days.

5.9 The Cabinet Office is also promoting its programme of procurement reform in WPS, for example: by encouraging organisations to adopt the Government's shortened Pre-Qualification Questionnaire and advertise opportunities on Contracts Finder. The Cabinet Office's Mystery Shopper Scheme, which investigates instances of poor procurement practice, has a remit covering the WPS. The Cabinet Office is piloting a Commissioning Academy, a development programme aimed at senior commissioners across mainstream public service delivery. The Academy aims to encourage and support public sector leaders by equipping them with the skills necessary to understand their citizens and communities, and work more effectively in order to secure better outcomes. Full roll out of the Academy Programme is expected in 2013.

5.10 The Government is working with the WPS to encourage further take-up of its procurement pipelines. These aim to give forward visibility of future potential public sector procurement opportunities, enabling Government to be more strategic and smarter in the way it does business and providing greater confidence for industry to invest. Pipelines have hitherto focused predominantly on central Government, but the announcement on 28 November 2012 of updated and new pipelines included, for the first time, new pipelines on Waste Management and Fire Services in the WPS.

5.11 The Government is also rolling out new '*Rights to Provide*' across public services, so that employees can request or bid to take over the services they deliver and spin them out into mutuals. A public service mutual is an organisation which has spun out of the public sector, continues to deliver public services (under contract) and has a high degree of employee control. The Cabinet Office is tracking a pipeline of around 100 developing and established projects. The number of public service mutuals has increased from nine in 2010 to 61 in October 2012. In the same time, the service areas in which mutuals are appearing has diversified from four to twelve. Already around £1 billion of public services are delivered by public service mutuals and the Cabinet Office has an ambition to scale this up much further. To help entrepreneurial front line public sector workers in spinning out, the Cabinet Office runs a Mutual Support Programme.

5.12 In addition, the Government Property Unit (GPU) is working closely with partners in the WPS, applying its expertise. In Bristol and Preston, the GPU has a joint strategy with the WPS to rationalise the estate. The Cabinet Office will seek further opportunities to work with WPS partners to develop shared strategies covering not only financial savings for the taxpayer but also the imaginative use of land and property to generate growth and secure social benefits. Moreover, as announced in the Autumn Statement, GPU will be working with the Department for Communities and Local Government (DCLG) and the WPS to identify the best way of publishing open data in a single database. This will be utilising the local authority Transparency Code, which the Government is currently consulting on, which will require local authorities to publish their data on land and assets.

PAC RECOMMENDATION 6

The Group has responsibility for wider civil service reform and should set out detailed plans to develop the civil service's management capabilities, leadership and project management skills – especially among senior responsible owners and project directors. It should set a clear expectation that departments arrangements for recruitment, performance assessment, promotion and training must encourage civil servants to develop their implementation skills.

6.1 The Government agrees with the Committee's recommendation.

6.2 The Minister for the Cabinet Office has made clear that improving the Civil Service's ability to manage projects and programmes and deliver results is a top priority. The Cabinet Office is building implementation and project management skills at all levels in the civil service. Civil Service Learning - established in April 2011 to ensure all civil servants have the skills they need to do their job – supports senior civil servants to develop delivery skills, and provides new "e-learning" on Programme and Project Management (PPM) for all civil servants, complemented by various workplace learning resources. The Government PPM Profession, headed by the Efficiency and Reform Group Executive Director of Major Projects, provides more advanced learning options including for senior responsible owners and project directors.

6.3 The Major Projects Authority is also working with the "Top 200" senior civil servants to develop stronger PPM skills in the senior civil service, including through an initiative to encourage the Top 200 to become Gateway Reviewers to increase expertise around project delivery. Finally, the department is launching the Major Projects Leadership Academy in early 2012, to build world-class project leadership skills by providing a dedicated training programme to develop world-class senior responsible owners (SROs) and Project Directors as project leaders with the right skills, knowledge and status to successfully deliver the Government's £300 billion portfolio of Major Projects. The key focus of the MPLA will be on leadership, business acumen and commercial expertise from both an academic and practical angle and will include lessons learned from previous major projects.

6.4 The Cabinet Office has recently completed work on reforming senior civil service (SCS) performance management policy. In order that the performance management process delivers the required rigour, the focus on competencies and behaviours has been emphasised alongside achievements: holding senior civil servants to account for the way they behave across the board, including their demonstration of delivery and implementation skills. The revised process also places an increased emphasis on fiduciary responsibility and the setting of strong objectives. The Civil Service Leadership Model has also been revised to reflect the importance of delivery skills for leaders across the civil service. This model is used to inform performance management, development and recruitment to executive levels.

Current Status

6.5 Implemented.

Action taken to implement recommendation

6.6 Under the new Cabinet Office structure, the Efficiency and Reform Group and the Civil Service Reform Group are two separate units each headed by a Director General, which work in close collaboration with one another to make Government more efficient and reform the way the Civil Service operates. The Civil Service Reform Plan, published in June 2012, recognises that there are gaps in capability and skills within the Civil Service and states that in future the leadership of the Civil Service will need to have greater commercial and operational experience.

6.7 The Civil Service Reform Plan, the first step in an ongoing programme of reform, focuses on developing civil servants in post through more active career management as well as through training. Furthermore, for the first time a five year Capabilities Plan will be published for the whole Civil Service to identify which skills and capabilities are in deficit, and set out how gaps will be filled. In a world where more services are commissioned from outside there is a need for more civil servants to have commercial and contracting skills. The Capabilities Plan will take account of the new environment the Civil Service is operating in and identify what skills it needs over the next five years and how those gaps will be filled – both through external recruitment and internal development. The Capabilities Plan will be reviewed annually.

6.8 Through the Capabilities Plan, the Government will champion and drive the upskilling of civil servants in four priority areas: leadership and management of change, commercial, digital and project and programme management skills (PPM). Civil Service Learning will support this plan to ensure that all civil servants have the skills they need to do their job. As part of our positive offer to staff, all civil servants will also be entitled to at least five days targeted learning and development, including alongside peers in private and other sectors.

6.9 The Government Programme and Project Management (PPM) Profession provides more advanced learning options including for senior responsible owners and project directors. Heads of Profession now have a greater role in improving skills and maintaining professional standards. The first two pilots of the new Commissioning Academy - which will provide commercial skills to the whole public sector - are successfully underway. Work is ongoing within the Major Projects Authority to improve delivery of major projects.

6.10 In the Reform Plan, this Government committed to commencing training of all leaders of major projects through the Major Projects Leadership Academy (MPLA) by the end of 2014. The MPLA will drive a better understanding of the role of leadership, technical delivery skills and commercial capability in delivery of major projects, building the project and programme management community across Government. In the future, only project leaders who have successfully completed this intensive development programme will be able to lead a major government project.

6.11 The Cabinet Office is improving talent management, including with a revised Fast Stream scheme. Launched in September 2012, this requires members to spend time in an operational, commercial, PPM or people management role to create a coherent leadership development pathway for SCS talent. Work is also progressing to define a new set of common standards for promotion into and through the SCS (with focus on these new skills). These standards will require evidence of success in gaining broader experience as part of promotion to Director level and above.

6.12 There is an expectation that Permanent Secretaries appointed to the main delivery departments will be expected to have had at least two years' experience in a commercial or operational role, and focus on ensuring they have exposure in policy implementation. The Cabinet Office will publish information on the Permanent Secretaries (who are heads of department) who had more than two years of commercial and operational experience prior to becoming a Permanent Secretary. This figure will act as a baseline against which progress can be measured.

6.13 In terms of accountability, the Civil Service Reform Plan requires former Accounting Officers to return to give evidence to Select Committees (on a time limited basis where there is a clear rationale to do so). Permanent Secretary objectives will be published so as to hold them to account, check implementation of policy is on track, and ensure that goals are being met, which additionally includes a standardised process for Ministers to feed into the appraisals of Civil Servants with whom they work closely.

Fiftieth Report

Department for Communities and Local Government

The failure of the FiReControl project

Summary of the Committee's findings

FiReControl was an ambitious project with the objectives of improving national resilience, efficiency and technology by replacing the control room functions of 46 local Fire and Rescue Services in England with a network of nine purpose-built regional control centres using a national computer system. The project was launched in 2004, but following a series of delays and difficulties, was terminated in December 2010 with none of the original objectives achieved and a minimum of £469 million being wasted.

Following the cancellation of the project, the department has earmarked £84.8 million to meet the project's original objectives, to improve resilience, efficiency and interoperability within the Fire and Rescue Service. It has invited bids for this money from each of the Fire and Rescue services. These arrangements, however, rely on the voluntary collaboration of individual services, and the Committee are concerned that the department could not tell how it will ensure certainty of response in the event of a large scale incident, or whether the £84.8 million will provide value for money. Response in the event of a large scale incident is a key issue which needs to be addressed in the new National Framework later this year, and the Committee look forward to reviewing progress on this in due course.

In reaching its findings, the Committee took evidence from the department and representatives from the Fire and Rescue Service on the delivery and cancellation of the FiReControl project on 6 July 2011. The Committee issued its report on 20 September 2011 and the Treasury Minute – the Government's formal response - was published on 19 December 2011.

PAC RECOMMENDATION 1

The department must secure the buying in of those expected to use and operate new systems and must involve them in both the decision and the delivery of projects.

1.1 The Government agreed with the Committee's recommendation.

1.2 The department will ensure that those who are directly impacted by projects and programmes are properly represented and engaged in those projects and programmes. The Fire Futures review of fire and rescue provision in England signalled the new way of working. It was undertaken and led by volunteers from the fire sector, with contributions from fire and rescue authorities, frontline staff, sector bodies, wider industry and local partners.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The department remains committed to ensuring that those who are directly impacted by its projects and programmes are properly represented and engaged. For example: a working group comprising of members of the Fire, Resilience and Emergencies Directorate, the Chief Fire and Rescue Adviser and representatives from the Local Government Association and Fire sector was brought together to develop the new Fire and Rescue National Framework. The Framework flowed from the innovative fire sector-led Fire Futures project and was developed in the context of the public service reform agenda.

1.5 This partnership engagement enabled delivery of the Government's commitment to re-set the relationship, both between Government and the fire and rescue service and between the Service and local citizens. The Framework marked a key milestone in resetting the relationship between fire and rescue authorities and Government. It moved away from prescription, enabling fire and rescue authorities to deliver their services in a way that makes sense locally while continuing to meet the wider needs of national resilience.

1.6 The Government is committed to establishing a clear model of open policy making ensuring collaborative approaches are used at an early stage of defining a problem. The department has used this approach to open policy in its use of a Practitioners' Advisory Group (PAG) to produce a draft of the new streamlined planning framework. Members of the PAG were specifically selected to represent different users of the planning system, and reach agreement on their draft framework, whilst recognising and reconciling competing tensions.

PAC RECOMMENDATION 2

For all future projects, the department must follow proper business case approval procedures and ensure that an appropriate level of challenge is applied to the approval process. Accounting Officer Directions must be sought where officials believe proposed projects do not represent value for money.

2.1 The Government agreed with the Committee's recommendation.

2.2 The department has already implemented a significant number of improvements to the way projects and programmes are initiated. These improvements include the establishment of an Investment Sub-Committee which scrutinises business cases before projects and programmes commence. The Investment Sub-Committee is chaired by the department's Finance Director. It reviews and approves investment proposals and associated business cases, taking into account deliverability, affordability, value for money, risk management and transparency of procurement, and makes recommendations to the department's Finance Sub-Committee.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Investment Sub-Committee remains in place in the department's governance framework and continues to work well. Since its inception, the sub-committee has reviewed approximately 200 business cases, including high-profile cases such as *Troubled Families*, *Weekly Bins*, and *Get Britain Building*. The sub-committee advises on areas where cases should be strengthened before final sign-off. This ensures that the evidence base is robust and the proposals provide value for money.

PAC RECOMMENDATION 3

For all future projects, the department should follow proper project and programme management procedures and not take on projects without ensuring it has staff with the right business change, programme management and IT skills.

3.1 The Government agreed with the Committee's recommendation.

3.2 The department has implemented a significant number of improvements to ensure that projects and programmes are properly managed throughout their lifecycle. The improvements include internal assurance processes, regular monitoring and tracking of investment proposals through the Investment Sub-Committee process, use of Gateway Reviews and, for projects that fall within the definition of major projects, assurance mechanisms established by the Major Projects Authority.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 In addition to the Investment Sub-Committee review process, the department is working with the Major Projects Authority, using a range of internal and external assurance tools such as Gateway Reviews to ensure that programmes are on course to deliver their expected benefits. The department continues to invest in its project and programme managers, including professional training where appropriate. It has recognised IT project and programme management as a particular specialism ensuring appropriate individuals are deployed with sufficient specific experience in the relevant disciplines.

PAC RECOMMENDATION 4

The Department should ensure that all its future contracts contain terms and conditions which clearly define responsibilities and outputs, including those requirements which, if not met, would constitute a breach of contracts. Rewards and incentives must reflect the balance of risk.

4.1 The Government agreed with the Committee's recommendations.

4.2 The department agrees that the milestones and requirements to be met by a small number of early deliverables were poorly defined and that during the first two years of the contract the department allowed the IT contractor to deviate from the contracted approach to designing and developing the system. The department will ensure that the lessons learned from FiReControl and the Committee's recommendations are taken into account in the design of future contracts, particularly where they are output based.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 After a period of capability building and changing the departmental business model, staff with responsibility for putting contracts in place have subject matter experts to work alongside them on key contracts. The department's achievement of milestones, performance management of contractors and development of output and outcome specification is now fit for purpose. Development of financial systems and better use of data to manage contracts, especially in ICT areas, has enabled greater objectivity and management of risks. The number of time and material labour based contracts has reduced and those remaining are subject to agreement of three month workload plans and, where possible, fixed firm prices are formalised.

4.5 The department has also implemented a payment by results arrangement. Roll out of new processes and procedures has concluded with a new manager responsible for contracts management process and technique in post, and will be celebrated in a "Commercial Fortnight" scheduled for January 2013 to sustain awareness.

PAC RECOMMENDATION 5

For future projects, the department needs to clearly identify roles and responsibilities and to define clear lines of accountability. It should make sure that any such future projects are subject to robust challenge by its Board. More widely, Government as a whole through the Cabinet Office needs to embed a culture which accepts personal responsibility and accountability for major projects and must be clear as to how Government will address underperformance.

5.1 The Government agreed with the Committee's recommendations.

DCLG response:

5.2 The department has implemented changes to ensure that roles and responsibilities and lines of accountability are clearly defined and that significant projects are subjected to scrutiny. The department's Executive Team has three sub-committees, which focus on performance, people and finance. Project risks are reported to the performance and finance sub-committees on a regular basis and, where necessary, escalated to the Executive Team. In line with the Corporate Governance Code published by the Treasury and Cabinet Office (July 2011), the departmental Board is now chaired by the Secretary of State and has two committees: Audit and Risk, and Nominations and Governance. Key risks are discussed at the Audit and Risk Committee, which the NAO attends, ensuring future projects will be robustly challenged.

Cabinet Office response:

5.3 The Government is committed to creating a culture which accepts personal responsibility and has recognised the importance of establishing clear lines of accountability in managing public spending. Ministers and departmental Accounting Officers are accountable for the projects and expenditure they control and Accounting Officers answer personally to the Committee of Public Accounts on these matters, within the framework of Ministerial accountability to Parliament for the policies, actions and conduct of their departments.

Current Status

5.4 Implemented.

Action taken to implement recommendation

DCLG response

5.5 The department has a clear corporate governance structure, which ensures that all significant projects and programmes continue to be held accountable and subject to regular and robust challenge to ensure that they are delivering the expected benefits. The three Sub-Committees meet monthly to discuss progress and these Committees can call in policy teams, projects or programmes in order to review progress and can escalate issues to the Executive Team and the Board. The department's Executive Team meets monthly to discuss Performance. The monthly Performance Report and feedback from the sub-committees are key inputs to this discussion. The Executive Team use this information to determine whether they need to take any further action, which can include calling in the policy team, project or programme for a more detailed discussion.

5.6 The Audit and Risk Committee continues to report directly to the Board. It receives the departmental Risk Register and copies of all Internal Audit reports, and uses these to identify areas it wishes to focus upon. In summer 2012, the department reviewed its internal performance reporting system to ensure it was focused on delivery of the department's 12 priorities in achieving its purpose of better government, better places and better department.

Cabinet Office response

5.7 The Major Projects Authority (MPA) now has good visibility and understanding across the portfolio of Major Projects. The MPA has established the Major Projects Leadership Academy to address capability issues amongst the Senior Responsible Owner (SRO) and Project Director community in the Government Major Projects Portfolio. The Academy curriculum addresses Project Leadership, Commercial Capability and Technical Delivery skills. The Academy focuses on projects from both the public and private sector to ensure that participants learn from genuine case studies.

5.8 The Civil Service Reform Plan highlights the importance of addressing capability and therefore stipulates that all project leaders in the Major Projects Portfolio should commence the Academy programme by the end of 2014. The Reform Plan requires that only senior leaders that have successfully completed the development programme will be able to lead a major Government project. The MPA is also working on an additional Reform Plan commitment to address high SRO turnover, roles and responsibilities to ensure there is clear structure and clarity regarding accountability, and that posts are linked to key milestones and deliverables. Accountability and underperformance is also addressed in the Reform Plan with Permanent Secretaries now having their delivery responsibilities regarding major projects captured in their objectives.

PAC RECOMMENDATION 6

The department should manage the new funding as a distinct programme, with defined outputs, clear criteria for approval, appropriate milestones and transparent delivery arrangements and accountabilities.

6.1 The Government agrees with the Committee's recommendation.

6.2 National resilience across Fire and Rescue Service control rooms will be strengthened by investing in locally determined projects and collaboration to improve current arrangements. This approach is in line with the views expressed by the fire and rescue sector during the Government's consultation on future control arrangements. Fire and rescue authorities have submitted proposals for improving their current arrangements and the department is assessing these proposals to ensure they are consistent with the objectives of improving resilience, efficiency and inter-operability, both from a local and national perspective.

Target implementation date

6.3 December 2014.

Current Status

6.4 Work in progress

Action being taken to implement recommendation

6.5 23 bids were received from 44 of the 46 fire and rescue authorities, including 15 bids from consortia of more than one FRA. The bids were assessed against clear criteria for technical functionality, inter-operability and resilience by the Chief Fire and Rescue Adviser's team and against efficiency and value for money criteria by DCLG Central Finance. During the assessment process, nearly all of the FRAs were asked to supply additional information on expected savings, or to clarify resilience aspects of their bids. Each FRA agreed a summary of their plans setting out expected resilience benefits, savings and delivery timescales. To ensure transparency these were published on the DCLG website, along with an aggregated national picture of the cumulative resilience and efficiency benefits to be delivered by the projects.[8]

6.6 £81.187 million has been allocated. Local improvement projects commenced in 2012 and are expected to be completed by December 2014. The projects will deliver a range of local resilience, interoperability and efficiency improvements, thereby strengthening the essential building blocks of national resilience. Efficiency improvements will be delivered by merging existing control rooms and establishing partnership arrangements between fire authorities or control room back-up in emergencies, providing cost savings without increasing risk. The introduction of data to communicate instead of voice will improve speed and accuracy.

6.7 Local and national resilience improvements will be delivered through the introduction of new control room technology such as automatic fallback to a partner control room at times of spate conditions, ensuring no delays in dealing with emergency calls. New technology that improves the time taken to confirm the location of callers, determine the exact locations of incidents and their type, and identify and then mobilise the most appropriate resources will improve the speed and effectiveness of any response.

6.8 Improvements to the way in which fire and rescue authorities interoperate with each other and other emergency agencies will be delivered by standardising ways of working and operating procedures and implementing common systems and technology to keep each other informed automatically with real time intelligence, enabling fire and rescue authorities and other emergency services and agencies to co-ordinate their response to incidents more efficiently and effectively.

[8] https://www.gov.uk/government/publications/future-control-room-services-scheme-fire-and-rescue-authorities-summaries--2
https://www.gov.uk/government/publications/grant-for-future-control-room-services-summary-national-picture-of-fire-and-rescue-authority-improvement-plans--2

6.9 Strengthening local resilience through delivering the benefits will strengthen national resilience. Projected savings at the time the bids were approved totalled £128 million by 2020-21.

6.10 The department has worked with the Chief Fire Officers Association's national resilience arm (CNR) and the Local Government Association (LGA) to establish oversight arrangements providing support and assistance to fire and rescue authorities in delivering their improvement plans, including peer support. A strategic board, Chaired by CNR, with membership from the LGA and the department oversees the support and challenge arrangements. The Board will review project plans and savings, oversee the support programme, and agree an annual audit report to the department setting out how funds were spent.

6.11 DCLG will ask the FRAs to provide a regular update on progress, and this information will be used to monitor delivery of resilience improvements and financial benefits against the baseline agreed at bidding stage.

6.12 The Fire and Rescue Strategic Resilience Board, chaired by the department, and whose permanent members include the Chief Fire and Rescue Advisor, the Chief Fire Officers' Association and the LGA, has been established to take a strategic view of fire and rescue capability in relation to national resilience. It provides a forum for fire and rescue authorities and fire professionals to engage with the Government in order to support discussions and decision making in relation to national resilience.

6.13 In addition, the Fire and Rescue National Co-ordination Centre (FRSNCC), established in 2005, provides a national co-ordination capability for New Dimension assets, in collaboration with local FRA control centres, thereby improving the national response and resilience to major incidents. The FRSNCC monitors the availability and location of the New Dimension assets on a day-to-day basis and assists local FRA mobilising centres to mobilise the required assets during an incident.

PAC RECOMMENDATION 7

The Government must urgently undertake a review of fire, ambulance and police services to develop better co-operation and integration between the emergency services. This review should look at the potential for co-location so that good use can be made of the newly built fire centres which currently stand empty.

7.1 The Government agrees with the Committee's recommendation.

7.2 The department worked quickly to identify fire and rescue service interest in the control centres. Of the nine control centre buildings, three will be used by the Fire and Rescue Service. One is already being used operationally by the London Fire and Rescue Service. North West FireControl Ltd (a consortium of four fire and rescue authorities) will use the Warrington building as a shared control room. County Durham and Darlington Fire and Rescue Authority will use the control centre building in Durham as a headquarters and control room. Additionally, a fourth centre, Fareham, will be used by the Maritime and Coastguard Agency. The department is actively working to ensure that the remaining five control centre buildings, in which there is no fire and rescue service interest, are disposed of quickly and efficiently.

Target implementation date

7.3 Ongoing.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The department has taken further action to find tenants for the remaining five centres, through a marketing campaign led by commercial property agents GVA. The department will also continue to engage with the Government Property Unit, in order to market the buildings as widely as possible.

There is interest in the buildings from a range of public and private sector organisations, including from emergency services.

7.6 The department continues to look for cost savings wherever possible, and as part of this would expect to see further significant savings in electricity costs, facilities management and water costs in 2013-14. This follows on from cost savings already made last year, when utilities costs were reduced by 35% and Facilities Management Costs reduced by 25%. This means that the department currently estimates that at this stage in the department's disposal work, the maximum costs of the control centre buildings to the department will be some £329million based on current assumptions – lying broadly halfway between the NAO's best and worst case figure of 431 million for the ongoing costs relating to control centres in their report *The Failure of Fire Control (July 2011).*

7.7 Following a report by the emergency services *Interoperability between the Blue Light Emergency Services* a Joint Emergency Services Interoperability Programme (JESIP) has been established to explore greater cooperation and integration between the emergency services. A Ministerial Oversight Board has been established, chaired by the Home Secretary, with members including the Secretary of State for Health, the Minister for the Cabinet Office, the Minister for the Fire and Rescue Service, and leaders from all three emergency services. JESIP will co-ordinate and develop processes for effective communications, guidance, and training and exercising to support their response to a major incident. The programme is a key Ministerial priority and was launched at the Interoperability Summit on 21 November 2012.

7.8 There are a number of further initiatives underway to encourage greater co-operation amongst FRAs, for example in July 2012, Ministers agreed to provide £1 million to a consortia of 13 FRAs to develop common operational guidance. The Chief Fire Officers Association is working with the consortia to ensure that the work is integrated into wider initiatives on blue light interoperability and national operation procedures.

Fifty Second Report

Department for International Development

DFID financial management

Summary of the Committee's findings

The Department for International Development (the department) is one of only two Government departments protected from overall expenditure reductions. The Government has committed to increasing the UK's aid spending to 0.7% of gross national income from 2013. The department faces a substantial challenge to improve its financial management and secure value for money from its rapidly increasing programme budget over the next four years, while reducing its administration costs by a third.

The Committee was concerned that the department still has insufficient data to make informed investment decisions based on value for money. The department was not clear about whether it needs to generate more data, or whether the data exist but need to be better collated. The Committee heard testimony from the department that it has made progress in collecting data on primary education in developing countries and we look forward to receiving the department's progress report. The department, however, needs to generate similar data for its entire aid portfolio.

On the basis of a report by the Comptroller and Auditor General, on 4 July 2011 the Committee took evidence from the Department for International Development on its financial management capability, its increasing focus on value for money, and the challenges it faces in managing its increasing programme budget while reducing its overall running costs. The Committee issued its report on 19 October 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

The Committee welcomes the department's recognition that it needs to improve its financial management and its focus on value for money. The following recommendations are intended to help the Department tackle some of the challenges that lie ahead.

1.1 The Government welcomes the Committee's report and its findings.

PAC RECOMMENDATION 2

In order to keep financial management as a high corporate priority, the department should set out in its 2011 finance improvement plan clear and auditable outcome measures for the plan's activities, including how it will increase financial expertise in the countries in which it works, who is responsible for delivering the plan's activities, and when targets should be achieved. It should report on progress publicly.

2.1 The Government agreed with the Committee's recommendation.

2.2 The department published its Finance Improvement Plan in September 2011 in the light of the recommendations made by the National Audit Office (NAO). The plan draws on the Financial Management Maturity model developed by the NAO and sets out the department's vision for financial management, describing the expectations for staff in different roles. It sets out activities, milestones and outcomes against which we will assess our progress over the next three years and be held to account. Further metrics to monitor progress are being developed. The Management Board will review progress against the plan regularly, taking corrective action if necessary.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The department published its Finance Improvement Plan in September 2011. The Management Board is reviewing progress every six months, and has taken stock take papers in March 2012 and October 2012, agreeing priority actions and ensuring action is taken to keep implementation on track.

PAC RECOMMENDATION 3

The department should assess the level of leakage across each of its programmes in its 27 priority countries. It should also increase the attention given at all levels of its organisation to tackling fraud, with a stronger framework for ensuring funds are spent properly on the ground, with effective monitoring and pro-active anti-fraud work. Each project and programme business case should set out: how the department has designed the project to reduce the risk of leakage; an assessment of any residual risk of leakage; and how this risk will be managed. Subsequent annual reviews of projects should include updated fraud risk assessments.

3.1 The Government agreed with the Committee's recommendation.

3.2 Given the environment in which the department works and the diversity of the department's programme, estimating losses due to fraud is difficult. The department is working closely with the Centre for Counter Fraud Studies in Portsmouth and the National Fraud Authority to explore how to use Fraud Loss Measurement methodologies in international development. A report from the Centre will be available in early 2012.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The department commissioned work by the Centre for Counter Fraud Studies at Portsmouth University to explore the extent to which fraud loss measurement methodologies could be used in international development. The report, published in March 2012, found that trying to produce an aggregate measure of fraud loss for the department's budget would be costly, would take some years and would ultimately only produce a partial picture. Any aggregate assessment that was produced would be of dubious value, given the methodological problems and evidence gaps.

3.5 Given these findings, the department is focusing efforts on ensuring good fraud risk assessment for all of the department's expenditure and on putting effective mitigation and safeguards in place. Where fraud loss measurement methodologies make sense for individual programmes or aspects of the department's expenditure, the department will use them in monitoring and tracking risk and assessing the likely impact of mitigation measures.

3.6 The department's business case process, which is undertaken before new financial commitments for projects and programmes can be approved, requires an assessment of the potential exposure to loss, fraud or corruption and the steps to be taken to mitigate this in terms of disbursement, monitoring and reporting, together with a description of the due diligence process that has been undertaken. The design of the programme should include any necessary mitigation measure or specific safeguards. The department's strengthened approach to reviewing and scoring projects and programmes, introduced in January 2012, now requires Annual Reviews to update these risk assessments and describe the information, such as audits or financial management reports, which confirms that funds were used for their intended purposes.

PAC RECOMMENDATION 4

The department must be able to demonstrate that any increase in funding to multilaterals is based on a clear assessment that it will achieve value for money, and that it represents better value for money than investing in alternative bilateral programmes.

4.1 The Government agreed with the Committee's recommendation.

4.2 The department does not plan to increase the proportion of its funding spent via core contributions to multilateral organisations, although the absolute contributions will increase in line with the growth in aid spending. The overall core multilateral contribution in 2010-11 was 43% and it is expected to be around the same percentage share in 2014-15. The precise level of multilateral contribution will be dependent on multilateral performance over the period.

Target implementation date

4.3 December 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The UK Multilateral Aid Review (MAR), undertaken in 2010, looked at the value for money offered by 43 of the multilateral organisations through which the UK had, up to 2010, invested aid. It provided, for the first time, a comprehensive overview of the VFM strengths and weaknesses of each multilateral organisation. Following the review, the UK increased funding to the organisations offering very good VFM for UK aid, defined performance improvements needed from the other organisations, and withdrew core UK aid funding from four UN organisations assessed as offering poor VFM. All multilateral organisations that continue to receive core funding from the UK will be reassessed in 2013. Depending on the VFM that they offer for UK aid, their funding may be increased, maintained or reduced.

4.6 The department compared value for money of a number of multilateral organisations against bilateral alternatives. Such comparison was, however, limited by lack of information and difficulties in attributing resources allocated to multilaterals to specific results. Where appropriate and feasible, the department will make more use of comparisons between multilateral and bilateral delivery options.

PAC RECOMMENDATION 5

In order to maximise the resources that get to the frontline, the department should develop clear plans to reduce or control running costs when delivering through multilaterals and partner organisations, and set a target for total running costs for the delivery chain as a whole.

5.1 The Government partially agreed with the Committee's recommendation.

5.2 The department is committed to driving down unnecessary running costs across the programme and maximising the value for money from its partners. As part of the MAR assessment the department reviewed cost and value consciousness within 43 multilateral organisations. This review considered the drivers of spending by multilateral organisations and evidence of organisations striving for economy in purchasing decisions and seeking to reduce administrative costs.

Target implementation date

5.3 December 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 The department has produced guidance for its staff to adopt a more commercially focused approach to dealing with multilateral organisations, identifying some of the commercial challenges and showing how these can be addressed to increase efficiency and deliver cost reductions.

5.6 The department has undertaken Commercial Capability Reviews of three multilateral organisations to date: UN Development Programme (UNDP), UN Children's Fund (UNICEF) and UN Population Fund (UNFPA), the latter focused specifically on the supply chain for reproductive health. Reviews are scheduled with the World Food Programme (WFP), World Health Organisation (WHO), International Organisation for Migration (IOM) and Central Emergency Response Fund (CERF). These reviews will feed into the 2013 update of the MAR assessment. Further reviews will be scheduled to cover other organisations. The reviews are undertaken by the department and findings are reflected in reform plans to drive improvement. The department is fully engaged in the World Bank Procurement Review consultation and is an active member of the World Bank's International Advisory Group on Procurement, specifically focused on procurement reform.

PAC RECOMMENDATION 6

The department needs to develop an explicit information plan setting out how and when it will improve data coverage and quality for all its programmes, including unit costs, with clear milestones against which we can judge progress.

6.1 The Government agreed with the Committee's recommendation.

6.2 The department is already implementing a series of changes that integrate performance, financial and workforce data for decision-making. The department published its finalised Results Framework in November 2011. This lays out the key measures at four levels to monitor the department's performance: progress against Millennium Development Goals, DFID results, operational effectiveness and organisational efficiency. In November 2011, the department's Management Board agreed a new annual cycle to manage performance and resources in an integrated way and is implementing this for the Spending Review period. The department's results and financial information will be reported publicly in the department's annual report and accounts in June 2012.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The department published results information against its public results commitments for the first time in July 2012 in its Annual Report and Accounts. The department has made good progress in generating unit cost information for a number of sectors including education, water and sanitation, and climate change. The department's Investment Committee is guiding the department's plans to broaden the coverage of the results framework and to develop appropriate data coverage and quality for key sectors.

PAC RECOMMENDATION 7

The department must be able to demonstrate unequivocally that it allocates resources on the basis of value for money, but staff do not have the information or strong incentives to do so - particularly given the pressure to spend increased resources. Country offices protect their own budgets, and have been unwilling to release funds which could be better spent elsewhere.

The department should develop clear and auditable mechanisms which ensure that staff in both Headquarters and country offices have value for money criteria at the heart of their decision making, and that they reallocate funding to the best possible alternative when projects are delivering weaker value for money than expected.

7.1 The Government agreed with the Committee's recommendation.

7.2 The department has a clear ambition to increase choice and contestability in its allocation process and sees this as one of the key mechanisms to increase value for money. This is clearly demonstrated in the steady increase in the pipeline of projects that is being developed and will be reinforced in the criteria that will be used in the allocation of remaining funding for 2013-14 and 2014-15. Value for money lies at the heart of the department's project management cycle from approval through to review and evaluation.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 The business case process introduced in January 2010 is mandatory for all new funding proposals and sets out the rationale for choosing a project or approach to funding. It provides a consistent approach to the choices and design of interventions, setting out the need, justification and value for money of projects or programmes. Commitments cannot be made and spending cannot begin until the business case is approved.

7.5 In January 2012, the department introduced a new and strengthened system for Annual Review and Project Completion Reviews which ensures that the focus on VFM continues throughout implementation and delivery. It includes a VFM assessment that looks at the conclusions reached in the review about results, costs, evidence, risk and specific measures to determine if the intervention is on track to deliver VFM. If the intervention is not on track against the original expectations, then action must be taken including assessing whether the project or programme should be terminated.

7.6 In September 2012, the department agreed a new Budget Policy. This seeks to generate a strong pipeline of potential activity so that we have good value alternative options to choose between when under-performing projects need to be stopped.

Fifty Third Report

Department of Health

Managing high value capital equipment in the NHS in England

Summary of the Committee's findings

In the past three years, NHS trusts in England have spent around £50 million annually on buying three specific types of high value capital equipment – Magnetic Resonance Imaging (MRI) and Computed Tomography (CT) scanners, used mainly for diagnosis, and Linear Accelerator (Linac) machines for cancer treatment. The current value of these three types of machines in the NHS is around £1 billion. Patient demand for services from these machines has increased significantly in the last decade and continues to grow.

A lack of good quality central data undermines the department's ability to monitor performance, to drive efficiency savings and effectiveness improvements, and to target support to local providers. For example, the department does not know whether services provided more cheaply in some locations are better value for money, or alternatively poor quality, or reflect inconsistencies in the way costs are recorded. It seems that the central team in the department is already under-resourced and unable to secure proper value for money from these contracts. It would be a false economy to have weak central teams that are unable to implement our recommendations, all of which are aimed at delivering better value for money in the long term. The issues facing housing and hospitals will also be relevant to other PFI programmes.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the department, NHS Supply Chain and University College London Hospitals NHS Foundation Trust on managing high value capital equipment in the NHS in England. The Committee issued its report on 25 October 2011 and the Treasury Minute – the Government's formal response – was published on 27 February 2012.

PAC RECOMMENDATION 1

The department should clarify who will be accountable to the Committee for ensuring value for money in the purchase and use of high value equipment in the NHS.

1.1 The Government agreed with the Committee's recommendation.

1.2 The current accountability arrangements for the NHS, and how these will change after April 2013, subject to the passage of the Health and Social Care Bill currently before Parliament, are set out in the Department of Health Accounting Officer System Statement, which was provided to the Committee in December 2011.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Department of Health Accounting Officer System Statement was issued in December 2011.

PAC RECOMMENDATION 2

The department has pledged to produce a dataset by April 2012 covering the use of MRI and CT machines by trusts, and the Committee welcomes this. From 2012-13 onwards, the NHS Commissioning Board should ensure that this dataset enables local clinical commissioning groups to hold trusts to account for their performance, and to drive improvements in efficiency.

2.1 The Government agreed with the Committee's recommendation.

2.2 The NHS Commissioning Board's overarching role is to ensure that the NHS delivers better outcomes for patients within available resources. One of the Board's functions will be to develop and oversee a comprehensive system of CCGs with responsibility for commissioning the majority of healthcare services. The Board will use information systems to track progress and it is envisaged that the Board and CCGs will use a common set of information to improve efficiency across the system. Consideration will be given to how information from sources such as the planned Diagnostic Imaging Dataset could be used to maximise efficiency.

Target implementation date

2.3 January 2013.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The NHS Commissioning Board came into operation in shadow form on 1 October 2012. It is a new legal entity and is now in the process of determining a plan for the implementation of this recommendation. The configuration of its national and regional offices and their respective responsibilities and capacity for supporting procurement practices is still being determined. The NHSCB remain committed to ensuring that the Diagnostic Imaging Dataset enables local clinical commissioning groups to hold trusts to account for their performance and to drive improvements in efficiency.

PAC RECOMMENDATION 3

The NHS Commissioning Board should require commissioners to use 'comply or explain' clauses in contracts with trusts to encourage purchasing through framework agreements unless they can articulate a clear reason to take a different approach. NHS Supply Chain (NHS SC) must gather, quantify and promote evidence on the cost effectiveness of its framework agreements.

3.1 The Government partially agreed with the Committee's recommendation.

3.2 80-90% of all trusts (NHS trusts and NHS foundations trusts) now make use of framework agreements. However, a provision has been included in the NHS Operating Framework 2012-13 to the effect that trusts (other than foundation trusts) should comply with central purchasing arrangements or explain to their commissioners any decision to deviate from them. The department is already working with the Foundation Trust Network (FTN) to raise the importance of good procurement with NHS foundation trust Chief Executives and launched a 'procurement diagnostic tool' through the network in February 2011 to help Chief Executives ask themselves the right questions.

Target implementation date

3.3 March 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The NHS Commissioning Board will consider the evidence collated by NHS Supply Chain on cost effectiveness of its framework agreements due for publication in April 2013. The NHS Chief Executive commissioned a Review of NHS Procurement, due for publication in December 2012, and it is anticipated this report will set out the mechanisms in the new NHS architecture that will implement Comply or Explain.

3.6 NHS Supply Chain can demonstrate a growth in market share across the capital equipment and maintenance category spend this year versus last year, which would indicate a greater take up of agreements and all savings is cleared by the NHS BSA prior to publication to ensure they are accurately quantified. NHS Supply Chain has also promoted the route and value by a number of means from regular direct Trust visits and a range of marketing tools including direct information, journals, articles and presence at a number of events key to the NHS. There is a team of account managers and buyers who interact with a cross section of customers in a Trust.

PAC RECOMMENDATION 4

Commissioners should require trusts to share their plans for the replacement of high value equipment with NHS SC and/or other collaborative procurement bodies. This would enable NHS SC and others to aggregate orders across trusts to secure better prices.

4.1 The Government partially agreed with the Committee's recommendation.

4.2 The NHS Commissioning Board is considering what guidance is needed to support effective commissioning, for example to support CCGs to contract better for patient care whilst achieving value for money. The Board will take the Committee's recommendation into account in these considerations.

Target implementation date

4.3 March 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The configuration of the NHS Commissioning Board's national and regional offices; their respective responsibilities; and capacity for supporting procurement practices, is still being determined. The NHS Commissioning Board is committed to more collaborative procurement on high value equipment and will consider how this is implemented.

4.6 NHS Supply Chain is keen to promote and support the value of proper planning and asset management and following engagement with Trusts has received 40 plans in total. The quality of the plans received is of a much higher quality than in previous years because trusts are using the planning templates provided. The 40 plans equate to over £60 million of equipment requirements, this has been matched against the commitment deals which allow the NHS to benefit from aggregation of their spend and so far these trusts have bought £5.9 million of equipment from a plan from the deals at an additional saving of £496,170.

PAC RECOMMENDATION 5

The department should consider how its contract with NHS SC might be changed so that NHS SC is financially rewarded for negotiating lower prices and generating savings.

5.1 The Government partially agreed with the Committee's recommendation.

5.2 The department agrees that there is a danger that the contract with NHS SC could disincentivise them to negotiate lower prices. However, the department believes that there are already sufficient pressures in the arrangement to encourage NHS SC to deliver savings for the NHS. For example: NHS SC operates in a competitive market and is subject to an overall profit cap on its business, so although it charges suppliers a fee to pay for its services it has to ensure overall costs to the NHS are competitive or trusts will simply not use them.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The establishment of a £300 million capital fund in early 2012 with the Department of Health has delivered savings for the NHS. This fund allows NHS Supply Chain to give forward commitment to suppliers and the savings from this are passed onto the NHS. Year to date, there are in place 24 separate deals covering (among other equipment) CT scanners, MRI scanners and Linear Accelerators. 249 units have been sold, to 113 Trusts with incremental savings delivered to NHS of 13.4%

5.5 Through the creation of the Department of Health capital fund NHS Supply Chain has amended its income model from a management fee to suppliers to a mix of management fee to the suppliers plus a share of the saving generated from the commitment deal. This clearly further incentivises NHS Supply Chain to achieve savings as the management fee plus the savings share is higher than a management fee alone. It also ensures the fund is used to stimulate the market away from a feast to famine cycle that is cost heavy for the suppliers and inefficient for the NHS.

PAC RECOMMENDATION 6

At a national level the department, and in future the NHS Commissioning Board, should put in place the means to gauge whether capacity accurately matches needs. This should take into account the savings that could be made if machines were used more efficiently. At a local level, commissioners should secure the right capacity in the right places to meet the needs of their populations.

6.1 The Government partially agreed with the Committee's recommendation.

6.2 It is important that Trusts engage in demand and capacity planning and fully understand essential elements of service provision including activity, waiting and clearance times and equipment utilisation rates. This should be part of the dialogue between commissioners and providers within service contract discussions.

Target implementation date

6.3 Ongoing. Capacity planning is in progress with the NHS Commissioning Board and Trusts.

Current Status

6.4 Work in progress

Action being taken to implement recommendation

6.5 The configuration of the NHS Commissioning Boards national and regional offices; their respective responsibilities; and capacity for supporting procurement practices, is still being determined. The NHS Commissioning Board will take the Committee's recommendation into account in these considerations.

6.6 There is now a requirement to have a capital replacement plan written into Radiotherapy Commissioning Specifications which seeks to ensure the equipment needed for the service is in line with the requirements to deliver the service.

Fifty Fourth Report

Department for Business, Innovation and Skills

Protecting consumers – the system for enforcing consumer law

Summary of the Committee's findings

Individual consumers lose around £6.6 billion every year because of the malpractices of traders, for example: by purchasing defective goods, being misled by advertising or being offered inadequate redress by traders. At least £4.8 billion is lost through malpractices which occur at a regional or national level, such as mass market scams, and unscrupulous traders who operate over large geographical areas. The Department for Business, Innovation and Skills (the department) has overall responsibility for policy on consumer protection. However, the majority of enforcement work, from weights and measures testing to the prosecution of rogue traders, is carried out by local authority Trading Standards Services, each with jurisdiction in only its own local area. The Office of Fair Trading enforces some laws at a national level, such as breaches of competition law, the Unfair Terms in Consumer Contracts Regulations and the regulation of consumer credit.

The department has recently consulted on reforming consumer law enforcement. It should address the Committee's recommendations in its reforms. The changes the department makes must deliver a system fit for the modern era. Responsibility for tackling regional and national instances of malpractice or rogue trading must be clearly designated. In particular, the Committee was concerned about instances where companies across the same sector are engaged in the same behaviour, which can therefore cause extensive consumer detriment. Enforcement bodies must have access to sufficient resources and powers to tackle these cases.

In reaching its findings, the Committee took evidence from the department, the Office of Fair Trading and the Trading Standards Institute, as well as representatives of Citizens Advice and Consumer Focus, on the current arrangements for the enforcement of consumer law, and the proposed changes to the regime on 5 September 2011. The Committee issued its report on 31 October 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

In designing a new system the department must clearly spell out the obligations and responsibilities of all the organisations involved, ensuring that there is clear accountability and funding for regional and national issues.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Government consulted in the summer of 2011 on proposals to improve the system that exists in the UK to empower and protect consumers. The objectives of these proposals were to:

- reduce the complexity of the consumer landscape – the network of publicly funded institutions that exist to help consumers;
- strengthen the effectiveness of enforcement of consumer rights; and
- ensure that activities that help consumers to be empowered are delivered more cost-effectively and in a way that links national and local intelligence about the problems consumers face.

Target implementation date

1.3 April 2013.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 In April 2012, the department published its response to the 2011 consultation on *Empowering and Protecting Consumers*, which set out proposals to improve the system that exists in the UK. The reforms will reduce the complexity in the network of publicly funded institutions that exist to help consumers; strengthen the effectiveness of enforcement of consumer rights; and ensure that activities, that help consumers to be empowered, are delivered more cost-effectively, linking national and local intelligence.

1.6 From April 2013, the National Trading Standards Board (NTSB) and the Convention of Scottish Local Authorities (COSLA) will receive additional funding from the current OFT enforcement budget and will take over existing OFT activities within their remit. Subject to transitional arrangements relating to live cases, the OFT will cease its work on consumer enforcement where in future it will be the responsibility of the NTSB. The NTSB will have responsibility for prioritising national and cross-local authority boundary enforcement in England and Wales. The NTSB is made up of heads of Trading Standard services across England and Wales, and representatives from Trading Standards services from Scotland and Northern Ireland are invited to attend as observers. The NTSB will also take over some of the coordination and database-management functions, currently undertaken by the OFT, which will enable better national data on Trading Standards to be available on a national basis

1.7 The NTSB published its first annual plan in July 2012 setting out four key objectives:

i. to ensure effective governance arrangements for the delivery of national and cross-boundary consumer protection services;

ii. to create systems to share intelligence more effectively and efficiently in order to identify and tackle emerging threats;

iii. to commission, monitor and evaluate national and cross boundary enforcement projects to ensure their effective delivery; and

iv. to develop effective arrangements to maximise coordinated and collaborative work.

1.8 Subject to the passage of the Economic and Regulatory Reform Bill currently before the House, the OFT's successor, the Competition and Markets Authority (CMA), will have a primary objective to promote competition for the benefit of consumers. It will retain all of its consumer enforcement powers; primary expertise in the enforcement of unfair contract terms legislation; and responsibility for international consumer law and policy liaison

1.9 The COSLA has set up a task group to look at how best to deliver the enforcement landscape changes in Scotland.

PAC RECOMMENDATION 2

The department must ensure that there are robust systems and funding available to escalate cases to the appropriate enforcement body, and that the progress of cases is assured and can be tracked through the system.

2.1 The Government agreed with the Committee's recommendation.

2.2 The proposed clarification of responsibilities between Trading Standards services and the OFT (subsequently the CMA) would help avoid some of these problems. Under the proposed model Trading Standards would, in future, be more clearly responsible for most regional and national cases and a national board would ensure that these responsibilities are met. More central Government funding would be channelled to Trading Standards specifically to ensure that the larger national and regional cases are being prioritised. But the Government recognises that there will still be enforcement cases which might cross the boundaries between Trading Standards services and OFT responsibility.

Target implementation date

2.3 April 2013.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The department has provided £9.7 million for 2012-13 to the NTSB. The NTSB reports to the department quarterly on how it is meeting these objectives and whether it has secured value for money. This provision is in addition to the existing Local Authority funding for Trading Standards.

2.6 Under the new model, Trading Standards will be responsible for most regional and national cases, with the NTSB monitoring progress. From April 2013, the NTSB will have additional funding transferred from the OFT specifically to ensure that the larger national and regional cases are being prioritised. The department recognises that there will still be enforcement cases, which could arguably be taken either by Trading Standards services or the OFT. The department has established a new Partnership Board between a range of organisations to ensure that there is better working.

2.7 The Citizens Advice Service has a role to ensure that information from consumers is shared at a national level to identify future areas of detriment. The department has established a Strategic Intelligence, Prevention and Enforcement Partnership (SIPEP), which will report regularly to the Minister for Consumer Affairs and provide joint accountability on how the system is operating. Partners are developing a joint work plan to ensure a flow of information between SIPEP and sectoral regulators. Membership is made up of NTSB, OFT (subsequently the CMA), Citizens Advice, Consumer Focus, and the FSA, as well as partners in Scotland and Northern Ireland to share intelligence; identify future issues that could adversely affect consumers; and agree priorities for enforcement, information and education.

2.8 The OFT and NTSB have established a National Tactical Tasking Co-ordination Group, which agrees priorities for enforcement action and looks specifically at enforcement cases to ensure better partnership working. These measures will provide improved accountability and set out the responsibilities for the various bodies avoiding any duplication wherever possible. All relevant bodies will be able to provide key intelligence on consumer and competition problems, which can then be addressed effectively by the correct organisation.

PAC RECOMMENDATION 3

The department must put in place systems to ensure transparent monitoring so that citizens can judge whether a sufficient level of protection is being consistently provided to consumers. Transparent data will help to ensure that gaps in the enforcement system are exposed and tackled.

3.1 The Government agreed with the Committee's recommendation.

3.2 The proposed new NTSB will have as one of its core tasks the development of much better data on the extent of Trading Standards activity around the country and the impact of its work combating local, regional and national consumer detriment. The department will ensure that this information is gathered regularly and used to inform sound decision making and operational strategies.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The NTSB has produced its first Business Plan for 2012-13. One of its four overall objectives is to put in place better intelligence-sharing. In October 2012, the NTSB looked at what was needed from intelligence systems by Local Authority Trading Standards Services and regional groups, and how to develop a specification which could be used by the NTSB to improve national capability by 2013-14, as well as endorsing an annual national strategic assessment of national threats. Each SIPEP partner organisation is providing information on consumer detriment, which will be assessed to form agreed priorities for action.

3.5 Whilst aggregate data will be available, Trading Standards will need to decide on a case-by-case basis on whether it is appropriate to provide information about specific businesses and whether businesses should be given the opportunity to remedy genuine mistakes.

3.6 Trading Standards has an important role in seeing that consumers are treated properly and that legislative standards are adhered to. The department is considering ways to help build confidence in consumer review sites, but the biggest encouragement will be provided by businesses responding swiftly and effectively to challenges and complaints.

3.7 The department wants data on complaints to be made readily available by regulators and ombudsmen in line with the Government's Transparency agenda. This enables the best companies to compete on quality, service, and price.

PAC RECOMMENDATION 4

The department's proposals to abolish Consumer Focus and scale down the Office of Fair Trading risk further reducing the available capacity to undertake this type of forward looking and important, high level work. In reducing non-departmental bodies working on consumer law enforcement, the department must ensure that the remaining enforcement bodies have the power, expertise and money to address major and emerging forms of harm.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Government generally believes that Trading Standards services and OFT have the powers they need to undertake all types of consumer cases. The department has been consulting on a reform of powers of enforcers to take effect in the planned consumer Bill of Rights to be introduced later in the Parliament, but in most areas, these changes are designed to clarify the law, rather than create fundamental new powers.

Target implementation date

4.3 April 2014.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 In April 2014 the role of the OFT and Consumer Focus in market analysis will pass to the CMA and the Citizens Advice Services.

4.6 In March 2012, the department launched a consultation on reforming enforcers powers to take effect in the Consumer Bill of Rights, which will be introduced later in the current Parliament. The consultation closed 20 June 2012.

4.7 The changes are designed to clarify the law, rather than create fundamental new powers. An exception to this is the proposal for local authorities and cross-boundary Trading Standards teams to enforce across local authority boundaries. This will enable the NTSB and the cross-boundary teams to allocate cases more flexibly. It will also facilitate shared services between local authorities, such that Trading Standards teams can specialise and collaborate to address consumer detriment. Such specialisation has the potential to deliver significant efficiency gains, if local authorities collaborate effectively. The department is currently reviewing the responses to consultation, with a view issuing a response in Spring 2013.

4.8 Additionally, the department is considering whether it should strengthen the effectiveness of enforcement, which could replace the current model of injunctive action (Stop Now Orders) or enforcement in the criminal courts. For example: a civil court power to impose compensation orders may improve consumer redress and provide further deterrent effects, which could reduce the costs associated with criminal prosecution. A consultation was issues on this subject in November 2012.

4.9 Where specific market expertise, such as on eCrime, is required, the department has provided funding for specialist projects. Under the landscape proposals, the NTSB will have discretion to target money where its members believe it will have the most impact, which may include funding lead authorities or centres of excellence. Where individual local authorities lack the necessary expertise, to bring a case, Trading Standards would have the flexibility to deploy regional team resources to enable the case to go ahead. The department's spending to support consumer law enforcement by Trading Standards services is also planned to increase over the current Spending Review period.

PAC RECOMMENDATION 5

The department must set out how it will ensure that enforcement bodies are able to pursue cases through the courts where necessary, and are not deterred from taking on large or complex investigations by the costs and risks involved.

5.1 The Government agreed with the Committee's recommendation.

5.2 A Fighting Fund of £250,000 is intended to support local authorities in taking on large-scale cases under the current regime, in recognition of individual authorities' inability to take on liability for cases that are lengthy, expensive and in the regional or national interest. The fund has been well utilised and activity has resulted in a number of landmark cases. The Government does, however, recognise the limited scope of the fund, which is over-subscribed, and the need for it to be part of a more co-ordinated approach led by Trading Standards services working together.

5.3 In designing the new consumer landscape the Government has taken note of the risks faced by individual enforcement authorities when taking large cases, and in particular the impact this may have on its proposals to deliver the majority of regional and national enforcement through the Trading Standards network.

Target implementation date

5.4 April 2013.

Current Status

5.5 Work in progress.

Action being taken to implement recommendation

5.6 In 2011-12 a Fighting Fund of £250,000 was allocated to support local authorities in taking on large-scale cases. The fund was well-utilised and resulted in a number of landmark cases. The Government does, however, recognise the limited scope of the fund, which was over-subscribed, and the need for it to be part of a more co-ordinated approach led by Trading Standards services working together.

5.7 In designing the new consumer landscape, the Government has taken note of the risks faced by individual enforcement authorities when taking large cases, and in particular the impact this may have on its proposals to deliver the majority of regional and national enforcement through the Trading Standards network.

5.8 The Government's reforms reaffirm that the NTSB will take decisions about investing in larger cases, in line with its agreed priorities. Through better understanding of consumer detriment and more efficient co-ordination of activity, the NTSB will be well-placed to put arrangements in place, and has discretion to retain a proportion of the money it receives from the department to provide funding for larger cases. It will be required to assess risk and ensure the work is an effective use of funds.

Fifty Fifth Report

HM Treasury; Department for Communities and Local Government; Department for Education; and Department of Health

Formula funding of local public services

Summary of the Committee's findings

Government departments distributed £152 billion, one-fifth of all Government spending, to local public bodies in 2011-12 based on the three grants considered by the Committee in its hearing: Primary Care Trust Allocations; Dedicated Schools Grant; and the Department for Communities and Local Government's Formula Grant. These distribute funding to local public bodies in a range of sectors, including health, education, local government, police and fire and rescue services.

The formula funding systems are complex, difficult to understand, and have led to inequitable allocations. For Dedicated Schools Grant, based mainly on historical spending patterns, per pupil funding for schools with similar characteristics can vary by as much as 40%. Under Formula Grant, nearly 20% of authorities received allocations which are more than 10% different from calculated needs. These variations have arisen from multiple objectives for funding formulae, and in particular judgements on the rate of change of funding deemed reasonable.

Some of the data used by departments in calculating relative needs is inaccurate and out of date. For example, some of the indicators used to assess relative need are based on 2001 Census data, now ten years old. Although the 2011 census was recently completed, it may prove to be the last national census of its kind, and an alternative source of reliable data may need to be identified. All of the approaches to formula funding we considered are under review. These reviews provide the perfect opportunity to address the weaknesses the Committee have identified, including: building in greater transparency; ensuring greater consistency, leading to more equitable distributions; appropriate oversight and outside expertise; to share and improve upon sources of data; and to commit to moving funding between areas so that the right funding for an area's needs is achieved within a set time period.

In reaching its findings, the Committee took evidence from the Treasury, the Department of Health, the Department for Education and the Department for Communities and Local Government on existing approaches to formula funding across Government, and the principles that should be carried forward to new arrangements on 12 September 2011. The Committee issued its report on 16 November 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

Although funding formulae have been grounded in assessment of relative needs, their operation has led to inequitable allocations. Nearly 20% of all authorities funded by Formula Grant in 2011-12 received allocations which are more than 10% different from calculated needs. So public bodies in affluent areas receive more than their calculated needs, and some in more deprived areas receive less. One authority, Wokingham, received double its calculated funding needs this year. The recommendations below address the key weaknesses identified by the Committee in its hearing.

1.1 The Government welcomed the Committee's report and its findings.

1.2 The formula grant system does not calculate a measure of need. Instead it only looks at relative need that is the relative costs of providing a service in one part of the country compared to providing the same service in another part of the country. The system used to distribute formula grant in 2011-12 and 2012-13 includes a guaranteed minimum year-on-year change element called floor damping. This is a fundamental part of the system, and the pre-damping figures are only supplied to help inform local authorities. The figures for allocations set out in the final Local Government settlement for each year are what each local authority receives. Since the Committee met we have announced that from this April local authorities will directly retain a proportion of business rates instead of returning them to the Treasury.

PAC RECOMMENDATION 2

Departments should identify the primary objective for formula funding models, and design their models to establish transparent, equitable allocations which achieve that objective.

2.1 The Government partially agreed with the Committee's recommendation.

2.2 Where there are multiple funding objectives, the Government agrees that departments should aim to prioritise these objectives where possible and be explicit on the reasons for this. Most funding formulae are determined based on programmes of statistical, economic and other research. However, the complexity of the services being funded and the issues being addressed mean that there will be occasions where a clear objective solution cannot be achieved. On these occasions when it will be impossible to prove empirically, beyond possibility of argument, that a formula is optimally designed to meet its stated objectives – and thus some judgement will be needed. Departments agree that there should be clarity about where judgement has been applied.

2.3 For example: in the case of formula grant, the Government agrees it has never explicitly published objectives. The objectives of this grant are to ensure fairness, stability and predictability. The priority for the 2012-13 Local Government Finance settlement is to ensure those most dependent on Formula Grant get the smallest percentage reductions in formula grant. Formula grant covers many service areas. This can make measurement of the extent to which an objective has been achieved difficult. The principles for the Local Government Resource Review, introducing a new Business Rates Retention system being introduced from April 2013, replacing Formula Grant, were set out clearly by the Government in the December 2011 response to the consultation on the new scheme.

Current Status

2.4 Implemented.

Action taken to implement recommendation

2.5 The Department of Health has always been clear on the primary objective of the weighted capitation formula used to allocate resources to Primary Care Trusts (PCTs) - that funding has been allocated on the basis of equal access for equal need. The Department of Health ensured that this clarity continued under the commissioning architecture created by the Health and Social Care Act 2012. The Government's Mandate to the NHS Commissioning Board makes clear that the principle of ensuring equal access for equal need is at the heart of their approach to allocating budgets to Clinical Commissioning Groups.

2.6 For the allocation of the ring-fenced grant to local authorities for public health functions, the principle objective of the formula is to allocate the public health budget relative to population health need to enable action to improve population wide health and reduce health inequalities. The recommendations on Public Health funding from the expert advisory committee (Advisory Committee on Resources Allocation (ACRA)) were published on the department's website on 10 January 2013 along with a range of research reports and the workbooks used to calculate the allocations.

2.7 The detailed decisions on the allocation of resources to Clinical Commissioning Groups (CCGs) is a matter for the NHS Commissioning Board (NHSCB) but the mandate to the Board, published in November, clearly sets out that the principle of ensuring equal access for equal need should be at the heart of their approach . ACRA's recommendations and research reports for CCG allocations have also been published.

2.8 In March 2012, the Department for Education published: *School funding reform: Next steps towards a fairer system*. This document reiterated the objectives of Ministers to introduce a fair, transparent and equitable funding system and committed to putting in place a new national funding formula in the next spending review period. It also confirmed that the Department for Education will put in place new arrangements from 2013-14 to pave the way for a new national funding formula. The new arrangements will simplify the way that local authorities distribute funding, so that there is greater transparency and consistency.

2.9 From April 2013, the new Business Rates Retention Scheme will provide funding for local authorities.

PAC RECOMMENDATION 3

Departments should commit to giving the right funding for an area's needs within a set time period.

3.1 The Government disagreed with the Committee's recommendation.

3.2 While the Government welcomes the Committee's support for the aim of ensuring stability of funding, it does not believe it is practical to set a time limit by which the needs-assessed levels should be achieved. The needs-assessed level of funding, for instance due to demographic changes, is constantly changing. This would risk destabilising some organisations and jeopardises the sustainability of funding systems.

3.3 Stability will continue to be a priority in the move to a fairer school funding system. Any reform, for example, will involve transitional arrangements which would set a limit on how much school budgets can change from one year to the next. It will therefore take time before schools attract their allocation as indicated by any new formula.

PAC RECOMMENDATION 4

Departments should set out publicly the basis for their judgements, and how they affect the distribution of funding relative to their primary objective.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Government believes that clear distinctions should be maintained between factors requiring political judgement (collective Government decisions), and those that can or should be grounded in empirical evidence and rigorous analysis. Given the complex nature of funding formulae, for practical purposes and where insufficient evidence exists, judgements will sometimes be necessary. On these occasions, the Government agrees that clarity and transparency should be provided on where this judgement has been applied. Full details of the funding formulae, including both the underpinning research and its implementation are published by the Government. This allows for further checking and challenge on the basis and operation of the formulae which the Government welcomes as an important element of improving approaches to funding formulae.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Department of Health has published a full package of information to support the allocation of local authority public health ring-fenced grants for 2013-14 and 2014-15 financial allocations. This includes supporting technical documents providing full details of the formulae and calculations. Ministerial decisions on the distribution of growth funding (pace of change policy) are explicit and transparent. Similarly, the NHSCB has clearly set out its reasoning for adopting a uniform growth across CCGs.

4.5 The Department for Communities and Local Government is setting out in the public domain judgements in the rates retention system, either in the Regulations setting out the parameters for the system or in the Local Government Finance Report prior to introduction of the scheme. As part of the Local Transparency Code the Department for Communities and Local Government issued the Accounting Officer Accountability System Statement for Local Government in March 2012. This set out the accountability system for local authorities for this year and covers current funding systems, legislation and guidance.

PAC RECOMMENDATION 5

Working with the Treasury, departments should set standards for the accuracy and timeliness of data sources they use, focusing in particular on strengthening data where it will be central to proposed new arrangements (for example: funding clinical commissioning groups). In the longer term, they should consider how the possible replacement of the census will affect the availability of population data for formula funding.

5.1 The Government agreed with the Committee's recommendation.

5.2 Departments use the most robust and timely data that is available across all local authorities, schools or Primary Care Trusts at the time of determining funding allocations. The Government accepts that some data used are quite old, but departments are open about the data they use. Data used by departments in their formulae are referenced in the supporting documents published to provide details of funding formulae used.

5.3 The Government recognises the major implications for population and other data of the current considerations on the future of the Census and all three departments will continue to work closely with the Office for National Statistics' 'Beyond 2011' project as it progresses.

Current Status

5.4 Implemented.

Action taken to implement recommendation

5.5 Both the Department of Health and the NHSCB used the most up to date data during the process of setting resource allocations for public health and CCGs. This included use of the latest ONS population projections based on the 2011 census.

5.6 Funding for schools is based on the annual pupil census and so data is up-to-date. The Department for Education is making some changes from 2013-14, which will mean that schools' budgets will be based on the October pupil count rather than the January pupil count. This is a necessary change, which enables the Department for Education to move towards a nationally fair and consistent formula. This change will also mean that funding for academies (whose financial year begins in September, rather than April) will be lagged only by five months as opposed to the current 17 months.

5.7 Data used by departments in their formulae are referenced in the supporting documents published at settlement.

PAC RECOMMENDATION 6

Departments should use independent advisory groups to provide technical expertise. These groups should have clear terms of reference and appropriate funding and support. Their processes should be transparent, and their reports, together with the departments' responses, should be made public. Departmental Boards should oversee the management of formulae, the associated controls and funding results.

6.1 The Government disagreed with the Committee's recommendation.

6.2 The Government is committed to reducing unnecessary cost and bureaucracy. It is not convinced that providing additional funding and independent support for each department's advisory arrangements would achieve the benefits that would justify the implementation of this recommendation. The Government also notes that formal consultations require significant resource and may not offer significant additional insight on system-wide impacts. It does not believe that the approach to engagement should be prescribed.

PAC RECOMMENDATION 7

The Committee was surprised that the Treasury had not been more active in ensuring consistently high standards of funding practices across government. The Treasury should report back to the Committee to explain how each of the Committee's recommendations is incorporated within new funding arrangements.

7.1 The Government partially agrees with the Committee's recommendation.

7.2 The Treasury has been working with departments on a number of relevant reforms. For example: moving to business rates retention will end the current formula grant system and change the way the system reflects changing needs while ensuring stability in funding arrangements. The Government is in the process of reforming schools funding to improve transparency and fairness and better match funding allocations to need. The Government is seeking to set the right frameworks to deliver its objectives, within which Local Authorities can make appropriate local choices. Accountability both for local spending and the frameworks set by Departments that drive funding arrangements should increasingly focus on outcomes, rather than amounts spent on different priorities.

Target implementation date

7.3 Ongoing.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Treasury will continue to be involved in considering and agreeing Government decisions on funding allocations. For example: the Treasury has recently considered and responded to a Cabinet Committee write-round on the Local Government Finance Settlement for 2013-14 and 2014-15, and reform options.

Fifty Sixth Report

Ministry of Defence

Providing the UK's Carrier Strike Capability

Summary of the Committee's findings

The 1998 Strategic Defence Review committed to replace the three existing Invincible Class aircraft carriers with two larger, more versatile, carriers capable of carrying a more powerful aircraft. By the time the 2010 Strategic Defence and Security Review (SDSR) started, the department had signed manufacturing contracts for two carriers with an estimated cost of £5.24 billion and delivery dates of 2016 and 2018. The construction of the carriers by the Aircraft Carrier Alliance is going well to date. The majority of build targets have been met and the project is on track to be within budget.

The Accounting Officer confirmed that a policy decision was taken in the SDSR to have aircraft carriers and the Committee does not question this. However, decisions on how to deliver this capability were operational judgements with major cost and value for money implications. The Committee is concerned that the NAO did not have access to all the information it requested to prepare and conclude on value for money in its report of 7 July 2011 on this project. Nevertheless, the Committee took evidence from the department on the basis of that report, on whether the strategic decision to refocus investment was well informed and whether the department has plans to cost effectively deliver the Carrier Strike capability now required.

In November 2011, the Comptroller and Auditor General produced a memorandum for the Committee on Carrier Strike drawing out the key messages emerging following his access to the relevant papers. The Committees report draws on the hearing held on 11 July 2011 and evidence from the Comptroller and Auditor General's report and subsequent memorandum. The Committee is disappointed that the systemic issues that have appeared in the Committees other recent defence reports continue to arise. In making the recommendations, the Committee has built on what it has said in past reports and focussed on two key areas: strategic decision-making and delivery of capabilities.

In reaching its findings, the Committee took evidence from the department on providing the UK's Carrier Strike capability on 11 July 2011. The Committee issued its report on 29 November 2011 and the Treasury Minute – the Government's formal response - was published on 21 May 2012.

PAC RECOMMENDATION 1

Ultimately access to the relevant material in the Cabinet Office was provided after sustained pressure from the Committee and others in the House of Commons. The Committee welcome this decision. Government departments must not hinder the Comptroller and Auditor General's ability to report to Parliament by denying him prompt access to evidence he considers necessary to conclude on value for money, and the Treasury's guidance, *Managing Public Money*, should be revised to make this clear.

1.1 The Government agreed with the Committee's recommendation.

Current Status

1.2 Implemented.

Action taken to implement recommendation

1.3 The Government agrees the need to provide full and prompt advice to the Comptroller and Auditor General when he seeks access to information. The Treasury wrote to Accounting Officers in November 2011 reminding them of the extensive powers of the National Audit Office (NAO) and advising that they should cooperate with NAO staff. As the NAO Supplementary Report sets out (at para 4, page 5), the provision of access to Cabinet papers in this instance upheld both the NAO's access rights under the National Audit Act 1983 and the Government's approach to the provision of access to policy papers, which are considered on a case-by-case basis.

PAC RECOMMENDATION 2

The switch from the Short Take-Off and Vertical Landing (STOVL) variant of the Joint Strike Fighter to the carrier variant has reduced the technical risks associated with the STOVL aircraft. But the costs of converting the carrier for the carrier variant aircraft will not be known until December 2012, leaving the project at risk of cost growth and slippage, and there are new technical risks and challenges integrating the new aircraft with the carriers. The department should fully understand the risks and costs within 18 months and have appropriate mitigation plans in place. The Committee will seek a further report from the National Audit Office on the project in 18 months' time.

2.1 The Government agreed with the Committee's recommendation.

2.2 Following the SDSR the department initiated an investigation into converting the operational carrier. This analysis has matured significantly over the intervening period and been taken into account in setting the budget for 2012 and decision on carrier strike.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The department undertook a 'Conversion Design Phase' (CDP) in order to understand the costs of converting the QEC aircraft carriers for 'cats & traps'. In addition, the JCA PT undertook studies to fully understand the complexities and inter-dependencies upon the F35-C as opposed to the F-35B. It was envisaged that these studies would finally report in December 2012, but the financial and technological challenges (of integrating the F35C) became apparent in early 2012. In addition, the F35B STOVL aircraft was removed from 'probation' by the US Secretary of Defence as the associated technological risks of the F-35B were mitigated. Subsequently, this led to a revised recommendation that the department revert to the original decision to purchase F35B STOVL JCA and revert to a ramp equipped aircraft carrier. This decision was confirmed to the house by the Defence Secretary in May 2012

PAC RECOMMENDATION 3

The Committee welcomes the assurance from the Accounting Officer that the department will only commit to the purchase of equipment / capability when there is a confirmed allocated budget both in the short and long-term.

3.1 The Government agreed with the Committee's recommendation.

Current Status

3.2 Implemented.

Action taken to implement recommendation

3.3 Governance across the department has been changed to maintain a much tighter grip on defence expenditure. The department will publish a further statement on the affordability of the Equipment Plan at the close of the current budget round to provide further assurance. Further changes to embed financial discipline form an integral part of Defence Reform for implementation in April 2013.

PAC RECOMMENDATION 4

The department's strategic planning ahead of the next SDSR in 2015 should give more weight to through-life costs and long-term value for money in evaluating procurement and delivery options.

4.1 The Government disagreed with the Committee's recommendation.

4.2 In reaching the decision to retire the Harrier fast jets instead of Tornado aircraft, the department considered the operational capability offered by each platform. While it is true that cancelling Tornado would have saved more money over ten years, the Tornado platform offered a greater degree of flexibility which outweighed the difference in cost-saving compared with Harrier, meaning the UK will have a larger fleet of more capable aircraft, thereby delivering better long-term value for money.

4.3 Similarly, in deciding to continue with the Queen Elizabeth Class Aircraft Carriers, the department considered a number of factors, including the industrial impact on the UK economy on the basis of the best available information at the time. The main considerations were again based on operational capability and value for money.

4.4 Overall, the SDSR in 2010 considered the full range of factors, including through-life costs and long-term value for money, when it evaluated procurement and delivery options. So will the next SDSR.

PAC RECOMMENDATION 5

While two carriers will be built, only one will be converted for the new aircraft. The UK will therefore have one operational carrier with a significantly reduced availability at sea. In future the Committee expects the department to offer a clear explanation as to why it has reached judgements on which individual capabilities it will procure, retain or delete and for these judgements to be underpinned by robust cost and operational analyses.

5.1 The Government agreed with the Committee's recommendation.

Current Status

5.2 Implemented.

Action taken to implement recommendation

5.3 The Government always seeks to take decisions based on the best available cost and operational analyses at the time. The rationale for the complex set of judgements which led to the decisions on the future of carrier strike was set out clearly in the SDSR. These judgements were underpinned by robust analysis and were taken on an informed basis which the NAO acknowledged. Decisions on the components of UK Carrier Strike capability – including the ships, cats and traps and aircraft – have been subject to extensive review and the Government has announced further decisions based on the latest information and analysis available.

5.4 With the decision to revert to the STOVL variant of JSF, the Government now has the option to achieve 100% Carrier availability through the manning, or partial manning, of both ships. This decision will be taken and reported as part of SDSR 15.

PAC RECOMMENDATION 6

This Committee has consistently identified the department's weak SRO role as a systemic problem. The department should give SROs the authority and information they need to manage the delivery of the equipment and capabilities for which they are in theory accountable.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Cabinet Office is working with the department to achieve a closer alignment between MOD's programme governance, which has to reflect the generation of capability across the Defence lines of development, and standard SRO practice as part of the wider Defence Reform work.

Target implementation date

6.3 April 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The department engaged with the Major Projects Review Group (MPRG) and the project has undergone a Project Assurance Review (PAR) which also addressed the SRO and governance aspects of the Carrier Strike programme. The independent recommendations of the MPRG and the Committee are being addressed and is evident in the recent appointment of the 3* SRO who has the required level of authority to manage the programme. The governance has been agreed at the highest levels and will ensure that the SRO and department have the information required to deliver the Carrier Strike capability.

6.6 As part Defence Reform, the Finance and Military Capability Transformation programme is implementing the delegation of Programme Delivery responsibilities to the Front Line Commands and Strategic Programmes in Head Office. As a result, SROs will be appointed and given authority through a mandate to deliver their programmes and oversee delivery of their associated projects. This will ensure that authority is genuinely invested in the SRO to manage the delivery of the programme for which they are responsible and accountable.

Fifty Seventh Report

Department of Health

Oversight of user choice and provider competition in care markets

Summary of the Committee's findings

The Department of Health (the department) is responsible for setting the overall policy framework for social care in England, with funding mainly coming through DCLG from the local government formula grant, which is not ring fenced. Local authorities have statutory duties to provide or fund social care for those they deem eligible by use of means testing. The Care Quality Commission, which reports directly to the department, is the independent regulator of health and adult social care in England.

The department has to rely on local authorities to implement its policy of universal provision of personal budgets to eligible users by April 2013, but it cannot compel local authorities to act. In consequence there are a small number of local authorities which are dragging their feet in offering personal budgets to users. There should be a clear line of accountability on policies that are generally agreed. A more radical option might be to enshrine in law people's rights to a budget. The department will shortly issue a White Paper on reforming social care delivery. The changes the department makes must address our concerns about giving users a real choice, overseeing the market to ensure competition and stability, and putting in place arrangements and contingencies to deal with major provider failure.

In reaching its findings, the Committee took evidence from the department on the current arrangements for the oversight of user choice and provider competition in care markets on 10 October 2011. The Committee issued its report on 23 November 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

The department must specify what market share at the local level is acceptable, what arrangements will be made to keep market shares of large-scale providers under review, and what additional powers it requires in case it needs to intervene to prevent a provider becoming dominant.

1.1 The Government partially agreed with the Committee's recommendation.

1.2 It is the role of local authorities to commission care services for those that they fund and to ensure that there are sufficient services to meet the needs of their local population. It is not the role of central Government to commission services or manage local care markets.

Target implementation date

1.3 2015.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The *Caring for our Future White Paper*[9] and the draft Care and Support Bill[10] each set out the Government's intention to promote a diverse market of high quality care and support services. The draft Care and Support Bill sets out a new explicit duty (clause 3) on local authorities to promote diversity, quality and sustainability of local care services to meet the needs and goals of local people,

[9] http://www.dh.gov.uk/health/2012/07/careandsupportwhitepaper/
[10] http://www.dh.gov.uk/health/2012/07/careandsupportbill/

as recommended by the Law Commission.[11] The department is offering every local authority support to meet this duty, by developing their market shaping capacity and a market position statement. The *Developing Care Markets for Quality & Choice*[12] programme, which launched in September 2012, offers support for all English local authorities to help develop local care markets that meet local needs, and to improve their commissioning.

1.6 Following the *Caring for our Future* white paper commitment to launch a formal consultation in Autumn 2012 on whether further central oversight of the social care market is necessary, the consultation '*Market Oversight in Adult Social Care*'[13] was published on 1 December 2012. As part of this consultation, the department is exploring strengthening the responsibilities of local authorities in this area.

PAC RECOMMENDATION 2

There must be greater clarity over what will happen in cases of large-scale provider failure. The department admitted to having insufficient powers, and must decide what pre-and-post failure regime powers it needs to put in place to protect care home residents, many of whom are frail and vulnerable if or when large-scale providers fail.

2.1 The Government partially agreed with the Committee's recommendation.

2.2 There are currently some clear protections in place to ensure no resident – whether publicly or self funded - will be left homeless or without care in the event that a care provider fails. The National Assistance Act 1948 (section 21) and the NHS and Community Care Act 1990 (section 47(5)) gives local authorities the duties and powers to step in and provide care services to anyone in urgent need. This includes not only local authority funded people, and means that a local authority should continue to provide care for any resident – whether publicly or self funded - who was unable to find or arrange care for themselves.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The *Caring for our Future* white paper committed to launch a formal consultation in Autumn 2012 on whether further central oversight of the social care market is necessary, and the consultation '*Market Oversight in Adult Social Care*' was published on 1 December 2012. Should the consultation conclude that legislation is necessary, relevant powers could be included in the final Care and Support Bill.

PAC RECOMMENDATION 3

The department must decide how it will monitor the financial health of large-scale providers so that it has early warning of difficulties and develop ways in which it might respond should problems arise, so that the interests of both social care users and the taxpayer are protected.

3.1 The Government partially agreed with the Committee's recommendation.

3.2 Although the department does not have formal powers to monitor the financial health of care home operators, it is in regular contact and dialogue with key providers. This includes discussing their overall business position, so that the department is aware of any issues as they arise and may consider how to respond or mitigate accordingly. It is clear from discussions with the sector that all the major care providers are supportive of measures to better understand the state of the social care

[11] The Law Commission Report on Adult Social care (no. 326) - http://lawcommission.justice.gov.uk/docs/lc326_adult_social_care.pdf
[12] http://caringforourfuture.dh.gov.uk/2012/09/18/dcmqc-launch/
[13] http://caringforourfuture.dh.gov.uk/2012/12/03/provider-failure/

market. In managing their local market, the department also expects local authorities to be in close contact with those supplying care and support services.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The *Caring for our Future* white paper committed to launch a formal consultation in Autumn 2012 on whether further central oversight of the social care market is necessary, and the consultation '*Market Oversight in Adult Social Care*' was published on 1 December 2012. *Caring for our Future* also set out some key principles, which would underpin any future approach. These include local authorities continuing to have the lead role in managing continuity of care; also that new measures should be targeted and support continuity of service for the individual, but not providers. Any reforms should encourage a diverse market.

PAC RECOMMENDATION 4

The department should specify the actions it will take, including penalties, to ensure local authorities meet this important Government target.

4.1 The Government partially agreed with the Committee's recommendation.

4.2 The Committee's conclusion is an accurate description of the department's legal authority with respect to local authorities' uptake of personal budgets. However, in November 2010, the department published *A Vision for Adult Social Care: Capable Communities and Active Citizens*[14] that included the objective for local authorities to "provide personal budgets for everyone eligible for ongoing social care, preferably as a direct payment, by April 2013". This set the challenge for local authorities to meet the department's expectations for personal budget provision.

Target implementation date

4.3 April 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The department remains committed to the objective that all eligible people are provided with a personal budget, preferably in the form of a direct payment. The adult social care sector, including the LGA and ADASS, also signed up to meeting the objective in the Think Local, Act Personal (TLAP) Partnership agreement, published January 2011.[15] The department has been working closely with ADASS to communicate the importance of the objective to the sector. In March 2012, ADASS agreed to administer a personal budget survey to all local authorities. This 'snapshot' survey taken as of 31 March 2012 revealed that the national provision of personal budgets was 53% nationally, an increase from 35% in 2011.

4.6 Following the release of the ADASS Personal Budget Survey on 21 June 2012[16]; ADASS distributed letters to lower performing councils informing them of the objective, where they sit in terms of implementation compared with other Authorities, and making the offer of sector-led support.

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[14] http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/@ps/documents/digitalasset/dh_121971.pdf

[15] TLAP partnership agreement available from: http://www.thinklocalactpersonal.org.uk/_library/Resources/Personalisation/TLAP/THINK_LOCAL_ACT_PERSONAL_5_4_11.pdf

[16] ADASS Personal Budget Survey March 2012 available from: http://www.adass.org.uk/images/stories/Policy%20Networks/Resources/Key%20Documents/PersonalBudgetsSurveyMarch2012.pdf

4.7 The department and the sector recognise that personal budgets will not be suitable for all those included in the measure at national level (for example, certain one-off services including re-ablement, equipment, professional support and transport). Therefore, the objective of "all eligible people" will not amount to 100% against this measure. The department agreed, with the sector, a success measure of 70% for the April 2013 objective (based on analysis, with ADASS, of councils' performance), which has been communicated to local authorities.

4.8 The department published the *Caring for Our Future* White Paper and draft Care and Support Bill on 11 July 2012. These two documents set out the department's intention to ensure personalised care becomes standard practice, with personal budgets being placed on a legislative footing for the first time. These provisions include giving people an entitlement to a personal budget, as part of their care and support plan. Therefore, subject to the passing of the Care and Support Bill, everyone accessing social care will, by law, be provided with a personalised care and support plan. This will clearly set out the needs and outcomes that are to be met, and the level of funding both the local authority and the individual (if appropriate) will pay to meet these needs.[17]

PAC RECOMMENDATIONS 5 AND 6

5. The department should work with the Association of Directors of Adult Social Services to produce an action plan aimed at developing and sharing best practice to improve the individual's experience of using personal budgets, and ensure that all the different user groups receive the necessary support. Only in this way will personal budgets support individual choice and control over time.

6. The department should provide greater clarity on what personal budget spending is permissible and develop a clear complaints process aimed at resolving problems quickly and securing appropriate redress.

5.1 The Government partially agreed with the Committee's recommendations.

5.2 The department agrees that the quality of support available to personal budget holders is inconsistent. The department is looking at what kinds of information, advice or support would most effectively support people with personal budgets, including people who self-fund their care, carers and their families.

Target implementation date

5.3 April 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 The department recognises that high-quality information is vital in ensuring that people understand the way the care and support system works, including personal budgets and direct payments. Therefore, in conjunction with the provisions on care and support plans, the White Paper set out the department's intention to improve national and local care and support information services.

5.6 From April 2013, the department will provide national information about the health, care and support system, and people's entitlements. The department recognises that the offer of information at a local level can vary widely in terms of scope and quality. Therefore, the White Paper and draft Bill set out the intention to legislate to ensure that local authorities provide a comprehensive information and advice service. This legislation will ensure that people get information on how the care and support system works locally and how people can access care and support, regardless of whether they are entitled to any state-funded support towards the costs of their care.

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[17] Clauses 24-25 of the Draft Care and Support Bill, available from:
https://www.wp.dh.gov.uk/careandsupportbill/files/2012/07/CARE-AND-SUPPORT-BILL-FINAL.pdf

5.7 The department expects to see all local authorities improving their online information and support services to support their local population. The *Caring for Our Future* White Paper committed to provide £32.5 million of start-up funding over two years from 2014-15. This will provide the basis for authorities to build on current and developing facilities to enhance self and supported assessment, and easy-to-access information on preventive support, support for carers, and local care providers.

5.8 The department recognises that providing information and advice on-line and by telephone is not sufficient in itself. For many people face-to-face advice is an essential part of ensuring their involvement in and the 'personalisation' of their care and support. The department wants everyone who is eligible for local authority funded support, on top of having a right to a personal budget, to be given the choice of access to independent advice and support to help them develop their own plan for care and support and help them make decisions on how their needs could be best met. Central funding will be provided to authorities, through Personal Social Service allocations, and the department will expect them to commission these services from the voluntary sector.

5.9 It is critical that personal budgets support people to maximise the choice and control they have over their care and support. To do so, people must be able to choose to take their personal budget as a direct payment, and they must have flexibility in how that money is used. The department agrees that there has been some inconsistency in how local authorities have implemented regulations regarding direct payments. The draft Care and Support Bill proposes a reformed legal framework, with significant flexibility in how personal budgets and direct payments may be used, provided only that they meet the person's needs. As part of these legal reforms, the department will work with the sector to publish new statutory guidance to support the delivery of personal budgets and direct payments, as part of the care planning process. This will include guidance about how local authorities should resolve disputes or complaints arising from this process.

Fifty Eighth Report

HM Revenue and Customs (HMRC)

HM Revenue and Customs: PAYE, tax credit debt and cost reduction

Summary of the Committee's findings

HM Revenue and Customs (the department) faces a huge challenge to resolve long-standing problems with the administration of PAYE and tax credits while making substantial reductions to its running costs. The department needs to stabilise its administration of PAYE following the problems encountered after a new processing system was introduced in 2009. It also needs to recover a significant amount of outstanding tax credit debt while minimising the amount of new debt being accumulated. While £900 million extra has been allocated to tackle tax avoidance, at the same time, following the 2010 Spending Review, the department is required to reduce its running costs by £1.6 billion over the next four years.

The department has made plans to reduce its running costs by £1.6 billion (25% in real terms) by 2014-15. However, the Committee was concerned that its plans are overly optimistic, including the intention to achieve more than one third of new savings in the final year of the Spending Review period. Furthermore, the department has not yet built in any contingency to allow for setbacks in the 24 projects currently included in its savings programme. The department also needs to be clearer about how its savings measures are likely to affect taxpayer compliance, to prevent the drive for cost reduction from having a counterproductive effect on its ability to collect tax revenues.

In reaching its findings, the Committee took evidence from the department on 12 October 2011 and further evidence on 17 October 2011. The Committee issued its report on 20 December 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

The department must maintain its programme to deal with the backlog of PAYE records by 2013 and not let it slip. It also needs to determine exactly how it will manage in-year changes going forwards, so amendments to taxpayer records are processed as people's circumstances change.

1.1 The Government agreed with the Committee's recommendation.

1.2 By the end of 2012-13, the department aims to be up to date with PAYE so that as a general rule only three tax years will be open. This means that each year from April 2013, the department will need to reconcile taxpayer accounts for the previous tax year; adjust tax codes for the current tax year to reflect changes in taxpayers' circumstances; and calculate and issue tax codes for the following tax year.

Target implementation date

1.3 March 2013.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The department has met its target to process 6.7 million end-of-year reconciliations relating to the 2008-09 and 2009-10 tax years and is on track to reconcile the 2010-11 and 2011-12 tax years by March 2013.

1.6 The department's day-to-day management involves manually dealing with in-year changes to taxpayer records. The department has prioritised those in year changes that affect a taxpayer's end-of-year tax position, identified items that are duplicated elsewhere, and managed the production of others. In 2011-12, the department undertook an exercise to look at ways of automatically reducing or eliminating some of these work items and has now put in place a project to take this work forward, subject to Cabinet Office approval.

PAC RECOMMENDATION 2

The department must have a clear plan for how it will use the increased volumes of data under RTI to update PAYE records. RTI is also essential for the Universal Tax Credit to function, so efficient implementation of RTI is vital.

2.1 The Government agreed with the Committee's recommendation.

2.2 Real Time Information (RTI) data will be received from employers each time an individual is paid. RTI data will be held in a data repository and will be sent automatically to other systems at the appropriate time including National Insurance and PAYE Service (NPS), the department's main PAYE system. As a result, over time, customer records and tax codes become more accurate. For individuals in Universal Credit, RTI data will be passed to Department for Work and Pensions (DWP) each time they are paid.

Target implementation date

2.3 April 2014.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The department met its milestone to start its RTI pilot in April 2012 with ten employers. By July 2012, 323 PAYE schemes had successfully submitted PAYE returns in real time representing 1.7million individual records using RTI. The pilot has now moved into the next phase, moving up to 1300 employers in the autumn.

2.6 The department is applying lessons learned in the pilot and will use data from the pilot to inform decisions about how to make best use of RTI data in the longer term. A phased approach to the implementation and exploitation of RTI was deliberately taken, to ensure:

- it is safely landed;
- it is used in the most effective way; and
- that the department is well placed to support Universal Credit.

2.7 The department recognises that the successful delivery of RTI is dependant on good PAYE data quality from employers and on HMRC PAYE systems and corporate frameworks. So far, the data in the RTI pilot has been of high quality, with the number of individuals' records matching to a valid National Insurance number, exceeding expectations. The department is working with employers and pension providers to help them improve data quality in preparation for RTI, to ensure the good experience to date is sustained when more employers come on board. The department is determined that data quality should not be a significant problem in the future.

PAC RECOMMENDATION 3

The department should take advantage of the pilot phase of RTI to assess the impact on small- and medium-sized employers, and ensure that the system can be introduced without placing unnecessary burdens on them.

3.1 The Government agreed with the Committee's recommendation.

3.2 The department is committed to assessing the impact on small and medium sized employers through the RTI pilot.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 RTI is expected to reduce the burden on employers by around £300 million (net) annually. Whilst there will be some transitional costs, employers are expected to see a reduction in their admin burden as reporting becomes an integral part of normal payroll activity. Over time issues will be resolved in-year rather than together after year end.

3.5 The department will use the pilot to understand the impact RTI has on different Groups, including small and medium enterprises as part of its learning lessons exercise. These were represented in the pilot, alongside some micro-employers and those using the department's own free to use Basic PAYE software.

PAC RECOMMENDATION 4

The department recognises it will be impossible to recover much of this tax credit debt and has recently written off £1.1 billion of debt. The department should focus its efforts on preventing the problem arising by minimising the number of incorrect tax credit awards it makes. It should also clarify its approach to reducing tax credit debt, including writing off debt where there is a value for money case for doing so.

4.1 The Government agrees with the Committee's recommendation.

4.2 The department's customer strategy is to help customers get it right the first time, understand their obligations, and avoid them getting into debt. In addition, the department is significantly reducing the opportunities for customers to make mistakes or break the rules by adapting its approach to the different needs and behaviours of different customer segments.

Target implementation date

4.3 March 2013.

Current status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The new Tax Credit Debt Strategy will focus on both preventing debt from being created and increasing the levels of debt recovered.

4.6 On prevention of debt, the department is reviewing current processes to identify opportunities to implement changes that will reduce the levels of debt being created.

4.7 On recovery of debt, the department has a new campaign based approach, which includes:

- maximising the use of Coding Out for PAYE customers to enable the debt to be recovered through changes in tax codes;
- introduce a new segmentation strategy based on Credit Reference Agency scores; and
- tailored debt recovery strategies for each customer segment.

4.8 In addition, the ability to recover debt through deductions from ongoing awards for more customers is currently being explored.

PAC RECOMMENDATION 5

The department has yet to decide the changes needed to the system for administering Child Benefit, pending final policy decisions to be made by the Treasury. In redesigning the system, the department should take account of the experience of tax credits so that it can minimise the levels of under and overpayments that arise because of changes in claimants' circumstances.

5.1 The Government agrees with the Committee's recommendation.

5.2 The department plans to apply lessons learnt from its experience in tax credits, NPS stabilisation and wider issues in the design and implementation of any policy changes, with a view to minimise impact on its customers wherever possible. The department plans to monitor and evaluate the implementation of the new arrangements for Child Benefit.

Current status

5.3 Implemented.

Action taken to implement recommendation

5.4 Clause 8 and Schedule 1 of the Finance (No.4) Bill introduced a new High Income Child Benefit charge to come into effect from 7 January 2012. The charge will apply to a taxpayer who has income over £50,000 in a tax year, if they or their partner (if they have one) is in receipt of Child Benefit. If both partners have income over £50,000, the partner with higher income is liable.

5.5 Taxpayers with adjusted net income between £50,000 and £60,000 will pay a proportion of Child Benefit received. This will be at 1% for every £100 of income over £50,000. Taxpayers with adjusted net income above £60,000 will pay a charge equal to the amount of Child Benefit receive. Child Benefit recipients affected by this new charge could, if they so wish, elect not to be paid the actual Child Benefit payment. This would mean that there is no liability to the charge. Alternatively, taxpayers can continue to receive the child benefit payment and pay the tax charge.

5.6 The new provisions allow a Child Benefit claimant to revoke their election and request their payments to be restored. It also gives the department the power to make directions setting out how an election should be made and when it may be revoked - for example: if either the individual or their partner is no longer liable to pay the charge. These directions will be published in draft form.[18]

PAC RECOMMENDATION 6

The department must extend its modelling of planned staff reductions to cover the risks and potential consequences of cost reductions on customer service and taxpayer compliance, and use the results of this modelling to inform its future approach to making cost reductions.

6.1 The Government agrees with the Committee's recommendation

6.2 The department recognises the importance of fully understanding the relationship between its activities, the costs of those activities, and the performance results that they deliver. The department has developed consistent, robust ways of capturing input costs and relating them to key areas of its business.

Target implementation date

6.3 31 March 2015.

[18] http://www.hmrc.gov.uk/specialist/cb-directions.pdf

Current status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The department already has a model which links compliance costs to the resulting additional revenues. The model allows the department to link resources with performance in other specific business areas.

6.6 The department has developed a Total Cost to Serve (TCS) model, which links costs with customer experience and has aligned this with the departments Standard Cost Model, which determines the costs of an efficient business dealing with their obligations. TCS is being used for individuals and businesses to determine wider compliance costs.

6.7 The department continuously refines its cost models to better assign costs to regimes and activities that it undertakes. For the future, the department is exploring new techniques for using that insight to drive product and process improvements, so that efficiencies are sustainable in the long term. In the medium term, the department will work to enhance the connections between inputs and performance, but this is an iterative process. The department is also working to enhance modelling of relationships between cost, compliance and customer experience.

PAC RECOMMENDATION 7

The department must demonstrate the credibility of its cost reduction programme by testing the realism of its plans, including their sensitivity to changes in the assumptions made, and ensuring adequate contingency is built in.

7.1 The Government accepts the Committee's recommendation.

7.2 The department's track record in delivering cost reductions, for example in SR07, is proven. The department will control its delivery of SR10 reductions through its Change Programme. The department recognises the importance of delivering cost reductions in line with its planned trajectory and sustaining these savings throughout and beyond the Spending Review period.

Current status

7.3 Implemented.

Action taken to implement recommendation

7.4 The department has undertaken an extensive recruitment exercise to recruit change directors for each line of business ensuring that the department has the right skills in the right places. Via these change directors, the department has identified a pool of additional proposals that could be drawn upon if required. These will be reviewed as an ongoing part of quarterly prioritisation exercises being held by the Investment Committee. To underpin this approach, the department has a resource management team which tracks resources used on different projects and facilitate moves between projects. The department recently undertook a first year stock take of the change programme. The cost reduction target for 2011-12 was slightly exceeded.

7.5 The department undertakes half yearly stock takes of the change programme. The most recent stock take shows that the cost reduction target for 2011-12 was exceeded by £48 million. This shows that the department is on track to deliver its SR10 reductions.

PAC RECOMMENDATION 8

The department must ensure its project management arrangements provide clear evidence on the progress of all projects against the critical path for delivery, so that it has early sight of under-delivery, understands the consequences on other projects and can respond quickly. It should also ensure that staff are held accountable for delivery against key milestones.

8.1 The Government agrees with the Committee's recommendation.

8.2 In line with best practice of the Major Projects Authority (MPA), the department has developed a portfolio plan with high-level view of interdependencies and sequencing of projects. More detailed planning and interdependency mapping is underway, but this is at an early stage as this is a four year programme.

Current status

8.3 Implemented.

Action taken to implement recommendation

8.4 The department regularly tests the overall deliverability of its plans through the Investment Committee quarterly re-prioritisation exercises; monthly monitoring of the performance of the portfolio using a Red, Amber, Green (RAG) status based on both the overall programme and each project; and a six monthly review of the portfolio by Change Delivery Committee and Executive Committee.

8.5 The recent MPA Gate 0 Review confirmed that the rationale for the programme is clear. It has stood up well when individual initiatives have been subjected to a more detailed analysis.

8.6 The half yearly stock takes of the change programme are reviewed by the Executive Committee and test the overall deliverability of the departments plans. The MPA stated in their Gate 0 Review that: "*the processes and disciplines have been tested against real world pressures, and it is encouraging to observe how well the structure is performing*".

Fifty Ninth Report

Ministry of Defence

The cost effective delivery of an armoured vehicle capability

Summary of the Committee's findings

Armoured vehicles such as tanks, reconnaissance and personnel-carrying vehicles are essential for a wide range of military tasks. Since the 1998 Strategic Defence Review, the Ministry of Defence (the department) has attempted to acquire the vehicles it needs through a number of procurement projects. However, none of the principal armoured vehicles it requires have yet been delivered, despite the department spending £1.1 billion since 1998, including £321 million wasted on cancelled or suspended projects. As a result there will be gaps in capability until at least 2025, making it more difficult to undertake essential tasks such as battlefield reconnaissance.

The department acknowledges that it has been both indecisive and over-ambitious in setting vehicle requirements, and that the ways it has sought to procure armoured vehicles have been too complicated. The department will need to set more realistic requirements in future if it is to deliver projects on time and to budget. The Committee was also concerned that the department was unable to identify anyone who has been held to account for the clear delivery failures. It is critical the department has named senior staff with the necessary powers and sufficient time in post to take proper responsibility for and be held accountable for such projects.

The department has yet to balance its defence budget fully and devise a plan to close capability gaps, despite having conducted the SDSR and two subsequent planning exercises. The department needs to determine its armoured vehicle equipment priorities and deliver these as rapidly and cost-effectively as possible, including making an assessment of which of its existing vehicles should be retained after combat operations in Afghanistan cease.

In reaching its findings, the Committee took evidence from the department on the cost effective delivery of an armoured vehicle capability on 24 October 2011. The Committee issued its report on 9 December 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

The department should ensure that future procurement decisions are based on a clear analysis of its operational priorities, and must challenge proposals vigorously to ensure they are both realistic and affordable. Once budgets have been set, they must be adhered to.

1.1 The Government accepted the Committee's recommendation.

1.2 The department prioritises its equipment requirements and procurement decisions based upon Defence Strategic Direction 11 (DSD11). DSD11 provides the statement on the department's strategic direction and informs decision making and provides direction for strategy, policy, planning, programming and finance staffs. DSD11 is structured around the Military Tasks which describe what the Government may ask the Armed Forces to undertake; and through more detailed Defence Planning Assumptions makes statements about the size of operations, how often they might be undertaken, how far away from permanent bases, with which partners and allies, and how soon forces are expected to recover from the effort involved.

1.3 Through implementation of the *Defence Reform* proposals (*Defence Reform: an independent report into the structure and management of the Ministry of Defence),* budgets and responsibility for equipment capability will be aligned under the Service Chiefs and Commander Joint Force Command, creating stronger incentives on them to manage the financial consequences of their capability judgements and actions.

Target implementation date

1.4 April 2013.

Current Status

1.5 Work in progress.

Action being taken to implement recommendation

1.6 In May 2012, the department completed Planning Round 12. This established an affordable and fully funded core Equipment Plan covering the department's current project commitments including the major equipment programmes announced in the SDSR and the associated support costs for all current in-service and new equipment. This programme amounts to just under £152 billion over ten years and includes an effective centrally held contingency reserve of over £4 billion. The department is assured that the Plan can be delivered within the budget available and that it provides a mechanism to deal with changing operational priorities, without affecting the existing core programme.

1.7 There are projects and proposed enhancements not included in the committed core programme that are intended to deliver capabilities which the department expects to require in future, but to which there is no need to commit to at this point. To give the department greater flexibility, these projects will not be brought into the committed core programme until they can demonstrate priority and affordability. New projects will be committed into the core programme when they are required and when the department is confident that there are funds available to bring them into Service as swiftly and efficiently as possible. In addition to the £152 billion core committed programme, the department has £8 billion of unallocated headroom, which will be assessed on how the department will address its future capability planning requirements as part of the Annual Budgetary Cycle 13.

1.8 Projects are subject to scrutiny by the Investment Approvals Committee, which ensures, on behalf of the Defence Board, that investment proposals remain consistent with the department's capability planning requirements, and will deliver value for money within the department's financial resources. The NAO has concluded that the department's investment approvals process was fit for purpose.

PAC RECOMMENDATION 2

The department needs to demonstrate in future projects that its procurement culture has changed towards realistic specifications and simpler procurement routes. It should buy vehicles off the shelf through international competition where possible, having identified and assessed the consequent impact on the UK's industrial capability.

2.1 The Government agreed Committee's recommendation.

2.2 The department has significantly improved the way in which Armoured Vehicles are specified and procured in recent years. For example: the Scout Specialist Vehicle (Scout SV) programme has adopted a simplified acquisition strategy and pursued a modified solution of an existing and proven vehicle, reducing the costs and risks associated with a new design. The vehicle has data and power systems which enable it to be flexible to future changes in technology and advances throughout life. This offers growth potential without over-specification now.

2.3 The Government published a Green Paper on Equipment, Support, and Technology for UK Defence and Security in December 2010. Following consultation, the Government has now published a White Paper '*National Security through Technology: Technology, Equipment, and Support for UK Defence and Security*' setting out its high level policy on equipment procurement, including the future role of competition in the global market and Off-the-Shelf procurement.

Current Status

2.4 Implemented.

Action taken to implement recommendation

2.5 The *National Security Through Technology* White Paper, published in February 2012, set out the Government's guiding principles and policy on equipment procurement. It outlines the intent to fulfil the UK's defence and security requirements wherever possible through open competition in the domestic and global market, buying off the shelf where appropriate.

2.6 The commitments within the White Paper, along with recommendations from Lord Levene's 2011 report on Defence Reform, are being embedded within the new acquisition processes established as part of the Transforming Defence work. These include the delegation of Capability Management to front line commands, which will incentivise budget holders to deliver realistic specifications, and changes to the Defence Equipment and Support organisation as part of the Materiel Strategy. In particular, definitions and guidance are being developed for practitioners around the concepts of off-the-shelf, operational advantage and freedom of action and exportability. These will be included within departmental information, guidance and training.

2.7 This will contribute to the development of the department as an 'intelligent' customer better able to translate the output requirements of Front Line Commands into user requirements that are more pertinent to the supplier and hence assess the optimum procurement route required for a particular capability whilst also taking into account value for money and potential industrial and commercial considerations.

2.8 The department's commitment to simple and realistic acquisition strategies across the equipment programme is particularly evident when it comes to armoured vehicles. Although open competition is the departments default position, the nature of the armoured and protected vehicle requirements means that purchasing complete vehicle systems off-the-shelf is not normally appropriate. However, programmes such as the procurement of Foxhound have demonstrated that the department can run a fast procurement using realistic requirements. Foxhound went from a blank sheet of paper to full trials in a little over a year.

2.9 The department continues to encourage the use of off-the-shelf sub-systems and components where appropriate, which can be integrated as part of a complete vehicle system. The department has taken steps mandating open systems (publishing a Generic Vehicle Architecture standard) and is applying this to new vehicle procurements and upgrades. This should allow more choice over technology options; increase the potential for exploiting off-the-shelf products; and allow more choice of suppliers and competition within the supply chain.

PAC RECOMMENDATION 3

The department must avoid introducing UORs to compensate for its own poor programme and financial management, but should use them only to respond to urgent military imperatives.

3.1 The Government agreed Committee's recommendation.

3.2 The Committee has previously acknowledged that the UOR process has a place in enabling the department to respond to rapidly evolving threats on operations. Of the £2.8 billion, some £685 million was spent upgrading existing core vehicles to counter the specific threats encountered in these operational theatres significantly improving the protection levels for those troops deployed. The Core Equipment Programme is planned to enable the department to operate within a broad range of operational environments, but not every scenario or threat. Therefore, Operations in Iraq and Afghanistan, by their nature, have necessitated the procurement of UORs to meet differing threat levels. This would always have been the case irrespective of the performance of armoured vehicle procurement from the Core Programme. The department therefore has rightly used UORs to respond to the urgent military imperatives.

3.3 The requirements for core vehicles are necessarily more varied and complex than those for the more focused UORs, given the need to deliver capability across a broad spectrum of operational scenarios, and to provide growth potential to incorporate future technology upgrades throughout the operational life of the platform. UOR vehicles, by contrast, are developed against specific defined threats, and requirements are balanced against the need to deliver rapidly. However, the department fully expects some of the vehicles bought under the UOR process to have wider utility beyond the current operation and to meet the requirements of the future. The department is currently assessing which of these platforms will be retained and brought into core to complement the capabilities of the existing and future core vehicle fleet.

Current Status

3.4 Implemented.

Action taken to implement recommendation

3.5 The UOR process is used for the rapid purchase or modification of equipment to address urgent and unforeseen capability gaps in support of a current or imminent military operation. There are mechanisms in place to ensure that the criteria underpinning the UOR process are met, and the Treasury regularly and rigorously hold the MOD to account. This means that the MOD cannot use the UOR process to pay for projects which should be included in the core programme.

3.6 The SDSR, the three month exercise, and planning rounds 11 and 12 have fundamentally reshaped the Equipment Programme, which is now built on a much more realistic set of assumptions about future costs, and includes a centrally held contingency and an unallocated provision. This puts the department in a better place to respond to priorities quickly.

PAC RECOMMENDATION 4

The department must ensure it does not delay any further in deciding which armoured vehicles it can afford and bring them into service. It should apply the positive lessons of its more pragmatic approach to meeting urgent operational requirements to speed up the core procurement process.

4.1 The Government agreed the Committees recommendation.

4.2 The department plans to spend £5.5 billion on armoured vehicles over the next ten years (from FY 2011-12). This programme will include Scout, the Warrior Capability Sustainment programme and in due course, a utility vehicle. The Army has made clear that its most immediate priority is the Warrior Capability Sustainment Programme, which has recently been committed to contract.

4.3 The department has learnt lessons from the UOR process, and is applying these to core procurements where appropriate. This includes simplifying and accelerating the process by which requirement trades can be agreed, and by improving stakeholder engagement.

Current Status

4.4 Implemented.

Action taken to implement recommendation

4.5 In PR12, the department committed to a Core Armoured Vehicle programme that includes the Warrior Capability Sustainment Programme, the SCOUT Specialist Vehicle, and in due course, a Utility Vehicle, together with improvements to the Challenger 2 Main Battle Tank. The management of this Armoured Fighting Vehicle programme will be handed down to the Front Line Commands in accordance with the implementation of the Levene reforms. The Army will need to prioritise its programmes within that funding and this process continues to evolve through the Army 2020 work. In addition, as part of the Annual Budgetary Cycle 13 process, the UOR procured fleets of vehicles currently deployed in Afghanistan are being reviewed to determine which of these vehicles will be retained as part of Future Force 2020 and Land environment capabilities once they are no longer required on operations.

PAC RECOMMENDATION 5

The department should urgently complete the unfinished work of the SDSR to balance its budget fully, identifying the equipment required to meet its capability needs and allocating resources accordingly. In the case of armoured vehicles, it should act urgently to establish which existing vehicles it intends to retain in service, and which new vehicles it can afford to procure.

5.1 The Government partially agreed with the Committee's recommendation.

5.2 Since the SDSR, significant work has been undertaken by the department to understand in detail the true cost of and risk associated with the forward programme. This work identified the need for greater contingency in forward plans and developed a series of options for a balanced and affordable programme. The department has therefore already met this element of the Committee's Recommendation. Building on this work, the focus of *Defence Reform* and the *Materiel Strategy* is on wider reforms to the system that are needed to keep the programme affordable and deliverable.

5.3 The department plans to spend £5.5 billion on armoured vehicles over the next ten years (from FY11-12). This programme will include Scout, the Warrior Capability Sustainment Programme, and in due course, a utility vehicle. Work is also underway to decide which of the vehicles bought under the UOR process should be retained in service once they are no longer required in Afghanistan.

Current Status

5.4 Implemented.

Action taken to implement recommendation

5.5 The committed core programme supports the major force elements set out in the SDSR. Building upon SDSR, the department has developed Defence Strategic Direction 11 (DSD11). This provides the detailed guidance to the department informing decision making, strategy development, policy, planning, programming and finance staffs. It is structured around the Military Tasks, which describe what the Government may ask the Armed Forces to undertake. This informs the determination of the collective priorities of the Armed Forces as set out by the Armed Forces Committee on which all the Service Chiefs sit. They have confirmed that the Committed Core Equipment Programme, together with the £8 billion available unallocated headroom, will fund the capabilities they require to deliver Future Force 2020.

5.6 In the specific case of Armoured Vehicles, the AFV programme funding has enabled the further development of Scout, the Warrior CSP and Challenger 2 LEP. The department is currently reviewing all the vehicles procured through the UOR process for operations in Afghanistan and these will be considered for inclusion into the Core Programme in Annual Budgetary Cycle 13.

PAC RECOMMENDATION 6

The Accounting Officer should ensure that the lines of accountability for projects, and the way in which those responsible will be held to account, are clearly articulated and understood throughout the department.

6.1 The Government partially agreed with the Committee's recommendation.

6.2 As part of its examination of how individual accountability across the UK's defence programmes could be strengthened, Lord Levene's review *Defence Reform* looked at the issue of tour lengths. The review recommended that the department should move towards a system that requires senior individuals to stay in key posts for longer than they tend to at present and should also look to align tour lengths with the key outputs of the post, such as major milestones on equipment programmes. Further work is underway to identify the standard tour lengths that should apply to different categories of senior post. Alongside other benefits, this would make the audit trail for responsibility on decisions and performance more clear.

Target implementation date

6.3 April 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 As part of Defence Reform, the Finance and Military Capability Transformation programme is implementing the delegation of Programme Delivery responsibilities to the Front Line Commands and the Director of Strategic Programmes in Head Office. As a result, Senior Responsible Owners (SROs) will be formally appointed and given authority through a mandate to deliver their programmes and oversee delivery of their associated projects, with accountability direct to the Top Level Budget Holder or – for the most critical programmes – to the Permanent Under Secretary. This will ensure that authority is more clearly invested in the SRO to manage the delivery of the programme for which they are responsible and accountable and improve the department's application of its SRO policy.

6.6 The department is moving to a model where key individuals stay in post for longer. The Joint Assured Model takes this forward for senior military personnel and a similar process is in place to ensure that SCS stay in post for longer: these changes should take effect as each new incumbent takes up post.

Sixtieth Report

Department of Health

Achievement of Foundation Trust status by NHS Hospital Trusts

Summary of the Committee's findings

A vital component of a successful health service is that everybody wherever they live should have ready access to a high standard of care through a network of acute hospitals that are subject to strong clinical and financial governance. The Department of Health (the department) sees self-governing foundation status as necessary if hospitals are to succeed in a financially demanding environment. Becoming a foundation trust requires strong governance, long-term financial viability, and a framework to secure delivery of quality services. NHS foundation trusts were first created in 2004 and, between then and the end of September 2011, 139 NHS trusts attained foundation status. The Government intends that the majority of the remaining 113 NHS trusts will become foundation trusts by April 2014. It is already clear that this will be extremely difficult to achieve.

Strong leadership is urgently needed if those trusts facing clinical and financial difficulties are to meet the challenge of achieving foundation status. The flow of trusts through the 'pipeline' towards foundation trust status is already behind schedule. Decisions about changes to services need to be taken promptly but wisely, and some trusts are still putting off difficult decisions. A particular problem is the quality of leadership, but prolonged uncertainty makes it harder to recruit good board members and clinical staff. The department has made an explicit commitment to intervene if trusts fail to tackle problems on their own.

In reaching its findings, the Committee took evidence from the Department of Health and the Chief Executive of the NHS, and from the Chief Executives of Ealing Hospital NHS Trust, North Middlesex University Hospital NHS Trust, and Winchester and Eastleigh Healthcare NHS Trust, about the responsibility for dealing with this huge challenge, and what is being done to protect taxpayers and patients when trusts need external help on 19 October 2011. The Committee issued its report on 15 December 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

RECOMMENDATION 1

The department should require each trust in difficulty to provide the local community with a clear explanation of the problems it faces and what the proposed changes will mean for patients. Trusts must consult staff and the local community on how they intend to resolve these issues.

1.1 The Government agreed with the Committee's recommendation.

1.2 Tripartite Formal Agreements (TFA) for all NHS Trusts were signed by 30 September 2011 and have been published. Clear timelines and actions are now agreed for each individual organisation. TFA's identify the key strategic and operational issues facing each NHS Trust. They set out the timetable, significant milestones and actions for submitting an application to the department. They also describe the commitments by each party to deliver a Foundation Trust (FT) application, along with risks to delivery and risk mitigation. The agreements identify the scale of challenge and provide unprecedented clarity on what needs to be done to complete the roll out of the FT pipeline.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 Some NHS Trusts face serious financial challenges ahead of becoming viable organisations and able to meet the requirements to achieve foundation trust status. For these, the department has worked with Strategic Health Authorities (SHAs) to determine what actions are required and, if these are not deliverable within the local health economy, whether some national solution or strategic change is required. These demonstrate the focused attention on the issues that need addressing to support the establishment of an all foundation trust landscape. Where significant service change is needed, consultation with the public and other stakeholders remains a key requirement to ensure that the case for change and its consequence for local patients and communities are clearly understood.

1.5 In addition, the department now publishes information about NHS Trusts' progress against their TFA milestones on a quarterly basis, making transparent the level of progress which has been achieved. Annex A provides an update on NHS Trusts identified as unviable in September 2011 (plus South London), where outcomes are known.

PAC RECOMMENDATION 2

The department should report back to us by the end of 2012 on the progress of all Trusts still in the pipeline and what further action it is taking to help those Trusts which continue to be unviable.

2.1 The Government agreed with the Committee's recommendation.

2.2 TFAs set out a NHS Trust's journey to FT status on their own, as part of an existing FT or in another organisational form. The TFAs have been signed by the Chief Executives of the NHS Trust, their SHA and the Managing Director of Provider Development Directorate (now the Senior Responsible Owner (SRO) for the NTDA and the FT pipeline) at the department. Additionally, the lead commissioner for the NHS Trust has also signed the agreement. These documents and the timescales and commitments made in them will be performance managed.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 To maintain the momentum of the FT pipeline, the monitoring of progress against each of the NHS trust's plans for achieving FT status, as set out in their individual Tripartite Formal Agreements (TFA), has been a key aspect of ensuring that the necessary progress is being made by each organisation. Where an NHS trust is not delivering against the plans, set out in its TFA, the agreed escalation processes have been triggered. Intervention may be needed to ensure the NHS trust gets back on track and in some cases a revised TFA date and management plan may be required. In 2012-13, TFA monitoring and the NHS Performance Framework were brought together to ensure NHS trusts are clear on the equal priority for delivery against both plans to become FTs and the continuing delivery of performance requirements, as set out the NHS Operating Framework.

2.5 The Trust Development Authority (TDA) will take on responsibility for oversight of NHS Trusts from April 2013 and took on some initial functions from October 2012, including oversight of TFA progress and assessment of FT applications at national level. The TDA will provide support and challenge to Trusts on quality, financial and performance issues, as well as supporting the development of credible plans for reaching FT status or moving to another organisational form. It will continue to monitor progress on agreed TFA dates carefully and take action where necessary to ensure Trusts remain on track.

PAC RECOMMENDATION 3

The department and NHS London are aware of the difficulties facing London's healthcare system, but they cannot just leave this problem to individual trusts, and they need to develop a clear strategy and appropriate support for the creation of a sustainable, safe and efficiently delivered health system, and communicate it clearly to Londoners.

3.1 The Government agreed with the Committee's recommendation.

3.2 The SHA, NHS London, currently performance manages and provides support to all NHS Trusts within London in their journey to FT status. This work is led by the Directorate of Provider Development that exists in each of the four SHAs across the country. Within London, an SHA wide analysis (*Safe and Financially Effective*) has been completed reviewing the clinical and financial sustainability of all NHS Trusts. This has examined the productivity opportunity open to all Trusts and factored in key quality metrics so that an assessment of which Trusts are viable in their current form and those where more major changes are required has been made.

Target implementation date

3.3 March 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 NHS London's report, *Acute Hospitals in London: Sustainable and Financially Effective*, published in February 2012, described the challenges to delivering a sustainable health system in the capital. One challenge, for example: is that London's NHS trusts are currently trying to sustain some services over too many sites. The NHS in London recognises these challenges and has made considerable progress in transforming services. For example: London Health Programmes have been leading a piece of work across all 31 PCTs so that commissioners are able to use agreed quality and safety standards in adult emergency services to transform services.

3.6 PCT Clusters have continued to develop Commissioning Strategy Plans (CSPs), which include changes to emergency, maternity, and other services. In the future, this work will be carried forward by the new leaders in the system, including Clinical Commissioning Groups (CCGs), the NHS Commissioning Board and the NHS Trust Development Authority.

PAC RECOMMENDATION 4

In considering how to reconfigure services the department and the SHAs should assess carefully the impact on the local population. They should ensure they protect the interests of vulnerable people for whom travelling to hospital is difficult, so that health inequalities are not exacerbated.

4.1 The Government partially agreed with the Committee's recommendation.

4.2 The department recognises that access to services is an important issue for patients and the public. This is why the department is very clear that reconfiguration should be a locally-led process, so that services can be designed around the needs of patients. An objective of the Government's reform plans is therefore to allow strategic decisions to be taken at the appropriate level.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Health and Social Care Act 2012 will help to ensure that reconfigurations are locally-led by underpinning commissioning decisions with clinical insight through the establishment of clinical commissioning groups (CCGs). CCGs will have the flexibility to collaborate with each other, providers, local government and the NHS Commissioning Board in making decisions about the redesign and reconfiguration of services. CCGs will work with provider organisations from 1 April 2013 to enable them to plan for any necessary changes.

4.5 When proposing to reconfigure services, commissioners and providers should consider the implications for patients travelling to facilities. Any changes should not disadvantage particular groups. Developing plans in dialogue with local authorities and patient representatives, including local

Healthwatch, will help ensure these issues are taken into account. The Trust Development Authority will work closely with commissioners on plans for service change which affect NHS Trusts in order to ensure that provider organisations can respond appropriately to commissioners' priorities.

PAC RECOMMENDATION 5

The department will need to ensure the long term sustainability of these hospitals whilst at the same time minimising any extra financial support it offers.

5.1 The Government agreed with the Committee's recommendation.

5.2 A number of potential solutions to this issue are being considered by the Government and the department will work to complete this before Summer 2013. Decisions on the application of any central funding to specific Trusts will be made in the context of each Trust's progress towards FT status. They will only be provided once the Secretary of State's tests have been met and as an integral part of their overall journey to FT status.

Target implementation date

5.3 March 2013.

Current Status:

5.4 Work in progress.

Action being taken to implement recommendation

5.5 In February 2012, the department announced that it would provide support to seven Trusts, with historic Private Finance Initiative (PFI) arrangements, that were unable to demonstrate the necessary long term financial viability, explicitly where the PFI affordability was a contributing factor. The eligible funding support will only be made available subject to each organisation meeting four key tests. These tests are:

- the problems they face should be exceptional and beyond those faced by other organisations
- they must be able to show that the problems they face are historic and that they have a clear plan to manage their resources in the future
- they must show that they are delivering high levels of annual productivity savings
- they must deliver clinically viable, high quality services, including delivering low waiting times and other performance measures

5.6 The work in relation to meeting these four tests and confirming the arrangements for this funding for each organisation is ongoing. It is anticipated that the funding identified will be paid over the lifetime of each of the eligible PFI schemes.

5.7 In addition, the department has instigated the Unsustainable Provider Regime (UPR) for the South London Healthcare Trust. The regime places the trust under the control of a Trust Special Administrator, who will make recommendations to Secretary of State on how to deliver clinically and financially sustainable services within the local health economy. The UPR is intended for use only in exceptional circumstances. From October 2012, the TDA is responsible for advising the Secretary of State on when to trigger the regime.

PAC RECOMMENDATION 6

The department should report back to the Committee, by the end of April 2012 on:

- **what practical steps have been taken by successful foundation trusts to engage higher calibre non executives, and to put in place more robust accountability frameworks;**
- **what action the 40 % of NHS trusts with acknowledged weaknesses have taken to address the leadership and governance problems they are facing; and**
- **what impact the new toolkit has had in helping those trusts struggling to attain foundation status.**

6.1 The Government agreed with the Committee's recommendation.

6.2 Foundation Trust's (FT's) are sustainable, autonomous providers with greater freedoms to innovate to provide high quality services for patients. Through membership, FT's have stronger connections with their staff and local populations to ensure that long-term plans reflect their input and needs.

Target implementation date

6.3 Early 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The Department introduced the Board Governance Assurance Framework (BGAF), in December 2011, to assist the Boards of aspirant FTs through a combination of self and independent assessment processes to ensure that they are appropriately skilled, and prepared to achieve FT authorisation. Using the BGAF means patients and the public can have confidence that their Trusts are undergoing a standardised, high quality process to help the Board build on their strengths and address any weaknesses. All aspirant FTs are required to use the Board Governance Assurance Framework prior to submitting their FT application to the department. This is an important aspect of a Trust's application.

6.6 In addition, the Trust Development Authority has taken over responsibility for non-executive and Chair appointment to NHS Trust from the Appointments Commission from October 2012. This brings together non-executive appointments with the other aspects of Trust oversight, meaning the TDA has the levers to improve leadership across the sector. The TDA will be seeking to strengthen and diversify the leadership of NHS Trusts through the exercise of its appointments functions.

6.7 The department is funding, via the NHS Leadership Academy, the development of a comprehensive governor training programme to strengthen governance in foundation trusts by providing training materials to equip governors to hold FT boards of directors to account and to represent their constituents. The materials will be available both for foundation trusts and for prospective foundation trusts. The training is aimed at governors of foundation trusts, but part of its success will depend on FT boards of directors, both executive and non-executive, recognising both the need to accept accountability to governors representing their local staff and patient populations and the need to recruit and train governors to carry out their role effectively. It is expected that the training programme will be rolled out to FTs and NHS trusts in early 2013.

Annex A

A.1 NHS Trusts identified as unviable in September 2011 (plus South London) where outcomes are known.

	TRUST NAME	CURRENT SITUATION (OCTOBER 2012)
1	Newham University Hospital NHS Trust	Merged with Whipps Cross and Barts on 1 April 2012
2	Barking, Havering and Redbridge University Hospitals NHS Trust	Working on plans Eligible for PFI support.
3	North Cumbria University Hospital Trust	Working on plans Eligible for PFI support.
4	Surrey and Sussex Healthcare NHS Trust	Working on plans
5	Epsom and St Helier University Hospitals NHS Trust	Working on plans
6	Trafford Healthcare NHS Trust	Acquired by Central Manchester NHSFT on 1 April 2012.
7	Scarborough and North East Yorkshire NHS Trust	Acquired by York Hospitals NHSFT on 1 July 2012.
8	Winchester and Eastleigh Healthcare NHS Trust	Acquired by Basingstoke and North Hampshire NHS Foundation Trust on 9 January 2012, forming a new organisation, Hampshire Hospitals NHS Foundation Trust.
9	George Eliot Hospital NHS Trust	Working on plans
10	Nuffield Orthopaedic Centre NHS Trust	Integrated with Oxford Radcliffe Hospitals NHS Trust on 1 November 2011, forming a new organisation, Oxford University Hospitals NHS Trust.
11	South London Healthcare NHS Trust	Unsustainable Provider Regime Eligible for PFI support.
12	Oxford Learning Disability NHS Trust	Will be acquired by Southern Health FT on 1 November 2012.
13	Whipps Cross University Hospital NHS Trust	Merged with Newham and Barts on 1 April 2012
14	North Middlesex University Hospital NHS Trust	Working on plans
15	Ealing Hospital NHS Trust	Working on plans
16	Hinchingbrooke Hospital NHS Trust	Franchised
17	North West London Hospitals NHS Trust	Working on plans
18	Weston Area Health NHS Trust	Working on plans
19	Great Western Ambulance Service NHS Trust	Working on plans
20	Dartford and Gravesham NHS Trust	Working on plans Eligible for PFI support.
21	Suffolk Mental Health Partnership NHS Trust	Acquired by Norfolk and Waveney Mental Health NHS Foundation Trust on 1 January 2012 becoming Norfolk and Suffolk NHS Foundation Trust.

Sixty First Report

HM Revenue and Customs

HM Revenue and Customs 2010-11 Accounts: tax disputes

Summary of the Committee's findings

At 31 March 2011 HM Revenue & Customs (the department) was seeking to resolve tax issues valued at over £25 billion with large companies, some of which included disputes over outstanding tax. The department must collect as much outstanding tax as possible and be held properly to account for how it resolves tax disputes. The Committee has serious concerns about how the department handled some cases involving large settlements, where governance arrangements were bypassed or overlooked until it was too late. In some cases the same officials negotiated and approved the settlements, which is clearly unacceptable.

The Committee welcomes the Comptroller and Auditor General's proposal to conduct further work to consider the reasonableness of the settlements reached in the specific cases where normal governance processes were not followed, and to report on whether proper legal advice was secured in a timely manner and that HMRC complied with its own published procedures and protocols. The department has agreed to co-operate fully with this inquiry and with any subsequent hearings the Committee holds.

In reaching its findings, the Committee took evidence from the department and the Cabinet Secretary on 12 October 2011 and further evidence on both 17 October 2011 and 7 November 2011. The Committee issued its report on 20 December 2011 and the Treasury Minute – the Government's formal response - was published on 27 February 2012.

PAC RECOMMENDATION 1

The department must set out in greater detail its policy reasons for not disclosing information about specific corporate taxpayers. It must explain the circumstances in which it would consider disclosure and it must set out how it will fulfil its statutory obligations to account for its actions to Parliament.

1.1 The Government does not accept that Parliamentary scrutiny of tax settlements has been impeded

1.2 HM Revenue and Customs (HMRC) has a statutory duty of confidentiality, as set out in the Commissioners for Revenue and Customs Act 2005. Taxpayer confidentiality is a fundamental principle underpinning tax systems worldwide. Taxpayers need confidence that the information they give to HMRC will be protected in order to encourage frankness and so allow revenue to be gathered efficiently. HMRC may disclose information to third parties only when it is for the purpose of carrying out the department's functions or for the very limited circumstances specified in the Act. Ministers of successive Governments have repeatedly supported this approach.

PAC RECOMMENDATION 2

Accounting Officers are accountable to this Committee and the Committee expects precise, open and comprehensive answers to our questions. Any failure to do so is a failure to perform a core responsibility and should be treated as such by the Cabinet Secretary.

2.1 The Government does not agree that witnesses sought to mislead the Committee.

2.2 The Civil Service Code requires all civil servants to act with integrity, honesty, objectivity and impartiality; and not to mislead Parliament or others.

PAC RECOMMENDATIONS 3 TO 8

3: The department must ensure that its revised procedures to separate out the roles of those involved in settling tax disputes are applied to all cases without exception. The department should report back to the Committee, as promised by the Cabinet Secretary, before Christmas.

4: For speed, the Committee accepts that the role should be set up in shadow form, but it should be formalised in legislation as quickly as possible. Independent assessors should report annually to Parliament on their work, perhaps in a statement contained in the department's annual report and accounts. This should include aggregate information on the cases in which they were involved and a report on any settlements where they have identified concerns.

5: The department must ensure that it has applied all relevant governance checks to each settlement before finalising them with taxpayers. It must also consult legal advisors before settling cases in litigation and make sure it keeps its own accurate and complete records of key meetings with companies. The Committee remains concerned that the decision was taken not to reopen this case when the 'mistake' was uncovered, and the Committee were not given good reasons for HMRC not reopening this case.

6: There needs to be stringent accountability at the top of the department for designing and operating a system in which such mistakes could occur. The Committee expects leaders to take responsibility for both systemic issues and for specific mistakes, for which they are accountable.

7: The department must exercise better judgement over how it manages its relationships with large companies, to ensure it avoids the perception of conflicts of interest.

8: It is unfair that large companies can settle their tax disputes with the advice of professionals at less than the full amount due and that they have been allowed up to 10 years to pay their tax liabilities, while small businesses and individuals on tax credits are not allowed similar leeway. The department has promised to look into the treatment of these groups of taxpayers in terms of its fairness and reasonableness. It should report back to the Committee on any actions taken to address the wider policy or process issues identified as a result of its examination.

3.1 The Government agrees that public confidence in HMRC is important. The department has strong governance processes in place for the resolution of tax disputes, but it accepts that its internal procedures can be improved to provide greater assurance of the settlements the department reaches.

3.2 HMRC treats all taxpayers even-handedly, supporting the majority who comply with their duty to pay their taxes, and cracking down hard on those who evade or avoid. The department resolves tax disputes in line with its published Litigation and Settlement Strategy. In most cases this is by agreement under established statutory provisions rather than through formal litigation, but the department will not settle by an agreement for an amount which is less than it would reasonably expect to obtain from litigation. The Tax Tribunal's own rules support the use of appropriate alternatives to litigation in resolving disputes.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The department published proposals on 28 February 2012 responding to the issues raised by the Committee about the way large settlements are reached. Steps have been taken to implement these proposals including the appointment on 28 August 2012 of Edward Troup as Tax Assurance Commissioner, (responsible for assuring the governance arrangements for reaching settlements) who plays no part in handling the tax affairs of specific taxpayers and has no line management responsibilities for staff who do.

3.5 The department has introduced new procedures ensuring that settlements in the largest (over £100 million) and most sensitive cases are approved by three tax expert commissioners (including the Tax Assurance Commissioner). A sample of smaller cases will also go through this process.

3.6 In July 2012, a draft code of governance was shared with the Committee, the Treasury and Civil Service Select Committee and other external stakeholders. This has been revised in the light of comments received in response, and the outcome of a workshop for external stakeholders, and reissued on 1 November 2012. This sets out the department's governance procedures for resolving tax disputes and plans to develop a review programme for processes in settled cases and to publish an annual report on tax disputes work.

3.7 Following the Committee's report, the NAO commissioned Sir Andrew Park to review the settlements which had caused the Committee concern. Sir Andrew concluded that all the settlements were reasonable and represented good value for money.

Progress on implementing recommendations from 3 National Audit Office reports

HC 1457	The expansion of online filing of tax returns *(Revenue and Customs)*
HC 1593	Department for Environment, Food and Rural Affairs Financial Management *(Environment)*
HC 1595	Core skills at HM Revenue and Customs *(Revenue and Customs)*

HC 1457

HM Revenue and Customs

The expansion of online filing of tax returns

Summary of the NAO findings

HMRC's programme to increase online filing of tax returns has made significant progress. HMRC was set an ambitious timetable to expand the use of online filing and now more than 11.5 million customers a year are submitting one or more tax returns online, generating significant savings. Take-up rates have increased significantly, particularly after mandatory online filing requirements have come into force. Nevertheless, take-up rates on some taxes (VAT, Corporation Tax and Self-Assessment) have been below original forecasts and HMRC has lowered its forecasts in the light of take-up achieved so far.

Online filing is delivering significant savings to HMRC, an estimated £126 million so far. The 2007 forecast was for savings of £145 million by the end of 2010-11, but the programme was subsequently re-scoped because of departmental-wide funding pressures. It cannot demonstrate whether it is maximising benefits as it does not yet fully understand the relative costs of dealing with paper and online returns or the costs and benefits of seeking greater take-up.

The NAO issued its report on 11 November 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

HMRC does not know whether it is maximising the benefits of expanding online filing.

It should:

- ***show the extent to which staff savings from the programme are translating directly into reductions in staff numbers as well as in staffing budgets;***
- ***calculate the relative costs of processing online and paper returns, and use this information to check that anticipated reductions in processing costs from online filing are realistic; and***
- ***determine the scope and potential benefits and costs for HMRC and its customers of increasing take-up rates further, beyond current forecasts.***

A1 The department agrees with the NAO's recommendation.

Current Status

A2 No longer being implemented.

Reason for no longer implementing recommendation

A3 Although the department originally agreed with the NAO's recommendation, further consideration around the practicalities and costs involved together with the already high levels of take up of online services mean the department will not be implementing the recommendation.

A4 The department already tracks savings down to Directorate level adjusting budgets accordingly to reflect the staff savings won from individual projects. Going further would inhibit the Director's ability to manage their units in the best way to optimise the delivery of the department's wider performance targets. Tracking staff savings down to the lowest level does not work in practice because individuals often do a portfolio of tasks - not one discrete job. It would be difficult to assign savings directly to individuals leaving the department. The department is undertaking process management to map process costs and provide unit cost comparisons. Online filing levels are already high for most of the mandated taxes. The department helps those who have difficulty filing online.

NAO RECOMMENDATION B

HMRC does not yet know if customers are receiving the benefits expected from online filing, nor the costs they incur.

It should assess:

- ***customer benefits by, for example, measuring the time spent by customers filing a return and the speed with which tax assessments are finalised; and***
- ***the costs incurred by customers in preparing for, and using, online filing.***

B1 The department agrees with the NAO's recommendation.

Current Status

B2 Implemented.

Action taken to implement recommendation

B3 The 2009 impact assessment issued by the department for the Carter Programme assessed costs many of which (for example: those for CT software) become apparent after mandating.

B4 Each business case going through the department's Change Programme will assess the impacts of the changes to customers; this includes the cost of their time fulfilling their obligations. The department uses the 'Standard Cost Model' to estimate changes to business customers obligations (of normally efficient businesses) while the 'Total Cost to Serve' calculator is used to estimate the total costs to individual customers of changes made and the cost of error – operational 'grit' to business customers. Taken together the total cost of compliance for changes can be estimated for all the department's customers.

NAO RECOMMENDATION C

HMRC does not have an up-to-date strategy for migrating customers to online services.

It should:

- ***produce an integrated plan that brings together the costs, benefits and milestones of the different programmes covering its communication with customers; and***
- ***identify ways to encourage more vulnerable groups to file online, including establishing arrangements with appropriate intermediaries to assist such customers to make the most of digital services; and ensuring that the speed of transition does not exclude those who remain unable to access online services.***

C1 The department agrees with the NAO's recommendation.

Current Status

C2 Implemented.

Action taken to implement recommendation

C3 The department published its Digital Strategy, in December 2012 which underpins its vision for the type of organisation it wants to be in 2020 and beyond. The department's ambition is to deliver a customer focused digital service that is straightforward and easy to use, whilst providing the appropriate support to those who cannot use the service, to ensure they are not excluded.

C4 The department recognises that not everyone who uses its services is digitally enabled and those people that are least likely to be online are those who are most likely to rely on government services. For those people the level of support provided will depend on the service and needs of the user. The department will continue to ensure that usability and accessibility are the cornerstones of digital service design in order to digitally enable as many customers as possible. The department will signpost customers to skills training, signpost the availability of free or low cost PC's to enable them to get internet access and support initiatives that promote digital inclusion. Where customers are unable to access the digital channel, even with that assistance, alternative routes will still be available, for example: through post and telephone channels.

NAO RECOMMENDATION D

HMRC requires a detailed understanding of the cumulative risk of developing online services at the same time as progressing other change programmes. It should:

- clarify the interdependencies between these various programmes;
- ensure its governance arrangements are working effectively to provide early sight of possible under-delivery; and
- build on the experience of managing the online filing expansion programme to ensure it has the necessary programme management skills to deliver future online programmes.

D1 The department agrees with the NAO's recommendation.

Current Status

D2 Implemented.

Action taken to implement recommendation

D3 The department established its Central Change Programme, in August 2011, as a successor to the Departmental Transformation Programme. The change programme has established plans in each of its business areas to coordinate governance and focus on expertise. The Business Tax Change Programme is using the expertise of the Carter Programme as the nucleus for the next stage of its own portfolio of change programmes.

D4 In September 2012, the department produced a matrix mapping the dependencies between programmes and projects within its Central Change Programme. The Change Delivery Committee, a sub-committee of the Departments Executive Committee, monitors the delivery of programmes within the departments Change Programme at a portfolio level ensuring robust governance arrangements are in place.

D5 The department has an ongoing commitment to further develop the programme management capability of its staff currently in programme and project management (PPM) roles. The department has also been granted Corporate Accreditation from the Association for Project Management (APM), which represents recognition from Europe's foremost PPM organisation that the department is committed to developing its PPM professionals. Five members of the department recently gained individual accreditation as Members of APM - a new accreditation.

NAO RECOMMENDATION E

The operating model for online services requires updating to reflect wider government initiatives and organisational changes.

HMRC should:

- ***ensure the model adequately reflects the interrelationships between operational directorates, the Information Management Services and Change Directorate and the ASPIRE contractors, including reflecting, where appropriate, programme-specific as well as cross-department activity and information flows;***
- ***include relevant targets to measure the performance of the model over time; and***
- ***reflect the role that online filing will play in supporting the customer-centric strategy.***

E1 The department agrees with the NAO's recommendation.

Current Status

E2 Implemented.

Action taken to implement recommendation

E3 A review of how the department should organise itself to deliver online services most effectively resulted in the creation of the Digital Services team in April 2012. The new Digital Service team is currently developing key performance indicators to measure performance across a range of online services and customer behaviours. The team have also published a Departmental Digital Strategy that operates across all business areas to ensure its fits in with the department's wider strategies.

NAO RECOMMENDATION F

There are gaps in how HMRC specifically measures the performance of online filing systems. It should:

- **establish a clear set of performance measures for the relevant systems;**
- **assess the practicality of linking its service level agreement with ASPIRE with these performance measures; and**
- **identify who, outside of the Information Management Services and Change Directorate, would benefit from routine performance information against these measures.**

F1 The department agrees with the NAO's recommendation.

Target implementation date

F2 April 2014.

Current Status

F3 Work in progress.

Action being taken to implement recommendation

F4 Information Management Services (IMS) are reviewing the current structure of the department's IT service level agreements with a view to building a series of business facing service level agreements supported by a matrix of contractual and internal agreements with key members of the IT supplier chain – including IMS itself and other suppliers. Much will depend on the results of the current ASPIRE contractual debates.

F5 Implementation of the new operational model with ASPIRE has taken the department longer than anticipated. As part of the ongoing discussions about that model, the department is reviewing the list of services it offers. The department expects to have base lined that list by April 2013, but the department is already clear that online transactional services is one of those services and it will be a service around which will in the future construct a Business Service Level between IMS and HMRC customers. That will, in turn, inform the matrix of contractual IT service level agreements and performance measures that will be necessary as the department moves to the 'tower' model of service provision.

F6 The department will complete the work to develop a new Business Service Level Agreement around the online service and the associated work to drive a stronger link between it and the underpinning IT service level agreements by April 2014.

HC 1593

Department for Environment, Food and Rural Affairs (DEFRA)

Financial Management Report 2011

Summary of the NAO findings

The Department for Environment, Food and Rural Affairs (the department) has made progress in its financial management but despite this, the NAO cannot conclude yet that it is achieving value for money in its financial management activity. This is because the NAO was expecting the department to have made greater progress in improving performance since it last reported in 2008 given the resources spent and the focus on financial management. The department has, however, undertaken a number of projects designed to strengthen its financial management. These have had some positive results, such as revised management reporting and improved forecasting, although the department has not fully assessed all the benefits of these projects.

The department has also improved its financial capacity and capability, by increasing the number of permanent, qualified finance staff and also by offering financial skills training courses for non-financial staff. However, there are still weaknesses in financial capability; and financial skills could be better integrated across the department. The department should also focus on improving its commercial skills, such as contract management.

Internal control and risk management, both in the department and its arm's-length bodies, have improved, but the department should now focus on developing greater oversight of those bodies. The department has started to work more closely with them, but it needs to be more proactive in its engagement, so that this becomes 'business as usual'. It should also develop a strategic model for engagement with its arm's-length bodies, to understand the risks that they face and opportunities open to them.

The NAO issued its report on 25 November 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

The department does not have a fully embedded culture of sound financial management across the Department and its arm's-length bodies. To achieve this it should:

- **ensure that the aims of the change programme reflect the principles of good financial management;**
- **improve the financial management skills of non-financial staff by requiring budget managers to undertake financial training on forecasting and budgeting that it already offers on a voluntary basis; and**
- **make sure that business managers who deal with contracts undertake training in commercial skills, such as contract management, to support the department to get the best value out of its contracts.**

With its arm's-length bodies, the department should, when developing accountability systems statements:

- **establish an engagement model with each of its arm's-length bodies based on relative risk;**
- **ensure proportionate flows of information are in place between it and its arm's-length bodies that reflect the needs of the business; and**
- **build on its engagement with arm's-length bodies to develop realistic and achievable plans for the alignment project, which take into account relative size and track record in producing timely and accurate accounting information.**

A1 The department agreed with the NAO's recommendations.

Target implementation date

A2 Progress will be reviewed by the department in 2013-14 with further review dates agreed if required.

Current Status

A3 Work in progress.

Action being taken to implement recommendations

A4 The Change Programme has introduced an improved business planning process, which includes strengthening accountability, resource planning, and explicit ownership of budgets. A review was undertaken of the finance training necessary to up-skill both finance and non-finance staff across the department. A programme for rolling out this training, to be built around the finance courses under development by Civil Service Learning, is being devised. This will include mandatory training on fraud awareness.

A5 The department is building commercial capability and confidence for staff in non-procurement roles in parallel with activity to support commercial skills and awareness through Civil Service Learning. The department's procurement function is rolling out training to all its internal and Network Bodies' customers, which will cover the Procurement Directive and the Government's spending controls; good practice in procurement specification; and contract management.

A6 The department's Accountability System Statement, published September 2012, outlines how the accountability system works in relation to the department's funding, through the core department, Network Bodies, Local Authorities and other organisations. Forthcoming triennial reviews of Network Bodies will test whether governance arrangements are consistent with the model, taking into account the risk profile.

A7 The Supervisory Board now receives consistent Management Information on each of the main executive agencies and NDPBs. This includes information on finance, risk and performance. The information requested is proportionate to the needs of the business. As part of the Treasury Clear Line of Sight Project, the department, through engagement with its Network Bodies, performed a risk assessment based on complexity, capability, materiality and past performance in respect of delivery of the department's Annual Report and Accounts. The department's consolidated Annual Report and Accounts 2011-12, including all planned Network Bodies, was signed before Parliamentary Recess.

NAO RECOMMENDATION B

The department's monitoring and forecasting is not always accurate or robust. To improve, it should:

- **build on the accuracy and realism of its forecasts and budgets, by targeting those areas that consistently under spend and providing appropriate support and training in forecasting and budgeting;**
- **enhance its monitoring of forecasts and budgets, with appropriate triggers to give 'early warning' of potential problems; and**
- **increase the level of challenge from central finance and investment approval panels on all bids for funding and on in-year forecasts.**

B1 The department agreed with the NAO's recommendations.

Target implementation date

B2 Progress will be reviewed by the department in 2013-14 with further review dates agreed if required.

Current Status

B3 Work in progress.

Action being taken to implement recommendations

B4 A detailed quarterly forecasting process was introduced in 2011-12. A full analysis of the under spend position was carried out at year-end, highlighting key operational areas where forecasting accuracy was an issue. This coupled with a detailed analysis repeated during the first quarter of 2012-13 provides the finance business partnering community with the information to focus their support on those business areas where key issues have been highlighted.

B5 Between the quarterly forecasting process, the department operates a monthly risks and opportunities schedule that monitors the variance to forecast and budget, and provides an early warning of potential problems. This is collated and reviewed in partnership with business managers by finance business partners. A further challenge is provided by central finance using current run rate analysis to identify further potential variance against full year outturn forecast positions.

B6 The Finance directorate reviews and challenges all bids made to the Central Approval Panel. Through monthly bi-lateral meetings with the business partnering team, challenge is undertaken on year to date spend, and risk and opportunity schedules. This challenge is enhanced at quarterly forecast reviews through a bi-lateral between the Finance Director and Directors General. Robust management information is provided to approval panels and the Supervisory Board.

NAO RECOMMENDATION C

The department does not fully understand the costs of its activities or plan and monitor robustly. It should:

- **develop a 'systems view' of its cost reductions, which clearly assesses how cuts in one area will impact other areas, to better understand costs and cost drivers within its delivery network;**
- **undertake more robust planning, for example, focus on costs rather than just spending, and embed this in 'business as usual' processes;**
- **implement a monitoring regime, which would build on the monthly reporting information already collected from arm's-length bodies. This would allow the department to assess how well value for money is being preserved, in the light of spending reductions; and**
- **enhance monthly reporting to the committee to include relevant financial information, as well as robust data on performance against budgets and forecasts.**

C1 The department agreed with the NAO's recommendations.

Target implementation date

C2 Progress will be reviewed by the department in 2013-14 with further review dates agreed if required.

Current Status

C3 Work in progress.

Action being taken to implement recommendations

C4 The department is implementing an Integrated Business Planning process, which will include the production of activity-based budgets cutting across the Network, linking performance measures to assigned budgets. Guidance on how to cost processes and track money from policy through to delivery has been produced. The department will continue to consider how to improve this process.

C5 Integrated business planning for 2013-14 will link Ministerial Priorities to core spending and to Network delivery through a series of performance measures. Management information for the Supervisory Board will provide a clearer link between the cost of delivering outcomes and the value for money being achieved in the Network.

C6 A new Finance and Performance reporting framework has been established with integrated monthly reporting. This is supplemented by a bi-monthly Director Update Report to the Supervisory Board, which provides a risk rating for year to date and full year performance by directorate.

HC 1595

HM Revenue and Customs

Core Skills at HM Revenue & Customs

Summary of the NAO findings

HM Revenue and Customs (the department) will have to make sure that its staff have the right skills if the department is to succeed in cutting its running costs by 25% by 2014-2015 and bringing in each year an extra £7 billion of tax revenue. The NAO has reported to Parliament that the department does not know how much it is spending in total on skills development, or if its money is being spent in the right places. The NAO estimates that the department spent £96 million in 2010-11 developing the skills of its staff, but judges that it is not systematically directing that spending on top level business priorities. The department has recognised that it has significant challenges and is doing much to ensure it has the skills it needs.

The department is spending money on skills development in some key business areas, but does not yet have a skills strategy to direct spending systematically towards areas that produce the most important business results and which links to a model of how the organisation will operate in the future. There is an absence of engagement at senior level in staff skills and there is no specific body that examines the total spending on skills and decides whether it is being made in the right parts of the organisation. The department also lacks governance arrangements or structures to hold the organisation to account for money spent on training.

The NAO issued its report on 2 December 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATIONS A and G

A: HMRC's current approach to learning and skills focuses on service delivery at business area level, but it does not manage its investment in skills at the level of the organisation as a whole. HMRC has begun to develop a skills strategy, but there is an absence of engagement in staff skills at senior level, and learning and development is not sufficiently recognised as an agent for change.

HMRC needs to develop a detailed workforce plan, so that it can establish the investment required to take forward its skills strategy. It should fully integrate learning and development with the overall strategy for delivering business objectives, as well as aligning it with the change programme. To take a more strategic approach, HMRC should also build up capacity within the human resources function.

G: Many of the findings in this report have been raised in previous internal reviews, but HMRC has not taken action to address the issues.

HMRC now needs to ensure that appropriate action is taken to manage skills and achieve business objectives and should identify an individual at Executive Committee level with accountability for the changes the NAO proposes.

A1 The department agrees with the NAO's recommendation.

Current Status

A2 Implemented.

Action taken to implement recommendation

A3 An executive level Skills Strategic Board (SSB) now leads the department's investment in skills. This board has accountability to ensure that there is a clear link between the department's business plan and its skills and leadership strategies. The department has a skills strategy and under direction of the SSB the department's business-level Learning Implementation Board (LIB) manages the skills investment. The 2013-2016 skills investment will be based on detailed workforce plans, which is supported by the department maintaining a professions forum and establishing a Head of Professions Group. HR capacity and capability has been increased through these bodies.

NAO RECOMMENDATION B

HMRC's vision for learning and development and its role in achieving business objectives is not communicated effectively to business areas and staff. Staff surveys show that staff feel they need greater levels of skills, but this may be because staff don't have a clear understanding of how their skills will support delivery of HMRC's business objectives.

HMRC needs to have a clear contract with business areas and staff that sets out how HMRC is preparing to invest in them and their skills and what is expected in return.

B1 The department agrees with the NAO's recommendation.

Current Status

B2 Implemented.

Action taken to implement recommendation

B3 To promote skills development, the department's staff all have a development plan. Individual requirements are fed through business representatives to the skills governance bodies. These bodies work as a single community and help to promote learning and development through the department's intranet and guidance. The department has promoted participation in development of professions to help engage staff in a shared vision. The department will be introducing a new learning management system, with online skills auditing (December 2012) and ongoing monitoring of Pulse Survey responses.

NAO RECOMMENDATION C

There is no specific body in HMRC that examines the total investment in skills across the organisation and decides whether it is being made in the right places.

HMRC needs a body, for example the performance committee, that considers the investment in learning and development and how it contributes to the organisation's business objectives and vision.

C1 The department agrees with the NAO's recommendation.

Current Status

C2 Implemented.

Action taken to implement recommendation

C3 The department has the Skills Strategic Board, who act as a performance committee considering the investment in learning and development, and how it contributes to the organisation's business objectives and vision. The Board have reviewed 2012-13 investments and will review bids for 2013-14 onwards.

NAO RECOMMENDATION D

Senior management needs better information on where skills gaps are, or where they may arise, for HMRC to assess whether its investment in skills is effective. HMRC has not systematically analysed skills gaps and the action taken by business areas has varied. Information on gaps emerging, as experienced staff retire, is patchy.

To get a better picture of skills gaps, HMRC should analyse whether staff in the roles that are key to the delivery of business objectives have the skills they need now and in the future and what investment is needed. It should also investigate the poor results in staff and customer surveys and use individual performance data more systematically. This would avoid additional expensive or resource-intensive analyses of skills.

D1 The department agrees with the NAO's recommendation.

Target implementation date

D2 March 2013.

Current Status

D3 Work in progress.

Action being taken to implement recommendation

D4 Skill gap requirements for staff, in particular those in key roles, will be reflected in learning investment bids for 2013-16. From December 2012, the department has a new skills gap analysis system that will allow the department to meet the skills audit requirements of the Civil Service Capability Plan. A systematic skills gap analysis will be rolled out to priority areas starting with the IT Profession, and Leadership and Management Skills, from January 2013 and building across HMRC. The department will augment this data with coordinated Skills Surveys at an annual review date to be set by the CS Capability Plan. Data, including on business priority roles, will be fed into short and long-term workforce plans and learning and development investment plans.

NAO RECOMMENDATION E

There is insufficient performance information for skills and learning and development to show that it is having the desired impact on the business. In common with many other organisations, HMRC's evaluation of learning and development does not demonstrate whether training is contributing to business results and mostly measures the immediate reactions of staff.

Performance indicators on skills should be introduced that allow a senior management body to assess performance and the impact of key training, drive out waste and duplication, and to hold the business areas to account for their investment in skills.

E1 The department agrees with the NAO's recommendation.

Current Status

E2 Implemented.

Action being taken to implement recommendation

E3 The department has an evaluation strategy, based on the Kirkpatrick model[19], with an emphasis on Levels 3 and 4 business benefit and return on investment analysis. The Skills Strategic

[19] The Kirkpatrick evaluation model has been widely adopted internationally and by the Civil Service including Civil Service Learning. It measures Level 1 Reaction to, Level 2 Learning achieved, Level 3 Behaviour changed and Level 4 Results obtained by a learning and development intervention.

Board and Learning Implementation Board review evaluation to ensure that skills investment is having the required impact. These bodies have driven out waste and duplication through budget management and by holding business areas to account for their investment in skills.

NAO RECOMMENDATION F

HMRC's decentralised approach for managing skills means that information and issues are escalated to senior management by exception. Senior management do not have assurance that business areas have taken the actions they have agreed or information about the outcomes.

To ensure that the decentralised model works effectively, HMRC should improve its governance controls on skills in similar ways as it has done in other areas, such as by introducing a self-certification system, where business areas need to confirm to senior management that they have taken the actions they need to.

F1 The department agrees with the NAO's recommendation.

Current Status

F2 Implemented.

Action taken to implement recommendation

F3 Governance controls have been introduced through the creation of the executive level Skills Strategic Board. The Board regularly review implementation of learning and development throughout the organisation, which is supported by the business and professions level Learning Implementation Board. To reinforce these gains, the department is building a design review of learning, which will offer better line of sight and governance as fundamental design principles.

Update on progress on implementing recommendations on 9 Committee of Public Accounts reports (Session 2010-12) and 3 National Audit Office reports from January 2012

1st Report	Support to incapacity benefits claimants through pathways to work (Work and Pensions)
2nd Report	Delivering multi-role tanker aircraft capability (Defence)
3rd Report	Tackling equalities in life expectancy in areas with the worst health and deprivation (Health)
5th Report	Increasing passenger rail capacity (Transport)
6th Report	Cafcass's response to increased demand for its services (Education)
7th Report	Funding the development of renewable energy technologies (Energy)
10th Report	Managing the defence budget and estate (Defence)
11th Report	Community Care Grant (Work and Pensions)
13th Report	Department for International Development's bilateral support to primary education (International)
HC 184	The efficiency of the National Insurance administration *(Revenue and Customs)*
HC 188	Tackling diffuse water pollution in England *(Environment)*
HC 486	Engaging with tax agents *(Revenue and Customs)*

First Report

Department for Work and Pensions

Support to Incapacity Benefit Claimants through Pathways to Work

The Committee took evidence from the department and two major providers on the support to incapacity benefit claimants through Pathways to Work on 21 July 2010. The Committee issued its report on 13 September 2010 and the Treasury Minute – the Government's formal response - was published on 16 December 2010.

The department reported on progress to the Committees recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Six recommendations were implemented; three remained work in progress and the department disagreed with one recommendation.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 7

The department should strengthen its controls to provide greater confidence that it will detect claims that are not valid, drawing on a range of techniques including systematic checks against benefit records, and contact with individuals and their employers. Contracts should be clear that, where errors are found, the rest of a provider claim will be investigated and deductions applied.

Current Status

7.1 Implemented.

Original action being taken to implement recommendation

7.2 The department's new payment validation controls will be introduced in April 2012, following the development of an IT system to support the new processes. At this point all Work Programme job outcomes will be subject to these controls, including those registered beforehand. Job outcome pre-payment checks will be conducted on an ongoing basis. Post-payment checking will be conducted every two months from June 2012, when the first sample will be matched against HMRC data. Any claims that fail checks of the benefit system or HMRC records will be validated by contacting employers and individual participants directly.

Update on action taken to implement recommendation

7.3 The process was implemented for the Work Programme in March 2012. 100% of claims were and continue to be subject to a pre-payment off-benefit check, those that fail are not paid. Of those that are paid, a sample is subject to a post-payment in-work check (including matching with HMRC records). An error rate is calculated and extrapolated[20], payments are reclaimed and performance adjusted.

PAC RECOMMENDATION 8

The work underway to guard against unfair treatment of subcontractors and other delivery partners through the new 'Merlin' standard is welcome. The department should assess its effectiveness in ensuring risks and benefits are distributed fairly throughout the supply chain and should report back to this Committee by the end of 2010.

[20] The error rate times the total number (value) of all Job Outcomes paid in the two-month sample period.

Current Status

8.1 Implemented

Original action being taken to implement recommendation

8.2 The department has developed the Merlin standard, which has been developed to make the department's Code of Conduct more robust and ensure positive supply chain behaviour. It has also made changes to tendering arrangements to ensure that details of proposed supply chains are fully set out in tenders and backed up by letters of agreement, signed by each sub-contractor. This will enable the department to have a better understanding of the supply chains involved in delivery of provision. The department said that it would report to the Committee on the Merlin standard in summer 2011, when more information will be available about the supply chains mobilised to deliver the Work Programme

Update on action taken to implement recommendation

8.3 The Principles within the Merlin Standard, designed by the department and industry representatives, seek to ensure Prime contractors and their supply chain partners maintain collaborative and open working relationships that deliver healthy and high performing supply chains. This includes, for example, that funding arrangements are fair, proportionate and do not cause undue financial risk for supply chain partners.

8.4 Since the launch of the Merlin Assessment and Accreditation service in March 2012, all 18 Work Programme Prime contractors have been assessed against the Standard by emqc Ltd, the independent organisation appointed to deliver the service. All passed, achieving either 'satisfactory' or 'good' accreditations. Reports showing strengths and any areas for improvement identified during assessments (which included contributions from a variety of supply chain partners) are available on the Merlin website.[21]

8.5 The department continues to work, through its performance and account management functions, with individual Prime contractors to progress areas for improvement, including those highlighted in reports. In parallel, the department and members of the Merlin Advisory Board[22] will be reviewing, early 2013, the delivery of the first round of assessments and accreditations. This will draw on feedback from supply chain partners, prime contractors and emqc Ltd, as well as input from voluntary sector organisations that attended a Merlin Roundtable event in September 2012. The department will provide an update on these findings to the Committee, with proposed next steps early 2013.

PAC RECOMMENDATION 9

Early evidence shows that the new medical assessment, introduced with Employment and Support Allowance, will deliver a significant reduction in the number of incapacity benefits claimants. The department should evaluate the accuracy of the new medical assessment robustly to evaluate that it is fit for purpose.

Target implementation date

9.1 2013.

Current Status

9.2 Work in progress.

Original action being taken to implement recommendation

21 http://www.merlinstandard.co.uk/merlin-accredited-organisations.php

22 The Merlin Advisory Board includes representatives from Prime contractors, supply chain partners, the Employment Related Services Association, the Association of Chief Executives of Voluntary Organisations and the Centre for Economic and Social Inclusion, as well as from DWP and Cabinet Office

9.3 The department has now addressed all of Professor Harrington's year one recommendations. These improvements are already having an effect on the process, as he noted in his interim review: "*real progress is being made on implementing the recommendations*" and there is "*real enthusiasm for change*" from decision makers and officials throughout the department. Improvements include all medical assessment reports from Atos Healthcare containing a personalised summary in plain English and new training, which has been rolled out to decision makers to support accurate decision-making.

Update on action being taken to implement recommendation

9.4 Professor Harrington published his third independent review report on 20 November 2012. In this review, the Professor, amongst other things, considered the departments implementation of the year one and two recommendations and has suggested six more improvement recommendations. The Government has accepted, or accepted in principle,[23] all of the third year recommendations. A fourth independent review will be completed during 2013.

[23] The recommendation which was accepted in principle is subject to analysis to determine whether the benefits will improve the quality of decisions weighed against the cost of implementing the recommendation

Second Report

Ministry of Defence

Delivering multi-role tanker aircraft capability

The Committee took evidence from the department on Delivering Multi-role tanker aircraft capability on 26 July 2010. The Committee issued its report on 16 September 2010 and the Treasury Minute – the Government's formal response - was published on 16 December 2010.

The department reported on progress to the Committees recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Five recommendations were implemented and four remained work in progress.

The following work in progress recommendations are updated one year on to report on progress to the Committee.

PAC RECOMMENDATION 5

The Committee was not persuaded by the department's generalised assurances that it had got a grip on this problem on current procurements. The department should agree with its commercial partners a framework against which to assess what constitutes appropriate access to cost and other data in differing procurement circumstances and ensure it enforces its access rights rigorously.

Current Status

5.1 Implemented.

Original action being taken to implement recommendation

5.2 The Government strongly agrees with the Committee's recommendation that it should have appropriate access to cost and other data from its commercial partners and should enforce its access rights rigorously. The department is committed to examining existing frameworks used in differing procurement circumstances to ensure they are fit for purpose and to act where weaknesses are identified. For example: in January 2011 Min(DEST) informed the House that the Government had invited Lord Currie of Marylebone to conduct an independent review of the framework used by the department when pricing contracts under a single source procurement route. Lord Currie's report (October 2011) identified some weaknesses in the current arrangements and recommended greater transparency, through improved access to supplier's cost and other data. The department is now considering its response to Lord Currie's recommendations.

Update on action taken to implement recommendation

5.3 The departments Director of Exports and Commercial Services and Private Finance Unit (PFU) are leading an efficiency review of those PFI arrangements with a remaining life of three years or more, accessing cost and other data from contractors using enforcement rights in contracts to obtain robust information. The department is working with the Treasury to support this work through development of a voluntary code of practice.

PAC RECOMMENDATION 6

The department should set out clearly its financial and performance data needs, how it will develop the underpinning management information systems, how long this will take and how it will change the culture of the organisation to place a premium on generating and using such information.

Current Status

6.1 Implemented.

Original action being taken to implement recommendation

6.2 Significant work on fulfilling the department's financial and performance management information needs is now underway in following up the Levene report. Following publication of the Levene report in June 2011, broader consideration has been given to the creation of a stronger and more strategic centre of the department, with tighter financial management processes. The consequential requirements for more effective management information are being taken forward as part of the financial management reform programme, which includes a re-examination of the scrutiny of investment decisions, and in the Materiel Strategy aimed at improving the procurement process.

6.3 The department's PFU is conducting an exercise to identify the key data sets required to enable effective cost comparisons on PFI projects. Phase 1 of this exercise, to identify the project sectors in which the relevant data sets could be found, was completed in March 2011. Phase 2, collection of the data will report in 2012.

Update on action taken to implement recommendation

6.4 This has been overtaken by the Treasury's PFI Reform announcement that is due imminently and the Treasury's Efficiency Review of existing PFIs. The department is engaged with the Treasury and has a programme to review existing PFI to see where efficiency savings can be made. In addition, the department is working with the Treasury to try to improve the provision of cost information for new and existing PPPs.

PAC RECOMMENDATION 7

The department should develop a more comprehensive training and development programme to ensure there are sufficient skilled individuals to support all of its complex projects. The department should also ensure that all staff involved with FSTA are fully aware of the financial implications of any decisions they make.

Current Status

7.1 Implemented.

Original action being taken to implement recommendation

7.2 In early 2011, the department published its new Commercial Skills Strategy setting the policy for its entire staff and their Line Managers on commercial awareness, skills, and professional qualifications required by the department. The strategy covers all Defence staff, both civilian and military, at all grades and ranks.

7.3 In respect of PFI, the department's PFU has commenced a *Training Needs Analysis* to identify required functional competences, existing training, training gaps and new training requirements relevant to PFI acquisition teams. The department aims to issue its findings by March 2012.

Update on action taken to implement recommendation

7.4 The department's training now comprises an introductory PFI course. This is complemented by targeted Learning From Experience events, and PFI post holders having access to individual advice and support from experienced internal departmental PFI advisers. Further training needs will be determined once the Treasury's PFI Reform Report is finalised.

7.5 Turning to the Future Strategic Tanker Aircraft (FSTA) project in particular, the department is ensuring that relevant staff are fully aware of the financial implications of any decisions they make, thus ensuring that the financial benefits to the department are maximised and maintained throughout the life of the FSTA contract. This is underpinned by a handbook on the operation of the FSTA commercial arrangements, training for new staff and the use of a financial model shared with Industry.

PAC RECOMMENDATION 9

In 2006, the department recognised the need for additional protection to enable FSTA to fly into high threat environments such as Afghanistan, but failed to include this in the contract negotiations. Four years later it has still not decided whether to fit the necessary equipment. The department should report back to the Committee within six months of the completion of the Strategic Defence and Security Review explaining what solution it has chosen and why, and what the operational consequences are.

Current Status

9.1 Implemented.

Original action being taken to implement recommendation

9.2 Work is in hand with industry to develop an enhanced FSTA Aircraft Platform Protection system, and the department is expecting this to be placed on contract in 2011-12 financial year.

Update on action taken to implement recommendation

9.3 Work with industry continues on schedule. Implementation has been planned into the overall programme and is reflected in wider defence capability planning. Technical details and in-service dates are classified.

Third Report

Department of Health

Tackling inequalities in life expectancy in areas with the worst health and deprivation

The Committee took evidence from the department on why it had failed to meet its health inequalities target, the role of GPs, and the lessons of this for the new NHS on 14 September 2010. The Committee issued its report on 2 November 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

The department reported on progress to the Committee's recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. All eight recommendations remained work in progress and are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 1

The Committee's recommendations below are designed to help the department make progress in tackling health inequalities within the new NHS structure it is putting in place.

Target implementation date

1.1 April 2013.

Current Status

1.2 Work in progress.

Original action being taken to implement recommendation

1.3 Subject to the passage of the Health and Social Care Bill, the new NHS structure and the reformed public health system will be in place from April 2013.

Update on action being taken to implement recommendation

1.4 The Health and Social Care Bill received Royal Assent on 27 March 2012. The new NHS structure and reformed public health system will be in place from April 2013. The Health and Social Care Act 2012 places duties on the NHS Commissioning Board and clinical commissioning groups to have regard to the need to reduce health inequalities in access to and outcomes from health services. The Act also places duties on the NHS Commissioning Board, clinical commissioning groups and Monitor to exercise their functions with a view to securing the integrated provision of services where they consider this would reduce health inequalities.

PAC RECOMMENDATION 2

Implementation of the three most cost-effective treatments is inconsistent, with considerable variation by location. The department and the NHS Commissioning Board should identify and implement the action needed to stimulate the wider adoption of these treatments so that GPs in all areas comply with accepted good practice.

Target implementation date

2.1 April 2014.

Current Status

2.2 Work in progress.

Original action being taken to implement recommendation

2.3 Subject to the passage of the Health and Social Care Bill, the NHS Commissioning Board will have responsibility for quality improvement, which will include setting commissioning guidelines based on quality standards developed with advice from the National Institute for Health and Clinical Excellence (NICE) and designing model contracts for clinical commissioning groups to use with providers and setting standards for the quality of NHS commissioning. Subject to Parliamentary approval, legal duties will be placed on the NHS Commissioning Board and clinical commissioning groups to reduce inequalities in access to and outcomes from healthcare.

Update on action being taken to implement recommendation

2.4 The Health and Social Care Act 2012 places legal duties as to reducing health inequalities in access to and outcomes from healthcare on the NHS Commissioning Board and clinical commissioning groups. The NHS Commissioning Board will provide national leadership to the NHS for reducing health inequalities.

2.5 The NHS Commissioning Board, established on 1 October 2012 and assuming full powers on 1 April 2013, will have responsibility for quality improvement, which will include setting commissioning guidelines based on quality standards developed with advice from NICE, designing model contracts for clinical commissioning groups to use with providers and setting standards for the quality of NHS commissioning.

PAC RECOMMENDATION 3

The department should identify, as a matter of urgency, what measures it can take to drive up the numbers of GPs in deprived areas, including using direct financial incentives to encourage GPs into areas of greatest health need. The department should implement an action plan to deliver this objective within a defined timeframe.

Target implementation date

3.1 Ongoing. This is a matter for annual negotiation with the BMA General Practitioners Committee.

Current Status

3.2 Work in progress.

Original action being taken to implement recommendation

3.3 On 2 November 2011, the BMA General Practitioners Committee and NHS Employers agreed to explore how the current funding formula for general practice might be adjusted to give greater weighting to deprivation factors. This will form part of discussions over potential changes to the GP contract for 2013-14 onwards.

Update on action being taken to implement recommendation

3.4 Since February 2009, 102 new practices have been opened in areas with the fewest GPs and greatest health needs. The Government budgeted £113.3 million in 2012-13 for the new practices, with the funding allocated to primary care trusts (£1.1 million per practice) continuing in 2013-14 through a transfer of their functions to the NHS CB.

3.5 As announced on 23 October 2012, the department proposes to invite the NHS Commissioning Board to take forward proposals that the BMA and NHS Employers have developed for phasing out the Minimum Practice Income Guarantee (MPIG) and achieving equitable 'core' funding for GP practices in England. This would mean moving in a controlled and phased way towards equitable funding for all GP practices, based on the numbers of patients they serve with an appropriate weighting for demographic factors that affect relative patient needs and practice workload. Given the work needed to prepare for these changes, they would begin from April 2014. The department intends that these changes would include appropriate adjustments to the capitation formula to ensure that sufficient weight is given to deprivation factors.

PAC RECOMMENDATION 4

The department and the Commissioning Board should use the GP contract to link payments explicitly to GPs' success in improving the health of the neediest people in their practices and to encourage up-take of good practice preventative treatments for those with the greatest health needs.

Target implementation date

4.1 April 2014.

Current Status

4.2 Work in progress.

Original action being taken to implement recommendation

4.3 The reform made to the calculation of disease prevalence in the Quality and Outcomes Framework (QOF) will reward GP practices more appropriately in line with the number of people receiving care and treatment for long term conditions. This reform, agreed with the British Medical Association, has been implemented as intended from April 2011. The changes agreed to the GP contract for 2012-13 onwards include the implementation of recommendations made by NICE for new QOF indicators, including indicators for smoking cessation.

Update on action being taken to implement recommendation

4.4 The department has set out the proposed changes it will make to the GP contract for 2013-14 in the absence of an acceptable negotiated settlement being reached between the BMA General Practitioners Committee and NHS Employers.

4.5 The department proposes to raise the upper thresholds for QOF indicators to promote improvements in the numbers of patients who benefit from the evidence-based care reflected in the QOF. Currently, these upper thresholds (the percentage of patients with a given condition or risk factor for whom practices have to offer the relevant interventions to get maximum QOF payments) are below average achievement levels. The department also proposes to amend anomalies in the QOF to reflect the annual nature of most QOF interventions, thereby preventing the unintended anomaly of some practices being rewarded for two years for interventions only carried out (or offered) in one.

4.6 The Public Health White Paper includes a proposal to increase incentives for GP practices to improve the health of their patients. This will see at least 15% of the current value of the QOF being devoted to public health and primary prevention indicators. It will be the responsibility of Public Health England from April 2013 to decide on levels of investment based on priorities for improving people's health and reducing health inequalities. The implementation and set up of this new public health QOF domain is being taken forward under the proposed GP contract changes for 2013-14.

PAC RECOMMENDATION 5

In developing the funding model for GP consortia and public health, the department and the Commissioning Board should consider how funding shortfalls in the most deprived areas could be corrected.

Target implementation date

5.1 April 2013.

Current Status

5.2 Work in progress.

Original action being taken to implement recommendation

5.3 Subject to the passage of the Health and Social Care Bill, the NHS Commissioning Board will be responsible for the allocation of resources to clinical commissioning groups. This will include pace-of-change policy. The detail of how resources are allocated will be a matter for the Board. However, they will need to be made in light of the Board's duties to reduce inequalities in access to and outcomes from healthcare. The department would therefore expect them to be made on the basis of securing equivalent access to NHS services in all areas relative to the prospective burden of disease and disability. In addition, from 2013-14, Public Health England will allocate a ring-fenced health improvement budget to local authorities. The allocation formula for those funds will include a new health premium to target public health resources towards those areas with the poorest health to reduce avoidable ill health and health inequality.

Update on action being taken to implement recommendation

5.4 The allocation of resources to clinical commissioning groups will be the responsibility of the NHS Commissioning Board from April 2013. However, the Government expects the NHS Commissioning Board to allocate resources in a way that is consistent with its duty to have regard to the need to reduce inequalities in access to healthcare services and the outcomes achieved for patients. As set out in the Mandate from the Government to the NHS Commissioning Board, the Government expects the principle of ensuring equal access for equal need to be at the heart of the NHS Commissioning Board's approach to allocating budgets. The department expects this to include a range of factors linked to the need for health care services including deprivation. The NHS Commissioning Board announced clinical commissioning group financial allocations 2013-14 on 18 December 2012.

5.5 In addition, from 2013-14, the department will allocate a ring-fenced health improvement budget to local authorities. The allocation formula for those funds will include a new health premium to target public health resources towards those areas with the poorest health to reduce avoidable ill health and health inequality.

5.6 Interim recommendations from the independent Advisory Committee on Resource Allocation (ACRA) were published in June 2012, on which the department undertook a period of engagement with key national and local stakeholders from both local government and the NHS. ACRA has used this feedback to finalise its recommendations on the public health formula to be used for the 2013-14 ring-fenced grant. .

5.7 Decisions about the total resources available to clinical commissioning groups and to local authorities for their future public health responsibilities can only be made in the context of wider decisions about resources across the healthcare system. The pace of change (how quickly local authorities are moved from baseline position towards the level of resource implied by the preferred distribution) will be consistent with the commitment to protect investment in each local authority in real terms during this Spending Review. The Government hopes to offer greater growth to those local authorities furthest below the preferred distribution, subject to available resources and delivering value for money and a smooth transition. The NHS Commissioning Board is counselling clinical commissioning groups that progress towards the target allocation may be limited to avoid destabilising local health economies.

PAC RECOMMENDATION 6

The department should develop a robust process so that there is transparency and accountability for this funding and should require Directors of Public Health to benchmark the costs and effectiveness of their public health activity.

Target implementation date

6.1 April 2013.

Current Status

6.2 Work in progress.

Original action being taken to implement recommendation

6.3 On 20 December 2011, details on the design of the new public health system, including the role and responsibilities of local government in public health, the operating model for the new executive agency Public Health England and an overview of how the new public health system will work, were published.

Update on action being taken to implement recommendation

6.4 In January 2012, the department published *Improving outcomes and supporting transparency*, the Public Health Outcomes Framework for England 2013-2016, which sets out two high level outcomes relating to healthy life expectancy and reduced differences in life expectancy and healthy life expectancy between communities, and 66 indicators to measure progress, divided into four domains. In November 2012, the department published the first set of baseline data underpinning the Public Health Outcomes Framework. In a number of cases this baseline data is boken down by some equality characteristics.

6.5 In June 2012, the department published (together with the advice from ACRA) the grant conditions which will accompany the ring-fenced grant, and the arrangements for reporting how the grant has been spent. Local authorities will be accountable to the department for spending the ring-fenced grant appropriately, and to their local population for the effectiveness of their public health activity. Public Health England will publish evidence on what works, which will be available for Directors of Public Health to use when considering public health investments, and which will assist in benchmarking the effectiveness of interventions.

PAC RECOMMENDATION 7

The department's experience to date shows that greater focus and persistence will be needed to drive the right interventions. The Committee expects the department to provide strong leadership and to continue to monitor the outcomes of those suffering health inequalities. As there is an inevitable time lag between public health interventions and observable outcomes, the department should monitor the implementation of those activities which, in the short term, would be strong indicators of progress.

Target implementation date

7.1 April 2013.

Current Status

7.2 Work in progress.

Original action being taken to implement recommendation

7.3 On 9 December 2011, *The NHS Outcomes Framework 2012-13* was published, as an updated version of the first NHS Outcomes Framework published 20 December 2010, to provide national accountability for the outcomes that the NHS delivers. The framework will not only be a mechanism to hold the NHS to account, but would also act as a catalyst to drive quality improvement and delivery of better outcomes across the system. One of the underpinning principles in developing the NHS Outcomes Framework is the need to promote equalities and reduce inequalities of health outcomes. To encourage this, the outcome indicators, as far as possible, will be chosen according to whether data can be disaggregated by equalities characteristics and by geography so that outcomes for disadvantaged groups can be measured.

Update on action being taken to implement recommendation

7.4 Following publication of the NHS Outcomes Framework, the department has been taking forward work to make sure that promoting equality and reducing health inequalities becomes an integral part of the Framework. This includes work with the NHS Information Centre to explore the feasibility of disaggregating the indicators by the equality characteristics. In September 2012, the department published disaggregation's for several of the indicators. In addition, work continues to develop options for considering progress from the perspective of inequalities across the domains of the framework.

7.5 On 13 November 2012, the department published the equality analysis for the NHS Outcomes Framework 2013-14 The Government's Mandate to the NHS Commissioning Board asks the Board to make progress against all the five domains and the outcome indicators in the NHS Outcomes framework. The Mandate makes clear that success will be measured not only by the average level of improvement but also progress in reducing health inequalities and unjustified variation.

7.6 The Public Health Outcomes Framework, published early in January 2012, sets out the broad range of opportunities to improve and protect health and to reduce inequalities in health that still persist. Many of the indicators can, in principle, be disaggregated by socio-economic group and by lower super-output area. These outcomes will require the collective efforts of all parts of the public health system, from national to local levels, and across public services and wider society. Public Health England will provide leadership for reducing health inequalities to the public health system.

PAC RECOMMENDATION 8

The department intends that each local authority will establish a Health and Wellbeing Board that will have power to hold commissioners to account. The department should put in place an effective mechanism to hold the NHS Commissioning Board to account for tackling inequalities in access to healthcare and should seek assurance that local accountability arrangements are operating effectively. It should report back to the Committee in 2011 on these arrangements once it has finalised its plans.

Target implementation date

8.1 April 2013.

Current Status

8.2 Work in progress.

Original action being taken to implement recommendation

8.3 Work is under way to design the functions of the NHS Commissioning Board. On 31 October 2011, the Board was established in shadow form as a Special Health Authority.

8.4 It will not be possible to finalise arrangements to hold the NHS Commissioning Board to account for tackling health inequalities in access to healthcare until the Health and Social Care Bill has completed its passage through Parliament. The department wrote to the Committee on 19 January 2012 providing further information about the work it is leading more widely to tackle health inequalities, in addition to arrangements for the NHS Commissioning Board.

Update on action being taken to implement recommendation

8.5 The Mandate from the Government to the NHS Commissioning Board was published on 13 November 2012. The mandate reaffirms the Government's commitment to holding the NHS Commissioning Board to account for discharging its legal duties as regards to health inequalities and advancing equality.

8.6 The Health and Social Care Act requires the NHS Commissioning Board to include in its annual report an assessment of how effectively the duties as to reducing inequalities have been discharged. The Act also requires the Secretary of State for Health, having considered the NHS

Commissioning Board's annual report, to make an assessment of how well the Board has discharged its duties as to reducing inequalities. The NHS Commissioning Board is required to undertake a similar annual assessment of how well clinical commissioning groups have discharged their duty as to reducing inequalities.

8.7 The NHS Outcomes Framework will be used to measure the progress made by the NHS Commissioning Board, including progress in reducing health inequalities and unjustified variation.

Fifth Report

Department for Transport

Increasing Passenger Rail Capacity

The Committee took evidence from the department and the Office of Rail Regulation on the increasing passenger rail capacity on 15 September 2010. The Committee issued its report on 9 November 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

The department reported on progress to the Committees recommendations in the Treasury Minutes: progress on implementing recommendations, which was published on 26 January 2012. Two recommendations were implemented; five remained work in progress; and the department disagreed with one recommendation.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 1

For future rail franchises the department should impose clear obligations on operators to avoid overcrowding, and to bear the costs of meeting that obligation themselves.

Target implementation date

1.1 The first relevant franchise replacement is InterCity West Coast, scheduled to commence in December 2012.

Current Status

1.2 Work in progress.

Original action being taken to implement recommendation

1.3 The new West Coast franchise is currently being tendered and is expected to commence in December 2012. Bidders will be expected to set out how they intend to ensure passenger demand is matched by capacity, within the constraints of the existing infrastructure and fleet. The appropriate requirements on how operators use timetable planning and rolling stock deployment to manage crowding will be considered on a franchise by franchise basis and implemented as new contracts as let.

Update on action being taken to implement recommendation

1.4 The first relevant franchise replacement was InterCity West Coast, scheduled to commence in December 2012. Bidders were expected to set out how they intend to ensure passenger demand is matched by capacity. Following termination of this competition, for this franchise, a revised programme of replacement franchises will be announced once the results of the Brown Review have been published. It is anticipated that similar provisions will be included in future franchises.

PAC RECOMMENDATION 2

The department should vigorously pursue and promote smart ticketing and other demand management techniques to reduce the inefficiencies of overcrowding in peak hours and underused rolling stock at other times.

Target implementation date

2.1 2013.

Current Status

2.2 Work in progress.

Original action being taken to implement recommendation

2.3 The Government has accepted the recommendation of the *Rail Value for Money Study* to carry out a review of fares and ticketing. The department will consult on fares and ticketing issues early in 2012. The scope for smarter demand management will be a major focus of the review. The department will consider how a smarter fares structure could provide greater incentives to passengers to avoid the busiest services, allowing train operators to make better use of existing capacity, securing better value from the railways to deliver a better deal for taxpayers and fare payers alike.

Update on action being taken to implement recommendation

2.4 The Government launched a review of fares and ticketing in March 2012 including a public consultation which ran from March to June 2012. The scope for smarter demand management harnessing the potential of smart ticketing technology is a major focus of the review and the review team is working closely with the smart ticketing team to ensure it is joined with wider smart ticketing initiatives including the South East Flexible Ticketing programme. The department will consider how a smarter fares structure could provide greater incentives to passengers to avoid the busiest services, allowing train operators to make better use of existing capacity, securing better value from the railways to deliver a better deal for taxpayers and farepayers alike.

2.5 Development of smart-enabled demand management pilot schemes with rail operators is planned to commence during 2013. These will involve pilot studies and quantitative and qualitative reviews of passenger behaviour and experience. The department will continue to specify smart ticketing requirements, compliant with the national ITSO specification, as rail franchises are renewed.

2.6 The implementation of ITSO on Prestige, a project funded by the department that enables acceptance of ITSO products in London, will facilitate introduction of flexible and innovative products that could enable improve demand management techniques. Completion is planned by January 2014.

PAC RECOMMENDATION 3

The department should require all new train carriages, whether procured by the department itself or by franchisees, to be fitted with automatic passenger counting equipment to show how many people are travelling on what trains and when. It should require franchisees to provide useful and verifiable data from that counting. It should also report back to the Committee on progress to establish a computer system to capture, analyse and report on this data.

Target implementation date

3.1 Automatic train count systems ongoing. Database implementation expected 2013.

Current Status

3.2 Work in progress.

Original and current action being taken to implement recommendation

3.3 The department continues to seek automatic passenger count systems in new train fleets. It is actively working with the train operators to ensure that data are supplied, and to improve the quality and quantity of those data. It has contracted for the provision of a rail passenger counts database which will be progressively introduced from 2013. It is intended that the counts database will be a resource for the industry and not just for the department, and that the train operators therefore have a strong incentive to be part of this. Future franchise agreements will oblige train operators to provide the department with the data needed to make the database a success.

PAC RECOMMENDATION 4

The department should provide transparent information on how many new passenger places it is delivering, on which trains and at what cost to taxpayers and fare payers.

Current Status

4.1 Implemented.

Original action being taken to implement recommendation

4.2 The railways are a public service supported by both fare payer and taxpayer. A more open and transparent picture of the industry's finances is needed to make those in charge of running services and managing the infrastructure more accountable to both fare payers and taxpayers. The Command Paper on rail reform will set out proposals on transparency in early 2012. Since the publication of the Treasury Minutes, the High Level Operating Specification Programme has procured 100 additional carriages through five separate contractual interventions. The costs and the provision details of the extra peak capacity have been published. Negotiations continue with train operating companies for the procurement of additional carriages.

Update on action taken to implement recommendation

4.3 The department's March 2012 Command Paper *Reforming our Railways: Putting the Customer First* sets out the importance of establishing a more transparent picture of the railway industry's finances, to make those in charge of running services and managing the infrastructure more accountable to fare payers, taxpayers and the wider public. As set out in that paper, the department has published figures showing the amount of subsidy paid to each franchise, as well as an estimate of the proportion of fixed infrastructure costs that relate to them.

4.4 Detailed annual figures for train capacity and passenger usage are now published for eleven cities, the London data being expressed as individual stations. The department publishes information on any extra peak capacity procured and, where the individual price is known, the cost of this capacity. Further peak capacity has been specified for the years 2014-2019.

PAC RECOMMENDATION 5

Given that Network Rail is the monopoly provider of the rail infrastructure, there appears to be marked complacency in the Regulator's approach and they should do more to challenge the underpinning reasons for existing inefficiencies. The department should take any steps which are necessary to enable the Regulator to do this.

Current Status

5.1 Implemented.

Original action being taken to implement recommendation

5.2 The Government has noted the findings in the Committee's 41st report: *Office of Rail Regulation: Regulating Network Rail's Efficiency*. The Government remains concerned by the large efficiency gap between Network Rail and the leading European rail operators. The department notes that since the publication of the report, the Office of Rail Regulation has started a capability review that will enable it to ensure it has the skills and expertise needed to properly challenge Network Rail's spending plans for Control Period 5 (2014-19).

Update on action being taken to implement recommendation

5.3 In March 2012, following publication of Sir Roy McNulty's *Rail Value for Money Study,* the Government published a Command Paper, *Reforming our Railways: Putting the Customer First*. This sets out how the rail industry will be incentivised to reduce the cost of running the railway by up to £3.5 billion per year by 2019. Network Rail's share of the savings is £1.8 billion to £2.3 billion. A key measure to reduce costs and improve trains services for rail users will be closer partnership working between Network Rail and train operating companies. The action Network Rail has taken to devolve decision-making responsibilities and to separate its accounts by its ten routes will enable the Regulator to compare Network Rail's costs at a regional level, helping to drive costs down.

5.4 Network Rail is already on track to deliver £1.2 billion of efficiency savings by March 2014. In October 2013, the Regulator will determine Network Rail's allowed expenditure across Great Britain on operating, maintaining, renewing and enhancing the network in Control Period 5 (April 2014 – March 2019). The Regulator's determination is expected to require significant further efficiencies by 2019 on top of the efficiencies already achieved so far. Delivering the savings would put Network Rail significantly closer to the forefront of infrastructure efficiency.

5.5 The department notes that since the publication of the Committee's report, the Regulator has conducted and published a capability review that will enable it to ensure it has the skills and expertise needed to properly challenge Network Rail's spending plans for Control Period 5.

Sixth Report

Department for Education

Cafcass's response to increased demand for its services

The Committee took evidence on 7 September 2010 from the department and the Children and Family Court Advisory and Support Service (Cafcass) on the way in which Cafcass had responded to a significant and sustained demand for its services following the publicity around the Baby Peter tragedy in 2008. Additional evidence was provided by judges from the Family Division on 12 October 2010. The Committee issued its report on 11 November 2010 and the Treasury Minute – the Government's formal response – was published on 16 February 2011.

The department reported on progress to the Committee's recommendations in the Treasury Minutes: progress on implementing recommendations, which was published on 26 January 2012. Eight recommendations were implemented and two remained work in progress.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 4

Cafcass's senior team should develop and implement a clear action plan to address existing and emerging skills gaps, and to raise performance and staff morale.

Current status

4.1 Implemented.

Original action being taken to implement recommendation

4.2 Cafcass has taken a robust approach to performance management and over the course of the last three years more than 500 staff have at some point been involved in a Performance or Capability programme. At the end of October 2011, there were 40 staff involved in such processes. Current data reveals that 97% of Cafcass staff are assessed by their line managers as 'satisfactory' or 'good', with these findings being supported by internal audits and Ofsted inspections.

Update on action taken to implement recommendation

4.3 Cafcass has improved the quality of first line management so that practitioners are well advised and supported in carrying out complex professional tasks. In April 2012, Cafcass published an operating framework which introduced on-the-spot supervision and quarterly performance and learning reviews for all staff. The Cafcass performance management system, continues to be developed and refined and in April 2013 team and individual performance scorecards will be introduced, which will provide staff and their managers with a wide range of key performance data (including for example on productivity, quality of work, feedback, supervision, training and sickness levels). Sickness levels have fallen significantly since 2009-10.

4.4 The Cafcass National Improvement Service is delivering a national training plan, including a range of learning and development activities aligned with business need and objectives; and a new talent management strategy for 2013-15 has been developed, as part of the overall workforce strategy.

PAC RECOMMENDATION 8

The department should work with local authorities to ensure that they are fulfilling their responsibilities under the Public Law Outline to undertake appropriate pre-action work with the family, and to produce good assessments so that cases can be processed without requiring extra interventions or investigations by Cafcass.

Current status

8.1 Implemented.

Original action taken to implement the recommendation

8.2 Local Performance Improvement Groups are making good progress in sharing knowledge and best practice. A series of high impact case studies on “what works in tackling delay” was drawn together and disseminated in February 2011. For example: Hackney Local Authority has show-cased improvements that can be made in social care. These groups are supported by the National Performance Partnership (NPP) which provides a steer and crucial data analysis. NPP representatives include senior members of the Judiciary, department, Ministry of Justice and local authorities. The NPP and the local groups meet quarterly. Ministers are considering the recommendations of the Family Justice Review in this area and will consider the outcomes of the Coventry and Warwickshire pilot.

Update on action being taken to implement recommendation

8.3 The Government issued its formal response to the Family Justice Review in February 2012. Recognising the need to strengthen the quality of local authority pre-proceedings work, the response committed to developing, in partnership with the sector, a new programme of work to ensure that the good practice in relation to care proceedings which exists in some local authority areas extends to all. That work, which is being delivered through the Children’s Improvement Board, is now well underway. A series of regional seminars took place in summer 2012 to raise awareness of the improvements needed and to consult on the resources and support which would best assist local authorities. New on-line resources are soon to be made available, while plans are being developed for a series of targeted regional training events for local authorities to be held early in 2013.

8.4 To complement this work, and to support evidence-based practice, the department commissioned the Childhood Wellbeing Research Centre to draw together the evidence on child development, the impacts of abuse, and the importance of timely decision-making. That report was published in October. Meanwhile, complementing the piloting which Cafcass has set in train, some local authorities are also testing new and promising approaches. For example: Hammersmith and Fulham Council, working in collaboration with Westminster Council, Kensington and Chelsea Council, Cafcass and the local court service, are piloting new, more streamlined approaches to the care proceedings process. The approach includes a quality assurance process which ensures that care applications put forward are better tailored to the courts’ needs. Learning from this and the other pilots will help the future training, guidance and other support offered to local authorities.

Seventh Report

Department of Energy and Climate Change

Funding the development of renewable energy technologies

The Committee took evidence from the department on 19 October 2010. The Committee issued its report on 30 November 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

The department reported on progress to the Committees recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Four recommendations were implemented and five remained work in progress.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 1

The Committee is concerned that the legally binding target to deliver 15% of energy from renewable sources by 2020 may be unrealistic. The department has estimated that, to meet the target, the proportion of electricity supplied from renewable sources will need to increase to 31% by 2020. However, the supply of renewable electricity increased by only 4 percentage points from 2.7% to just 6.7% between 2000 and 2009. The department is not expecting to meet the 10% target until 2012, leaving just eight years to increase it to 31%. The Committees recommendations set out actions it believes the department must take to achieve its targets, create more coherence and meet its commitment to demonstrate value for money from direct funding.

Current Status

1.1 Implemented.

Original action being taken to implement recommendation

1.2 The Renewable Energy Roadmap sets out how the department estimates the 2020 target will be delivered, covering the range of technologies that will be required across heat, electricity and transport and the work being done by the department and others to overcome the barriers to deployment. The Roadmap also analyses the current pipeline to demonstrate that a significant proportion of the required capacity is already under construction, in planning or being scoped.

1.3 The Government published an updated 2050 pathways analysis in Spring 2011. The department's response to the 4th Carbon Budget as part of the "Carbon Plan" was published in December 2011. The department published on 29 December 2011 the first UK report to the European Commission on progress under the Renewable Energy Directive.

1.4 The department continues to support development of those technologies which will be required beyond 2020. It has developed a portfolio of low carbon innovation programmes, which has been referred to as a innovation delivery plan, to delivery in this SR and was agreed by Ministers in September 2011. This portfolio of programmes is based on the evidence gained from the Technology Innovation Needs Assessments (TINA's) project. Using this information, to date up to £105 million has been earmarked to support innovation to drive down the costs of marine, offshore wind, CCS technologies and saving energy and reducing carbon emissions in homes and businesses (subject to value for money assessments). The first Offshore Wind Component Technologies Development and Demonstration Scheme call was launched for applications in December 2011. The remaining elements of the portfolio will be announced in the next few months.

Update on being taken to implement recommendation

1.5 The contribution of renewables to UK electricity generation was 9.4% in 2011, 2.6 percentage points higher than one year earlier, and nearly doubling from 2007. This represents good progress towards the UK's EU legal commitment to provide 15% of it's energy from renewable sources by 2020.

1.6 With the introduction of the Energy Bill to Parliament in November 2012 and the associated commitment of £7.6 billion of funding for low-carbon electricity generation through the Levy Control Framework, the Government has created a strong and clear framework to support ongoing deployment of renewables. Also taking into account falling technology costs and continued development of policy on renewable heat and transport, the department expects to be able to meet the renewables target for 2020.

1.7 The department has developed a portfolio of low Carbon Innovation programmes based on the evidence in the Technology Innovation Needs Assessments (TINA's).

1.8 An update to the Renewables Roadmap will be published shortly.

PAC RECOMMENDATION 4

The department should include in its renewable energy delivery plan clear measures of the resources involved; quantified measures to demonstrate efficiency, such as management costs; intended milestones based on clear and consistent metrics to allow progress to be easily monitored; and cost-effectiveness so that they can be used to monitor value for money. It should also explain how the department will review and report on progress and value for money.

Current Status

4.1 Implemented.

Original action being taken to implement recommendation

4.2 The support given to the range of renewables technologies continues to be subject to regular reviews to ensure that the support levels proposed offer appropriate value for money – for example: Banding of the Renewables Obligation and Feed In Tariff Reviews. The Renewable Energy Roadmap set out estimates of the potential deployment trajectory for the most cost-effective technologies to 2020 and reported on the capacity at different stages of the deployment pipeline.

4.3 The department publishes quarterly statistics on deployment of renewable electricity capacity and its generation, the distribution of which is now recorded by country. At the end of September 2011 the UK had 10.4 GW operational renewable electricity capacity (including co-firing). The department also publishes monthly data on both operational capacity and installations under the Feed In Tariff, as well as the Microgeneration Certification Scheme (MCS) pipeline to monitor the scheme. The deployment of large scale renewable electricity is monitored through the Renewable Energy Planning Database which includes project specific information for developments from planning to operation.

4.4 The department's Evaluation Board, established in October 2010, will have responsibility for prioritising evaluation work across the department providing leadership and challenge to ensure evaluations are undertaken to high standards and ensuring that evaluation evidence feeds into future decision making. Work has concentrated on developing the systems and processes to support policy evaluations (including training, guidance and quality assurance), and ensuring evaluation is built into the departments key policies and programmes from the start, so they are properly evaluated. This work has ensured that all of the departments new innovation programmes have evaluation plans built in.

4.5 Evaluations of the departments energy company obligation policies – the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP) - have recently been published on the departments website. This work also generated a number of transferable lessons, which are informing how new evaluations are being planned and undertaken for priority programmes.

4.6 Building on this, the department has led a cross-Government Review of the Low Carbon Innovation Delivery Landscape. This has reviewed current arrangements for appraising, developing, delivering, monitoring and evaluating low carbon cross-Government funded programmes. The review was published in late 2011.

Update on being taken to implement recommendation

4.7 Costs and value for money of policies are considered as a matter of course within Impact Assessments for all new policy and legislation, including on renewable energy and for the Energy Bill. In particular, revisions to the Renewables Obligation and Feed-in Tariffs scheme during 2012 prioritised value for money, and the Offshore Wind Cost Reduction Taskforce offers practical support for driving progress in this area.

4.8 The *Low Carbon Innovation Delivery Review* was published on the department's website in December 2011 and sent to the House library. The department has also published the *Renewables Obligation Banding Review* and the *Feed In Tariffs Lessons for the Future*.

4.9 The department is, with the Low Carbon Innovation Coordination Group (LCICG), currently developing innovation metrics to allow progress on these programmes to be consistently monitored. This is expected to be complete by March 2013.

PAC RECOMMENDATION 7

The department must develop its innovation plans, setting out clearly the resources required and how they are to be allocated, interim milestones showing what needs to be achieved by when and by whom, and criteria that show how cost-effectiveness will be measured. Its overall strategy should include the interim milestones for innovation and indicative targets for renewable energy between 2020 and 2050, to provide a focus for action and clear benchmarks against which progress can be judged.

Current Status

7.1 Implemented.

Original action being taken to implement recommendation

7.2 The Government published an updated 2050 pathways analysis in Spring 2011. This laid out the variety of measures that might be required to meet the 2050 pathway target. Costs have been added to the Pathway and have been used along with other tools and models, to support the development of a reduced set of plausible pathways to 2050. This work was published by the Government in December 2011, as part of its plans to deliver the 4th carbon budget target, which will involve reducing UK emissions by 50% on 1990 levels by 2027.

7.3 The department has developed a four-year portfolio of low carbon innovation programmes based on the evidence gained over the last year from the Technology Innovation Needs Assessments (TINA's) – a collaborative evidence project undertaken by the Low Carbon Innovation and Coordination Group. The central analysis for the TINA's drew on a variety of models and data sources, including the departments 2050 pathway analysis. The department continues to support technology development beyond 2020.

Update on action taken to implement recommendation

7.4 The department has developed a portfolio of Low Carbon Innovation programmes based on the evidence in the Technology Innovation Needs Assessments (TINA's). It is now business as usual to review and develop this evidence base further into new technology areas.

7.5 The UK Government is committed to meeting EU and UK decarbonisation targets up to 2050. As part of this, the department envisages substantial growth in renewable energy deployment, with a binding target for 2020. However, the department does not believe that it is appropriate to set specific renewables targets in the period post-2020. This is because of the need to take account of issues such as technology competitiveness, energy security, environmental sustainability, value for money, and support for less mature renewable technologies. It is more appropriate to focus on meeting legally-binding carbon reduction targets in the most cost effective way, with flexibility about precise levels of renewables deployment. This ambitious approach is underpinned by the UK's legally-binding five-year carbon budgets.

7.6 The framework proposed in the new Energy Bill, including a carbon price floor, provides an additional focus for action.

PAC RECOMMENDATION 8

Building on its involvement in the Low Carbon Innovation Group, which brings together various funders, the department should lead the coordination of support for renewable energy innovation. It should also routinely collect information from other funders so that it knows what support is being provided to renewable energy; and take action to address its admission to the Committees that the funding landscape could be simplified.

Current Status

8.1 Implemented.

Original action being taken to implement recommendation

8.2 Following a Strategy and Forward Planning workshop in early November 2011, the Low Carbon Innovation Group (LCIG) has been renamed as the Low Carbon Innovation Coordination Group (LCICG) to correctly reflect its role in coordinating the delivery of low carbon technology innovation. The group has redefined its objectives to maximise the impact of public sector funding for low carbon energy, in order to: deliver affordable, secure, sustainable energy for the UK; deliver UK economic growth; and develop the UK's capabilities, knowledge and skills. Part of the work plan going forwards into early 2012 is an outwards facing communication plan to disseminate the position in the landscape, role and funding opportunities of the members of the LCICG.

8.3 The department led a cross-Government Review of the Low Carbon Innovation Delivery Landscape, which looked at ways to strengthen the strategic focus and enhance coordination across the landscape. The review was published in late 2011.

Update on taken to implement recommendation

8.4 The Low Carbon Innovation Delivery Review was published on the department's website in December 2011 and sent to the House library. With the expansion of the Low Carbon Innovation Coordination Group (LCICG), the department is more able to collect the information for a wider range of funders and is working closely with them on a range of projects.

PAC RECOMMENDATION 9

In view of the scale of the previous Regional Development Agency funding the department should ensure that it has a clear view of whether there is continuity in this spending and whether the Board is committed to providing innovation funding in support of the department's renewable energy plans.

Current Status

9.1 Implemented.

Original action being taken to implement recommendation

9.2 The Department for Business, Innovation and Skills (BIS) is leading the gradual closure of the Regional Development Agencies (RDAs). There are three main ways in which BIS is ensuring the continued support of business creation and the development of renewable energy technology. They are: the RDA's Grant for research and development has been transferred to the Technology Strategy Board (TSB); BIS set up the Regional Growth Fund (RGF) partly as a response to the closure of the

RDAs; and the TSB is creating a £200 million network of Catapult centres (formally known as the Technology and Innovation Centres) to transform the UK's capability for innovation in specific technology areas.

Update on action taken to implement recommendation

9.3 The Regional Growth Fund is now operational and focuses on the priorities. In addition, the Technology Strategy Board (TSB) has taken on the management of the former RDA scheme, and Grants for Research and Development, which has been renamed Smart.

Tenth Report

Ministry of Defence

Managing the defence budget and estate

The Committee took evidence from the department on Managing the defence budget and estate on 13 October 2010. The Committee issued its report on 14 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

The department reported on progress to the Committee's recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Four recommendations were implemented and four remained work in progress.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 1

The department needs to take immediate steps to sort out its financial management.

Target implementation date

1.1 March 2013.

Current Status

1.2 Work in progress.

Original action being taken to implement recommendation

1.3 A range of measures to improve the management of the department's finances have been identified. The department has appointed a Director of Financial Management Reform, who is working to transform Finance and Military Capability organisations and processes. This will concentrate head office financial management, capability, balance of investment, and assurance functions into one, while giving the maximum practicable level of delegated responsibility and accountability to top level budget holders, within a clear approvals and holding-to-account framework. Many of these processes will come into effect in the next financial year.

1.4 Under the recommendations of the Levene Review, single service commands will have greater responsibility for procurement. However, to ensure financial control the posts of Civil Secretary will be re-designated Directors of Resources, with associated changes in role and responsibilities.

Update on action being taken to implement recommendation

1.5 Implementation of the recommendations of chapter 8 of the Levene Review is progressing to plan. Directors of Resource have been appointed in each TLB with clear terms of reference setting out their new roles and responsibilities. The design of the new operating model for finance and military capability is complete and the transfer of roles and responsibilities to the service commands is on track to complete by April 2013, alongside clearly defined relationships between finance and military capability in the head office. New command plans, articulating the top level outputs that each Service Chief will be responsible for delivering will be in place for April 2013, together with a new holding-to-account, approvals and capability management framework.

PAC RECOMMENDATION 5

In the absence of an explicit statement of how the department will balance its budgets in the future, it is even more imperative that the department gets a firm grip on its strategic financial management.

Target implementation date

5.1 April 2013.

Current Status

5.2 Work in progress.

Original action being taken to implement recommendation

5.3 An interim draft of Defence Strategic Direction was issued to the department on 18 May 2011. This provided detailed direction to the department on priorities for resource allocation and detailed direction for each of the sub-strategies to ensure that the priorities flow through to all areas of defence. The department is implementing the long-term vision set out in these documents through the Defence Plan. The Defence Plan 2010 articulated 10 Defence Board Strategic Objectives, each of which had a range of strategic performance measures / indicators. These are reported against quarterly, providing the Board with the information and insight necessary to support decision-making. The process has been refined over the year and Defence Plan 2011 reflects this evolution, setting the strategy for Financial Year 2011-12. One of the Defence Board Strategic objectives focuses on affordability, supported by regular financial reporting.

5.4 The department is continuing with plans to audit and publish annually an assessment of the affordability of the equipment procurement and support programme over the next ten years. The department is in discussion with the NAO to determine the details of how the audit of the affordability of the department's equipment and support plans will operate.

5.5 The Defence Secretary's Major Projects Review Board first met in June 2011 and then quarterly thereafter. It considers progress and affordability of the department's top 50 projects.

5.6 The department is in the process of up-skilling its independent Cost Assurance and Analysis Service (CAAS) through a programme of partnering with industry, to ensure greater rigour in the department's cost estimation. This will deliver improved cost forecasting, risk adjusted forecasts, pre-concept capability forecasting and wider engagement of CAAS staff in the largest and most complex equipment projects. CAAS has been working with the 40 biggest projects in the Equipment Procurement Programme, which represent 80% of the cost of the Equipment Programme. CAAS input has been vital to CDM and DG Finance's efforts to control the department's spending on equipment. Overall, CAAS' work has resulted in greater realism in the equipment programme, including increased provision to deal with likely optimism bias. This has increased our confidence that the outcome of PR12 will be affordable both on paper and in practice.

5.7 The department has also introduced the Project Start-Up Project Foundation (PSPF) process, to provide firmer control of how projects enter the core Programme. New projects have to be approved at specific points in their planning and delivery and meet strict criteria. These include a consideration of benefits, affordability, and an analysis of wide range of options to deliver the capability. Such options include international collaboration, sustainable development and exportability considerations.

Update on action being taken to implement recommendation

5.8 The requirement to balance the department's budget is explicit in Defence Strategic Direction (DSD) and the Defence Plan. It is articulated in the Defence Plan as one of the Defence Board's strategic objectives with performance against the objective reported to the Board monthly. In May 2012, the Secretary of State announced that, on current plans, the Defence Budget is now in balance. The department expects to publish the 2012 Equipment Plan shortly, alongside the review by the NAO of its affordability. In addition, the Defence Reform Review recommended that under a delegated model the Commands (TLBs) should be held to account for performance against their Command (TLB) Plans. The formal holding to account process will be implemented in Financial Year 2013-14 with the Permanent Secretary holding TLB Holders to account quarterly. A review of the Commands' (TLBs') affordability and financial management is integral to the holding to account process.

5.9 The up-skilling of CAAS has progressed satisfactorily and the first phase of the CAAS transformation programme is due to conclude by Spring 2013. An effective system of prioritisation is now in place to ensure that focus is clearly on the biggest and most significant projects and programmes. Improvements in cost forecasting, risk adjusted forecasting, and pre-concept capability forecasting are in place; there is a corresponding improvement in CAAS' capability. CAAS continues to provide independent cost estimates on the key projects that remain in the Core Equipment Procurement Programme, and is now working to develop independent cost estimates for the top 16 projects (by value) in the Equipment Support Programme - thereby ensuring that realistic assessments of risk are both determined and quantified across the procurement landscape as a whole.

PAC RECOMMENDATION 7

The department should define the size and type of estate needed to fulfil the tasks required of it. Within six months, it should develop a small suite of measures to assess whether it is successfully reducing the size and cost of its estate, in line with changes to the size of the armed forces and equipment fleets. Whilst it should have regard to the views expressed by operational staff, it needs to establish clear, objective, and value for money criteria in determining the future of its estate.

Target implementation date

7.1 April 2014.

Current Status

7.2 Work in progress.

Original action being taken to implement recommendation

7.3 In order to facilitate strategic planning and decision making, align Military capability to asset importance and lifecycle investment, and drive rationalisation planning, the study team has engaged with a number of other government departments, large private sector organisations, estate users and the NAO. The outcome of these engagements has been the identification of a suite of six key estate performance indicators.

7.4 Work is progressing which will lead to the procurement and implementation of a technology solution. Initial approval to proceed was granted by the Defence Board in November 2011. Subject to further approvals DIO will deliver an interim technology capability by April 2013 with full capability by April 2014.

Update on action being taken to implement recommendation

7.5 An agreed set of functional metrics has been developed for Defence Infrastructure Organisation (DIO) drawing on industry good practice for similar sized property management organisations. These have been cross-referenced with the strategic DIO Command Plan Key Performance Indicators to produce a consolidated list of metrics.

7.6 Subject to Cabinet Office approval, the DIO is about to award a contract for a *Commercial Off The Shelf* Infrastructure Management Solution (IMS). This marks a significant milestone for the Defence Infrastructure Transformation Programme. The IMS will replace some 100 out of date legacy estate management systems, deliver efficiencies through automated processes and assist with the effective management of the Defence estate by providing better information and an improved user experience.
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7.7 The transformation of the Defence Infrastructure Organisation (DIO) and 'right sizing the estate' are embedded in Defence Plan 12. This direction and the associated performance measures and targets are being updated in the light of progress to inform Defence Plan 13 which is due to be published in March 2013. Performance against the Defence Plan is policed by the Defence Performance Framework (DPF) which provides a quarterly report the Defence Board. In addition, the direction articulated in the Defence Plan informs Command (TLB) Plans. Performance against Command (TLB) Plans is also policed by the DPF and the Permanent Secretary's quarterly holding to account of the TLB Holders.

PAC RECOMMENDATION 8

The Committee recommends that the department should immediately identify the key data it needs to manage its estate assets effectively, including data on relative operational importance, potential sale value, running cost, utilisation and condition. The department should have systems in place to collect this data within 12 months, and certainly well before signing its next generation of major estates contracts. The Committee expects the department to report back on the progress it has made within six months.

Target implementation date

8.1 April 2014.

Current Status

8.2 Work in progress.

Original action being taken to implement recommendation

8.3 Having fit-for-purpose IT systems and management information is at the heart of the DIO operational model. To this end, in parallel with the Asset Management Information Study, an analysis has been undertaken of Management Information Systems (MIS) in use by large property management organisations, both within the private and public arena with a view to selecting a system and having initial operating capability well before the signing of the Next Generation Estate Contracts

8.4 Six key performance indicators (KPIs) are required to support strategic decision making across the estate: Size; Utilisation; Condition; Importance; Cost of Ownership; and Value. (With six KPIs there are effectively 1 million data items to be verified.) Work now being undertaken includes verifying the assets against each of these six KPIs. This is a significant task which will be prioritised and mostly delivered through industry partners.

Update on action being taken to implement recommendation

8.5 A contract has been awarded for the implementation and support of the new DIO Infrastructure Management Solution (IMS). This marks a significant milestone for the Defence Infrastructure Transformation Programme. Over 300 people from across the DIO have supported the programme to date, which has been critical in developing the future requirements and in evaluating industry responses to these requirements.

8.6 DIO's future technology solution will replace some 100 legacy estate management systems, deliver efficiencies through automated processes and assist with the effective management of the Defence estate by providing better information and an improved user experience.

8.7 A data model has been produced for the management of the MOD estate and in parallel DIO has verified the data relating to some 100,000 built and infrastructure assets e.g. asset status, floor area, primary use and maintenance organisation.

8.8 The IMS will be launched in a number of capability "drops" through to April 2014. These drops are based on analysis of future business needs, the current DIO technology landscape and engagement with industry through procurement. Each drop will be preceded by a period of testing and training for those staff impacted by the changes.

Eleventh Report

Department for Work and Pensions

Community Care Grant

The Committee took evidence from the department, the Independent Review Service and Jobcentre Plus on the *Community Care Grant* on 3 November 2010. The Committee issued its report on 16 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

The department reported on progress to the Committees recommendations in the Treasury Minutes: progress on implementing recommendations, which was published on 26 January 2012. Seven recommendations were implemented; one remained work in progress; and one was not being implemented.

The one remaining work in progress recommendation is updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 1

The Government's White Paper on Welfare Reform announced plans to devolve the administration of the scheme to local authorities. The proposed reforms provide an opportunity to address many of the Committees concerns, but the Committee recommend that the department quantifies the costs and benefits of transferring responsibility to local authorities so that it can be confident it leads to better value for money.

The Committee also need assurances that in the current financial climate local authorities will be properly resourced to do the job. The Committee expects an update from the department on how any revised arrangements will replace the current system and over what timeframe. In the meantime, the onus is on the department and Jobcentre Plus to make real and urgent efforts to tackle the serious problems with the existing scheme arrangements.

Current Status

1.1 Implemented.

Original action being taken to implement recommendation

1.2 For the current spending review period, the department has been allocated £178.2 million of Annually Managed Expenditure (AME) per annum for the discretionary Social Fund. Of this, £141 million was allocated to Community Care Grants in 2011-12. This allocation is for the UK. The Government intends that the Community Care Grant scheme (and Crisis Loan scheme) will end in March 2013. Funding will be provided for a new locally designed provision. From April 2013, the current AME funding allocated to the discretionary Social Fund will be allocated between the devolved administrations in Scotland and Wales and upper tier local authorities in England. There will be an additional transfer of funding to cover administration costs for the new provision.

1.3 The design of the new local provision will be for individual local authorities and the administrations in Scotland and Wales. The Government expects that the new assistance will be aligned with existing local services. The department consulted with 52 Local Authorities over the summer of 2011. Local authorities supported the Government's expectation and did not envisage additional high end costs such as new computer systems or estates. Work is currently underway to scope and calculated the additional costs of the new provision. The outcome of this work will be known in Spring of 2012.

Update on action taken to implement recommendation

1.4 The department consulted with over 150 local authorities during spring 2012. Separate, detailed consultations specifically about administration funding, including start-up costs, with over 30 local authorities also took place. The new assistance will be aligned with existing local provision in England. The Scottish and Welsh Governments will introduce schemes delivered locally and within national frameworks. In August 2012, the Government provided details of the funds to be transferred to upper tier local authorities in England, and to the Scottish and Welsh Governments. It detailed how much would be transferred for set up and administrative funding, as well as programme funding. Local authorities suggested that the funding for administrative costs should be at the upper end of the earlier estimates, and these amounts have now been agreed by the department.

Thirteenth Report

Department for International Development

Department for International Development's bilateral support to primary education

The Committee took evidence from the department on the bilateral support to primary education 10 November 2010. The Committee issued its report on 23 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 Feb 2011.

The department reported on progress to the Committees recommendations in the Treasury Minutes progress on implementing recommendations, which was published 26 January 2012. Four were implemented and three remained work in progress.

The following work in progress recommendations are updated one year on to retain reporting on progress to the Committee.

PAC RECOMMENDATION 4

The department should meet the commitment it gave the Committee to have a better series of measures within two years, and should use this information to drive improved performance across the education systems it supports.

Current Status

4.1 Implemented.

Original actions taken to implement recommendation

4.2 The department has adopted a framework to drive improvements in the value for money of its investment in education. This approach is based on measures of education economy (unit cost of key education inputs), efficiency (primary completion rates, survival to grade 5) and effectiveness (learning outcomes). In addition, the department is developing and monitoring more advanced metrics, such as measures of early grade reading and literacy.

Update on action taken to implement recommendation

4.3 The department has been working with country offices, and partner governments to ensure that the data on the key value for money indicators are available and being used. The department now has complete data coverage for four of the six indicators (learning outcomes cost per child per year, teacher salaries and primary completion / survival rates) for all but the most fragile states (Afghanistan, Burma and Democratic Republic of Congo). This is an increase from just six countries with this data in 2011 to 18 countries now. For the other two indicators, coverage has improved. Availability of information on textbook cost has increased from 13 to 17 countries (94% coverage) and on classroom construction cost has increased from 11 to 14 of countries (75% coverage). In countries where these data are not currently available, the department is working with partner governments to improve education management information systems and strengthen capacity to monitor data.

4.4 The data is being used to lower costs for the department and partner government where we can do so without lowering quality. For example: in Rwanda, construction through local communities (Umuganda) helped lower costs and saved the government $49 million. In South Sudan, department-led negotiations on classroom designs have brought cost savings of two thirds. In Ghana, the use of alternative teacher training programmes has lowered government costs by 40%, from approximately £5,000 to £3,000 per teacher. In some countries costs have increased to improve quality. Teacher salaries in Rwanda rose by 10% to improve the quality and retention of the teachers.

4.5 All 18 focus countries are now monitoring learning outcomes, and 14 countries now have (or are designing) programmes to improve early grade reading outcomes. Whilst the department is not prescriptive about the exact learning metric to be used, the department is promoting internationally comparable measures whenever possible - the department is a member of the Brookings Learning Metrics task force to develop improved international learning measures. The department is also supporting initiatives, such as UWEZO in East Africa and ASER in Pakistan, who use data on learning outcomes to hold teachers, schools and officials to account.

PAC RECOMMENDATION 5

Where national data systems are weak the department should develop a clear plan to strengthen them. But ultimately, where improvement is insufficient, it should be prepared to use alternative means of collecting information or change the way it delivers aid.

Current Status

5.1 Implemented.

Original action taken to implement recommendation

5.2 The department has adopted a framework to drive improvements in the value for money of its investment in education. This approach is based on measures of education economy (unit cost of key education inputs), efficiency (primary completion rates, survival to grade 5) and effectiveness (learning outcomes). In addition, the department is developing and monitoring more advanced metrics, such as measures of early grade reading and literacy.

Update on action taken to implement recommendation

5.3 The department now has complete data for four of its six headline indicators in all except the most fragile states. The department is continuing its support to national governments in focus countries to strengthen their Education Management Information Systems (EMIS). Where data systems are not robust, the department is using alternative means. For example: the department is continuing its support for independent surveys of learning assessments and engaging with governments to use the results. In the Democratic Republic of Congo, the department is supporting a major survey on the exclusion of children from education systems, to inform the direction of a future programme to improve data availability and quality.

5.4 The department continues to work towards complete data on value for money even in the most fragile states. The department is providing technical assistance to Afghanistan's Ministry of Education to design the country's first National Learning Assessment System. In addition, the department provides advisory support to develop the capacity of the Central Statistics Organisation. In Burma, the department is strengthening EMIS in townships to assess the performance of school clusters and help develop more evidence based Township Education Plans.

PAC RECOMMENDATION 6

In deciding how many expert staff it needs to manage aid programmes, both at home and overseas, the department should focus on the practical work needed at the front line, to assess both the risks and the cost effectiveness of programmes and the capacity it needs at the centre to make informed decisions between them.

Current Status

6.1 Implemented.

Original action taken to implement recommendation

6.2 The advisory resource and technical expertise needed to manage the department's growing programme effectively, including in education, were considered under the aid reviews. The Spending Review settlement enables a shift of more of the departments total operating resource into front line delivery to ensure that results and value for money in the programme are achieved. Country offices have produced Operational Plans, based on the outcomes of the three aid reviews, in which they assess the delivery challenges and identify the staff and skills required to deliver the agreed results effectively.

6.3 A restructuring of the Heads of Professions has been completed to strengthen continuous professional development. All new advisers attend a one week induction course including a full day on the department's strengthened approach to results and value for money and how to apply this in programme design and management. 15 out of 20 countries with the departments supported education programmes have the support of an in-country results advisors, with 11 of these posts created in the past 12 months. Results posts are usually filled by a Statistician or Economist and assist programme teams to use evidence to inform policies and programmes, develop credible results chains, identify appropriate indicators to track progress and develop robust evaluation strategies.

Update on action taken to implement recommendation

6.4 The department's strategic work force planning identified a need for 37 education advisers as of April 2012. There are now 40 education advisers in post, 30 of whom are based overseas (a 50% increase in numbers on 2010). Of the ten headquarters based staff, six are focused on assisting country programmes with front line delivery. This is part of a department-wide agenda of strengthening professionalism of both advisory and corporate staff, which has included increasing the number of advisers (all cadres) from 550 to 695. There is a shared requirement on all advisers to be competent in basic evaluation, statistics and economics.

HC 184

HM Revenue and Customs (HMRC)

The efficiency of the National Insurance administration

The National Audit Office (NAO) issued its report on 30 June 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

The department reported on progress to implement the NAO recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. One recommendation was implemented; and seven remained work in progress.

The following work in progress recommendations A and C to H are updated one year on to retain reporting on progress to the Committee.

NAO RECOMMENDATION A, D,G and H

A: To help maximise efficiency in National Insurance administration HMRC should develop its approach in two ways. It should give priority to applying PaceSetter principles to whole processes, encouraging operating units to work together to secure efficiencies. HMRC should also give renewed effort to maximising the value from resources applied to corrective work, either by dealing with root causes or applying priorities for securing the accuracy of the National Insurance database most cost-effectively.

D: HMRC should be clear about the standard of accuracy it is seeking to achieve over the longer term and take account of possible scenarios of future welfare changes.

G: HMRC should consider how individual administrative procedures might undergo a more fundamental change over the longer term to achieve optimum efficiency. It should also consider the opportunities for reducing incorrect or incomplete incoming data and for exerting greater control of how work is received, with special attention to further reducing the use of more costly paper-based processes. Such consideration would help provide strategic direction to operational changes, determine the strength of opportunities for investment and ensure that HMRC is ready to progress changes should funds for further automation become available.

H: HMRC's monitoring and reporting of performance on National Insurance should reflect its various objectives. Senior management should have full visibility of results across the end-to-end process, progress in improving joint working between operational units and areas where action could improve the efficiency of the process and benefit the customer.

Current Status

A1 Implemented.

Original action being taken to implement recommendation

A2 In September 2011, the department appointed a NIC product and process owner to deliver strategy and the end to end mapping of the process, working closely with other process owners and operating units. The end to end work will be undertaken with a view to drive through improvements and maximise yield whilst minimising costs and delivering a simpler system. The new performance board supporting this work is expected to be in place by the end of this tax year informing business planning for 2012-13 onwards.

A3 The emerging product strategy will include the aim of simplifying the NIC system to make it easier for
employers to get it right thereby reducing the need for corrections. The department is also developing performance indicators and metrics for NIC, as a whole, and working closely with DWP on areas of

reform. As part of the NIC product and process ownership, a management board will be established. This will take decisions on the prioritisation of all significant NIC projects. A NIC performance hub will be established as part of this to provide oversight (including efficiency targets) for the entire NIC product and process.

A4 The department takes data quality very seriously. It has already commenced two specific programmes to identify root causes of rework and developed a series of projects to address them.

Update on action taken to implement recommendation

A5 The department has now mapped the individual end to end NI processes. The evidence gained will allow the department to develop and prioritise improvements.

A6 The NICs Process Owner established the National Insurance Management Board in February 2012. The board reviews the performance of the NICs system from end to end, reviews the risks and considers options for process reform. This will be done through our Business Process Re-engineering work- looking at areas of process where changes can be made to improve the customer experience, help customers get it right first time and reduce the need for rework. This will also help to make the departments processes more efficient, reduce administrative and customers costs and maximise NIC yield.

NAO RECOMMENDATION C

Where the mix of work varies significantly from year to year for individual activities, HMRC should consider adopting a system of unitisation, which grades the complexity of work into standard units of processing time, to enable comparisons between years.

Current Status

C1 Implemented.

Original action being taken to implement recommendation

C2 Though work has commenced and a high level overview of core processes has been developed with initial costs assigned to those core processes, work is ongoing to make the costings more robust.

Update on action taken to implement recommendation

C3 The costing framework now provides the cost of collecting NIC. In addition there are performance indicators in place for each core processing area which indicate the expected level of processing time to complete each main workload. This information is used by Operational Management to review Operational performance and by the NIC Process Owner when considering options for process reform.

NAO RECOMMENDATION E and F

E: Notwithstanding its strategic approach to administering National Insurance, HMRC should set guidelines to the operating units on increasing efficiency over the next three years. The guidelines should specify the areas of investment that should have priority; which underlying problems should have greater attention; and where operating units should endeavour to work more closely.

F: HMRC is developing an overarching operational strategy based on its approach to different types of customer behaviour. To inform future investment decisions, the strategy should be underpinned by a clear and costed picture of the end to end processes it administers – including National Insurance. This should cover long term objectives, key issues that could have a major impact on efficiency and the potential contribution of further automation

Target implementation date

E1 April 2013.

Current Status

E2 Work in progress.

Original action being taken to implement recommendation

E3 Across the department, focus is being strengthened on end to end process. For National Insurance, a NIC specific product and process owner has been appointed, a NIC management board and performance hub will include other Process owners and Operating Units that have an interest in the administration of NIC. They will act in concert to support the delivery of the Department's customer-centric business strategy. In addition, over the current spending review period, whilst funding for making changes is limited, the department is actively pursuing process improvement opportunities that support its customer-centric business strategy to achieve greater efficiency, accuracy and improved customer experience. Improvement ideas are prioritised to ensure the best return on the limited investment available is achieved.

Update on action being taken to implement recommendation

E4 The End to End Mapping of NICs has been completed and the next phase of work involves using that evidence base to prioritise the process improvements that will bring the greatest impact to the efficiency of running the NIC system and improving the customer's experience.

E5 The NIC Process Owner has continued to introduce initiatives to improve customer experience as part of the department's continuous improvement. For example: for the self employed to be able to set up a direct debit facility by telephone. The department has also enabled a number of existing NIC forms to be completed and submitted electronically, their priorities being based on their usage and feedback from individuals, employers, agents and pension providers. These forms include registering for self employment, applying for exception from paying Class 2 contributions and providing NINOs for employees. At the same time, the department has improved its online guidance material to direct customers to the right form and assist them to complete it correctly first time.

E6 Following the departments end to end mapping of NIC processes, any major changes that are put forward from the Business Processing Re-engineering work will go through HMRCs Governance Process to determine their impact and priority.

HC 188

Department for Environment, Food and Rural Affairs

Tackling diffuse water pollution in England

The National Audit Office (NAO) issued its report on 8 July 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

The department reported on progress to implement the NAO recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Seven recommendations remained work in progress and are updated one year on to retain reporting on progress to the Committee.

NAO RECOMMENDATION A

The Environment Agency should improve its evidence base on the extent to which the different sources of diffuse pollution impact on water quality through targeted local level monitoring, with information used to direct and support the Agency's future interventions.

Target implementation date

A1 End of 2013 (for the 2009-15 River Basin Management (RBM) plan period).

Current Status

A2 Work in progress.

Original action being taken to implement recommendation

A3 The Agency has developed a Water and Land Evidence (WLE) Action Plan and established a working group on diffuse pollution to steer work on improving the evidence base as part of the RBM process.

A4 In December 2010, the Agency reviewed failures of the WFD objectives based on local monitoring data, specifically those resulting from diffuse pollution and used the information to plan first cycle RBM investigations and to identify measures. The Agency is also learning lessons and gaining knowledge from monitoring and evaluation of the Catchment Sensitive Farming. This intelligence is being used to inform work on both WFD and the Common Agricultural Policy. The Agency is looking to increase partner involvement in RBM catchment planning. The aim is to use information from third parties to enhance the evidence base principally by reducing uncertainty and to improve targeting of interventions.

A5 The Agency is developing a scorecard measure to track value for money delivered by their pollution prevention activities including work aimed at preventing pollution from diffuse sources.

Update on being taken to implement recommendation

A6 The Environment Agency (the Agency) is continuing to develop a more strategic approach to evidence gathering, building upon its Water and Land Evidence Action Plan through establishment of an 'Evidence group' as part of the department, Agency, Natural England and Forestry Commission joint implementation programme on agricultural diffuse water pollution. As of mid October 2012 the Agency had completed 71% of its planned programme of River Basin Management investigations.

A7 The Agency's evaluation of Catchment Sensitive Farming (CSF) has been used to inform targeting of Phase 3 of the initiative (2011-14) to catchments where environmental benefits will be greatest. The learning is also informing other key initiatives such as the Anglian Single Issue

Phosphorus Project with the National Farmers' Union, and department / Agency Demonstration Test Catchments Project to improve the evidence base on agricultural diffuse water pollution.

A8 The Agency is collating information on Significant Water Management Issues (SWMI) to help inform development of the second cycle of River Basin Management Plans (2015 to 2021). The Agency will be consulting on SWMIs during 2013 and seeking evidence and views from national and local stakeholders. In addition, work is underway at the catchment scale, through the Pilot Catchment Projects, to understand how best to gather, collate and share evidence at the local level to help inform roll-out of the 'Catchment Approach'. As part of RBM and the catchment approach, the Agency continues to develop processes to review the relative cost-effectiveness of measures and ensure they are delivering value for money.

NAO RECOMMENDATION B

The Agency should intensify its efforts to raise awareness and change behaviours amongst the farming community by:

- **developing a greater understanding of how best to influence farmers, including who is best placed to deliver the required messages; and**
- **providing a more compelling case for farmers by building on the evidence base linking farming to diffuse pollution and clearly demonstrating the benefits of mitigation measures.**

Target implementation date

B1 End of 2013 (for the 2009-15 River Basin Management plan period).

Current Status

B2 Work in progress.

Original action being taken to implement recommendation

B3 The Agency has established a national Diffuse Pollution Project and Board, which includes the department and Natural England, to help coordinate work, understand the cost-effectiveness of interventions to tackle diffuse pollution, and steer communications. The department and the Agency are developing a strategic framework on tackling agricultural diffuse pollution – this is intended to create more coherence and structure and to introduce a clear rationale around interventions.

B4 Additionally, the Agency is:

- advising the department on the effectiveness of Campaign for the Farmed Environment and learning lessons on sector-led campaigns;
- monitoring and assessing the effectiveness of Catchment Sensitive Farming (CSF) using monitoring, modelling and market research in CSF areas.
- working with the industry's Professional Nutrient Management Group through the *Tried and Tested* partnership to encourage nutrient management planning among the livestock sectors. This includes introducing more quantitative performance indicators to assess the cost effectiveness of the operational work;
- establishing a project to collate information on the cost-effectiveness of WFD measures (including those for diffuse pollution) to inform RBM planning;
- working with the agriculture sector to develop an Agriculture Sector Plan. This will clarify environmental priorities for the sector, help reinforce key messages and prioritise interventions.
- working to make information accessible to a range of external partners through web-based tools. A WFD Strategic Data Solution, which will help the Department present and discuss data with external partners, is currently in development.

Update on action being taken to implement recommendation

B5 The Environment Agency's (the Agency) Diffuse Pollution Project Board (which includes Natural England and Defra) continues to steer the Agency's approach to tackling diffuse pollution.

B6 The joint implementation programme between the department, the Agency, Natural England and the Forestry Commission involves leading and contributing to a number of working groups on evidence, as well as measures, mechanisms and operations to understand how best to influence the agricultural sector. This includes taking the lessons learnt from the Campaign for the Farmed Environment agricultural industry led report and incorporating them into future sector led schemes of work.

B7 The Agency's evaluation of Phases 1 and 2 of Catchment Sensitive Farming (CSF)[24] has provided an assessment of benefits from this project. It has been complimented by a series of case studies[25], summarising farm-specific benefits, which are being used to encourage farmer engagement. Farmers can monitor water quality on their farms to increase understanding of the links between land management and water quality. A report on the 2011 CSF market research has been produced and the 2012 survey will take place during October and November. The scope of the two surveys has been extended to include evaluation of CSF Catchment Partnerships, in order to evaluate third-party farm advice delivery.

B8 Following publication of the *Think Manures* booklet, the Agency will work with industry groups to promote nutrient management - for example: Environmental Plan for Dairy Farming.

B9 The EA has developed a database to store information on the relative cost-effectiveness of measures, which will inform measures that deliver VFM through the RBM process. This is being tested in three of the Catchment Approach pilot catchments. The Agency's Future Approach to Regulation (FAR) includes a draft Agricultural Sector Plan, which is being shared with the sector. Work is underway to ensure FAR Sector Plan requirements are embedded into the routine operational work of the Agency, including a clearer line of sight from the department's strategic approach to Agricultural Diffuse Pollution. The Agency is developing a list of questions from farmers looking at the actions farmers could take to minimise their impact upon the environment. The Agency will share this information with their sector representatives, the department, Rural Payments Agency, and Natural England.

B10 Work on the WFD strategic data solution (now called the Catchment Planning System) continues. Delivery will be phased with key milestones in March 2013, September 2013 and March 2014. Data sharing systems with third parties should be delivered in the latter stages of the project. The Agency is providing information to farmers on pesticides through the Voluntary Initiative for Pesticides initiative and developing their *What's in Your Back Yard* website to provide information to the Agricultural sector (including links to CSF). These systems are currently undergoing final testing before being launched.

NAO RECOMMENDATION C

The Environment Agency should consider developing more formalised agreements with stakeholders for tackling diffuse pollution at a River Basin level.

Target implementation date

C1 Commence widespread incremental implementation of improved stakeholder participation in RBM through a Catchment Based Approach from April 2013.

Current Status

C2 Work in progress.

[24] http://www.naturalengland.org.uk/ourwork/farming/csf/evaluation.aspx
[25] http://www.naturalengland.org.uk/ourwork/farming/csf/casestudies.aspx

Original action being taken to implement recommendation

C3 The department and the Agency have established an RBM Catchment Pilot Project. The project is looking at effective ways for partners to work together identify what the local issues and pressures are for the water environment and how to work together to tackle these, to provide multi-beneficial outcomes. In particular the project will explore what 'formalised' agreements could look like.

C4 The Agency is working with the department, Natural England, the Rural Payments Agency and the Forestry Commission to develop a joint work programme to deliver agricultural measures for WFD and support the department's work on reform of the Common Agricultural Policy. The Agency is also working with the Water Industry as part of the five-yearly price review process (PR09 and PR14) to develop Regional and Catchment partnerships backed up by formal agreements and memoranda of understanding, where appropriate. There is also a linked project to produce a method of assessing the benefits of catchment-based initiatives.

Update on action being taken to implement recommendation

C5 Learning and evaluation from the Catchment Pilot Projects will identify best practice to inform wider implementation of the Catchment Approach, starting in April 2013. The Agency is looking to improve stakeholder participation in River Basin Management (RBM) through the development of Significant Water Management Issue reports during 2013, and will be encouraging stakeholders to participate in the production of the second cycle RBM Plans, which must be finalised by the end of 2015.

C6 The department, Agency, Natural England and Forestry Commission joint work programme continues to develop – for example: on the departments Integrated Advice work and the Farming Advice Service stakeholder steering group. In addition, the Agency is working with the other Arms Length Bodies across the department's network to develop a single communications strategy for farmers. The Agency's Agriculture Sector Plan promotes partnership working at national and local levels. The Agency is also developing formal partnerships with the water industry as part of work to inform the 2014 Price Review (PR14) including a benefits assessment matrix, which provides evidence for the catchment sites for Drinking Water Protected Areas.

NAO RECOMMENDATION D

The department should improve the targeting of options under Environmental Stewardship schemes to increase their contribution towards reducing the impact of diffuse pollution. The department should also consider introducing more flexibility in the method used for assessing applications for grants under the England Catchment Sensitive Farming Initiative to ensure that it funds activities on individual farms that will prove to have the greatest impact on diffuse pollution.

Target implementation date

D1 2013.

Current Status

D2 Work in progress.

Original action being taken to implement recommendation

D3 Work continues to improve the targeting of Catchment Sensitive Farming and Environmental Stewardship. Significant progress is being made to feed into the remaining Catchment Sensitive Farming project through the sharing of data and information to improve the higher level strand's targeting of the water quality objective.

D4 The flexibility of capital grants used through Catchment Sensitive Farming has improved through the amendments to the project. The method of prioritising capital items at catchment level has changed. The Agency capital grants funding priority statement now lists ten items of equal merit to help reduce target pollutants in each catchment. From 2011-12, Catchment Sensitive Farming will offer special projects and collaborative agreements to increase the flexibility of the scheme to address specific diffuse pollution problems. All such agreements will need endorsement from the local Catchment Sensitive Farming officer.

D5 A number of capital items have been enhanced to improve the environmental outcomes. If oversubscribed, priority will be given to applications which; have land located in target areas, which best meet the schemes objectives, which deliver the greatest environmental benefits and collaborative applications.

Update on action being taken to implement recommendation

D6 The Environment Agency has provided advice and evidence to the department's Water Quality policy team to inform departmental input to the Common Agriculture Policy negotiations. It also continues to provide advice and support on the design of future Rural Development Plan England schemes.

NAO RECOMMENDATION E

The Environment Agency should ensure that information is consistently managed and recorded across these databases, and properly integrated.

Target implementation date

E1 Tactical solutions implemented and strategic solutions identified by the end of 2013.

Current Status

E2 Work in progress.

Original action being taken to implement recommendation

E3 The Agency has reviewed the way that it records outcomes and conclusions from integrated farm visits along with the supporting data management systems and has identified areas for improvement. The Agency is considering the best way to deliver solutions in the medium term and in the meantime is also looking to make short-term improvements to existing systems and data.

Update on action taken / being taken to implement recommendation

E4 IT systems have been reviewed, and quick win improvements identified. One solution to improve data integrity was implemented in May 2012. The Agency aims to implement further tactical solutions and undertake a strategic review of data needs by 2013.

NAO RECOMMENDATION F

In view of the recent changes to the rules governing Nitrate Vulnerable Zones, the Environment Agency should assess the value of its regulatory visits and determine the optimum number of inspections required to achieve desired outcomes.

Target implementation date

F1 End of 2013.

Current Status

F2 Work in progress.

Original action being taken to implement recommendation

F3 The Agency's role in delivering CAP Cross Compliance inspection has been reviewed and some elements are moving to the Rural Payments Agency (RPA). The Agency is working with the department and the RPA to rationalise the inspection regime in line with Better Regulation principles with the aim of ensuring collective action on farm inspection across the department family delivers value for money. The review included looking at improving targeting of the Agency inspections on WFD priority catchments and delivering integrated outcomes and led to the *Making Inspections Matter* project. The output from this project is being used to inform the department's Implementation Group who have recently published an interim response to the Farming Regulation Task Force recommendations and are currently considering its final response and the development of an implementation plan.

F4 Transfer of responsibilities to RPA is being taken forward through the department's Water Quality Sub-Group Change Forum.

Update on action being taken to implement recommendation

F5 The Agency's role in delivering Cross Compliance inspection has been reviewed and subsequently transferred to the Rural Payments Agency (RPA). The Agency remains the enforcement authority and will work with RPA to clarify working procedures and data sharing issues.

F6 The Agency continues to support the department's work on integrated farm visits. As members of the Farm Inspection steering group, the Agency is contributing to work on 'earned recognition', and on data sharing projects – for example: proper assessment of risk of a farm business relying on access to data..

NAO RECOMMENDATION G

The Environment Agency should act quickly to adapt the use of anti-pollution works notices to diffuse pollution, streamlining the issuing process, developing clear guidance, and providing staff with training and greater management support.

Target implementation date

G1 End of 2013.

Current Status

G2 Work in progress.

Original action being taken to implement recommendation

G3 The Agency has reviewed its operational guidance on the use of Water Resource Act (1991) Anti-pollution Works Notices (APWNs). New guidelines have been developed and implemented by the Agency's Operations Directorate. The Agency will be keeping the use of APWNs under review to ensure staff are following the new guidance and APWNs are being used more effectively. The Agency will check progress before the end of 2013 to inform use of APWNs in the second cycle of RBM.

Update on action being taken to implement recommendation

G4 Reviews and changes to operational guidance on Anti-pollution Works Notices are complete. The Environment Agency will look to review performance of revised approaches by end of 2013 to help inform second cycle of River Basin Management.

HC 486

HM Revenue and Customs

Engaging with tax agents

The National Audit Office (NAO) issued its report on 13 October 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

The department reported on progress to implement the NAO recommendations in the Treasury Minutes: progress on implementing recommendations, which was published 26 January 2012. Five recommendations remain work in progress

The following work in progress, recommendations are updated one year on to retain reporting on progress to the Committee.

NAO RECOMMENDATION A

With better use of data, the department could make more targeted interventions based on risk and either achieve greater tax revenues with the same resources, or potentially the same revenues at a lower cost, freeing up resources for implementing other recommendations. To make progress towards being able to make more targeted interventions the department will need to:

- **make the case for investment to improve its data systems by demonstrating the costs and benefits of making targeted interventions. For example: the department could run a low-cost pilot based on a sample of tax agents;**
- **establish a system for regularly collecting and monitoring compliance data and use this information to target its interventions according to the customer track record of each agent; and**
- **measure the impact of making more risk-based interventions in terms of additional tax collected.**

Target implementation date

A1 Spring 2013.

Current Status

A2 Work in progress.

Original action being taken to implement recommendation

A3 Consultation undertaken in 2011 on development of an 'agent view' comprising information about an agent's own behaviour and that of their clients. Strong concerns were expressed over how this will be used. The next steps are development of a proof of concept model linking agent and client data held on the departments systems that will be discussed with the agent community during 2012.

Update on action being taken to implement recommendation

A4 Since 2009, the department has used specialist compliance teams to address risks associated with tax agents who offer to secure client repayments from the department for a fixed fee or a percentage of the repayment claimed. Where risks are proven in test cases, the agent, rather than their individual clients, is interviewed and asked to rectify errors across their entire client base.

A5 The department has developed a proof of concept model of the 'agent view' and has used this to inform discussions with agent representatives on how the data can be interpreted and used to support improved client compliance, and on safeguards around the future use of this tool. The department began piloting agent support interventions at the end of 2012 to test the data analysis and identification of risk using the agent view.

NAO RECOMMENDATION B

The department should improve tax agent compliance by providing additional support to tax agents experiencing difficulties and applying sanctions where performance is poor. For example: the department could grant access to enhanced online and telephone services to agents who meet certain standards, better target education and training, and provide feedback to agents on their compliance record.

Target implementation date

B1 Spring 2013 for targeted communications and support. 2014-15 for applying sanctions.

Current Status

B2 Work in progress.

Original action being taken to implement recommendation

B3 Better targeting of the department's support activity (Agent Account Managers, Joint Learning, and Agent Toolkits) to those agent segments the department knows are more likely to need help. Consultation undertaken in 2011 on a new agent enrolment process to capture better data about agents, in order to improve targeting of the department's communications and support activity to agents. Broad support received for the principle, which will be developed and piloted during 2012 for introduction in 2013, subject to the development and approval of a business case for funding the development of the new process. Consultation on acceptable standards of competence and the use of sanctions will take place in summer 2012.

Update on action being taken to implement recommendation

B4 The department's specialist compliance activity aims predominantly to help, support and educate agents who have made errors or failed to take reasonable care. More serious cases, for example: where an agent is thought to be complicit in repayment fraud, are put forward for the consideration of a criminal prosecution.

B5 Implementation of the new enrolment process is now expected from Spring 2014 reflecting the additional time spent, during 2012, working with agents to test and refine the proposed processes. Development work is now underway and, subject to funding approval, will continue during 2013. The data collected during enrolment will also be used to tailor access to future agent services offered by the department.

B6 The department is discussing with agent representatives the scope, nature and timing of future consultation on oversight of the tax agent profession, acceptable standards of competence and the use of sanctions. Such consultation is likely to take place during 2013 and will help to inform the development of any new support services or sanctions which may be appropriate.

NAO RECOMMENDATION C

Given the department is considering introducing registration, it should assess the costs of registration and ensure minimum requirements are relevant and measurable.

Target implementation date

C1 Autumn 2013.

Current Status

C2 Work in progress.

Original action being taken to implement recommendation

C3 Consultation undertaken in 2011 on a new agent enrolment process and how to improve standards within the profession. Broad acceptance of need for more and better enrolment data, but requirement for agents to hold a recognised qualification is a complex issue and will require further consultation during 2012. Collaborative design and testing activity will commence in Spring 2012 to inform development of the enrolment process.

Update on action being taken to implement recommendation

C4 This is now expected to start from Spring 2014 reflecting the additional time spent during 2012 working with agent volunteers on the design of the enrolment process, to minimise burdens on agents and ensure that only necessary and appropriate data is collected. This collaborative approach will continue during the development work in 2013 to ensure that the new services for agents fit with their working practices and needs.

NAO RECOMMENDATION D and F

D: There is scope for the department to reduce its costs and increase compliance by improving its service to agents through further expansion of e-services and by dealing with post from agents more quickly. In particular, the department should:

- **take steps to encourage greater use of existing electronic services, by raising awareness and improving usability, for example making electronic changes to records. The department should also meet its post turnaround targets to remove the need for progress chasing;**
- **enhance electronic services further to allow additional transactions online such as tax code amendments, communication by email, tools to support improved compliance, and self-serve agent authorisation. Electronic transactions should be recordable so that agents can maintain their records; and**
- **collect better contact volume and cost data to better understand the scale of development of e-services that can be justified by achievable savings**.

F: The department should examine the possibility of building on its relationship with the tax agent community to work together to design new systems and services that would lead to efficiencies for both parties. There may be opportunities for sharing resources and expertise, or even investment costs, perhaps starting with the design of more specialist software.

Target implementation date

D1 Autumn 2013 for the first new self serve capabilities, with further enhancements and services to be delivered during 2014 and 2015.

Current Status

D2 Work in progress.

Original action being taken to implement recommendation

D3 Post turnaround times have been improved and work is now underway to develop more transparent performance indicators around agents' interactions with the department. Communications targeting agents have been used to promote online services.

D4 Consultation was undertaken in 2011 on the appetite for additional self serve capabilities and on which services agents would find useful. Responses sought a collaborative and staged approach to implementation, with view-only access to client records and improvements to the agent authorisation process identified as priorities. Collaborative design and testing activity will commence in Spring 2012 to inform development of new services, which will be introduced over the Spending Review 2010 period (and potentially beyond), subject to the development and approval of a business case for funding.

Update on action being taken to implement recommendation

D5 This is now expected to start from Spring 2014 reflecting the additional time spent during 2012 working with agents to test and refine the proposed processes. This collaborative approach will continue during the development work in 2013 to ensure that the new services for agents fit with their working practices and needs.

NAO RECOMMENDATION E

The department should aim to reduce its processing costs and consider further ways of making authorisation simpler and quicker for tax agents. For example: it could build on work underway to improve web guidance on agent authorisation and increase the efficiency of online authorisation or, with registration in place, it could consider the approach taken by New Zealand Inland Revenue, which does not process authorisations for trusted agents.

Target implementation date

E1 Autumn 2013 for the first new self serve capabilities, with further enhancements and services to be delivered during 2014 and 2015.

Current Status

E2 Work in progress.

Original action being taken to implement recommendation

E3 Improvements were made to existing manual and online authorisation processes during 2010 and consultation was undertaken in 2011 on a 'self authorisation' model' similar to that used in New Zealand. Concerns were raised about the security of such a process and respondents flagged a need to continue to involve clients in the authorisation process. Collaborative work will take place in 2012 to examine the scope for further improvements to the online authorisation process.

Update on action being taken to implement recommendation

E4 This is now expected to start from Spring 2014 reflecting the additional time spent during 2012 working with agents to test and refine the proposed processes. The department is now working to develop improved online authorisation processes for delivery in 2014, including self authorisation in appropriate cases. The department will work with agent representatives to ensure that self authorisation is underpinned by robust client engagement processes by the agent.

Update on Government Cash Management

	Letter from Treasury to the Committee of Public Accounts
	Government Cash Management Summary
Annex A	Updated response to the Committee
Annex B	Balances in commercial bank accounts from department's returns (September 2012)
Annex C	Accuracy of cash forecasting against actual outturn (April 2011 to march 2012)

HM TREASURY

1 Horse Guards Road, London SW1A 2HQ

To: Chair, Committee of Public Accounts

My letter of 28 February 2011 set out how I intended to keep the Committee of Public Accounts in touch with progress on the Treasury's joint objective with departments to minimise the Government's cash balances held outside the Exchequer, and to update you on progress made on related recommendations set out in the Committee's 33rd Report[26]. This is the second update following my initial update of 27 October 2011. The attached paper provides a detailed update.

A number of commercial accounts have moved to the Government Banking Service as planned, and the Treasury and departments have cast the net wider increasing the scope of bodies, which we expect to bank within the Exchequer. There is still around £1.5 billion outside the Exchequer but, to put this figure into context, over the last six months the average balance held within the Exchequer Pyramid, as a result of the activity of Government Banking Service, was in excess of £42 billion.

The Treasury has continued to work proactively with departments and the Government Banking Service to reach our joint goal. We have:

- monitored quarterly information on commercial balances;
- scrutinised and challenged departmental updates;
- updated the register of commercial accounts held by these departments and their public bodies;
- made it clear to departments that they should set an upper limit for all commercial accounts held; and
- provided training sessions to help departmental and public bodies' forecasting performances by providing group or one-to-one training.

Both the Treasury and Government Banking Service value the Committee's continued support and interest in this topic. We will continue to keep you updated.

Knowledge of existing and new Government Banking Service products is shared across Government by a regular newsletter to Finance Directors as well as the hosting of a regular customer advisory board comprising the major money transmission users. The Head of the Government Banking Service has also been appointed the Crown Commercial Representative for Banking with sign off for all banking contracts which further protects against leakage to the commercial sector.

Nicholas Macpherson
Permanent Secretary

January 2013

[26] 33rd PAC Report: Nine reports from the Comptroller and Auditor General published from July 2009 to March 2010 – report 2 (HC 546) Session 2009-10 – published 6 April 2010. Also, Treasury Minute: Cm 7886

Government Cash Management

Summary

January 2013

1 This paper updates the Committee of Public Accounts on Treasury's joint objective with departments to minimise the Government's cash balances held outside the Exchequer, and outlines the accuracy of departmental cash forecasting. It explains what has been achieved and outlines the challenges ahead.

2 As of September 2012, there are 1692 commercial accounts on the Treasury's register. Of these, around 488 are foreign currency accounts held by the Department for International Development (DFID), the Ministry of Defence (MOD) and the Foreign and Commonwealth Office (FCO). MOD hold 331 accounts for local banking, and 285 accounts are held by the Department of Health (DH) Trusts. This leaves around 588 accounts for the remaining departments and their public bodies.

3 This year the advent of the Clear Line of Sight reform and classification changes by the Office of National Statistics (ONS) has brought more public bodies within the scope of this exercise. This has resulted in an increase of 188 in the number of accounts held, compared with the 1504 accounts which I reported as at June 2011.

4 There are balances totalling some £1.5 billion of public money outstanding in 1692 accounts outside the Exchequer. This includes some £310 million which should be moved back into the Exchequer, or held in accounts which will cease to exist in the next year. One example of a sizeable flow which will be moving into the Government Banking Service (GBS) is the National Probation Trust, which had around £52 million outside the Exchequer at the end of September. This still leaves some £1.2 billion retained in commercial accounts. Of this £1.2 billion, £210 million is directly provided by the taxpayer. However, the other £1 billion of public money will be more difficult to bring within the Exchequer because it relates to flows of public money not directly provided by the taxpayer. This is illustrated in Annex B.

5 The Treasury will continue to look for improvement in this important area, but the GBS money transmission contract expires in 2015 and subject to supplier appetite an improved offering is anticipated, which will address any value for money questions. To limit the cost of change to departments, GBS will only be looking to take on new customers in the interim if their balances are substantial.

6 To put the £1.5 billion held outside the Exchequer into context, over the last six months the average balance held within the Exchequer Pyramid as a result of GBS activity was in excess of £42 billion.

7 We continue to acknowledge that in certain cases departments and their public bodies need to use commercial accounts. We have allowed these accounts to be retained if:

- cash held belongs to third parties, rather than the Exchequer, or there are legal or statutory reasons why cash cannot be held in the Exchequer;
- moving away from a current commercial banking contract would not represent value for money for the Exchequer as a whole; and
- banking requirements are outside the scope of the GBS's offering, for example overseas banking. The GBS team is working with relevant departments to identify how foreign banking, and indeed international cash management, might benefit from the lessons learned in dealing with sterling.

9 There are also three major policy areas which are shown separately on the table and these are explained below.

Department of Health (DH)

10 Foundation trusts have the statutory right to retain commercial accounts, and they all tend to operate such accounts as well as GBS accounts. We are working with DH to try to minimise commercial balances and to obtain forecasts from these autonomous bodies. We are also working with DH to ensure that the health reforms do not lead to additional leakage into the commercial sector.

Department for Education (DFE)

11. School Academies have been given financial independence and at this stage do not have to open GBS accounts. Previously, schools were funded by Local Authorities, so these bodies were outside the scope. However, DFE's financial handbook for academies, published in September, now requires academies with substantial surpluses to plan how they will use them for the benefit of their pupils. The Education Funding Agency will keep track of their performance. In August 2012[27] academies' financial balances outside the Exchequer pyramid came to some £1.5 billion, some of which will be working capital.

Nuclear Liabilities Fund (NLF)

12. The NLF is a trust which has been classified as public sector by the ONS for national accounts purposes. The Government guarantees the down side risk of the Fund not meeting its liabilities and therefore believes that taxpayers should have access to any up side benefit. The NLF currently has around £7.5 billion invested within the Fund out of its total assets of around £8.5 billion. We would like all of its funds to be moved into the public sector to minimise the Government's cost of borrowing. The Government has therefore asked the Fund to agree a plan to bring the additional funds within the Exchequer.

13. We invited departments to update the Treasury and the Committee on progress made against the department-facing recommendations. The replies received to date have been very positive and those departments, which have already replied, are taking action to implement the Committee's recommendations. A summary and a response to the Treasury and GBS facing recommendations are provided in Annex A.

14. In your letter of 15 November 2011, you asked for the cash flow league table, which I have attached for 2011-2012 (Annex C). This shows the accuracy of cash forecasting by departments as an average monthly percentage variance on forecast.

15. Both the Treasury and GBS value the Committee's continued support and interest in this topic. We will continue to keep you updated.

Nicholas Macpherson
Permanent Secretary

January 2013

[27] The DfE estimated that as at 31 August 2012 around £1.5 billion cash was held in commercial accounts by 2,056 Academies

Annex A

Updated response to the Committee

PAC RECOMMENDATION 1

Departments and their sponsored bodies should have their main account with the Government Banking Service, so that unspent money is kept at the Exchequer. This is one of the most important elements of good cash management in Government, as it not only reduces Government borrowing but minimises risks and allows the Government to plan and manage its cash flow more cost-effectively. Organisations should only have commercial bank accounts where they have agreed with the Treasury that the Government Banking Service cannot satisfy a particular business need.

1.1 All departments have their main accounts at the Government Banking Service (GBS). During the past year, departments have worked with the Treasury reviewing accounts held in commercial banks, moving accounts to GBS, and closing other accounts. This has led to the closure of a number of accounts. Where new commercial accounts have been opened with agreement of the Treasury, balances are being monitored by departments.

1.2 Departments are still working with their various bodies to continue this work and each quarter submit returns to the Treasury of balances held in commercial accounts. These are closely monitored by the Treasury and large variances queried. Most departments have completed their migration of commercial accounts to GBS. When the current contracts expire and GBS goes to re-tender, it is anticipated that more accounts, for example: Student Loans Company, will be able to migrate to the new set-up. All accounts held outside GBS are subject to annual review.

PAC RECOMMENDATION 2

Departments need to improve their links with sponsored bodies and collect more accurate information on when they use their cash. Based on the data, they should amend payment cycles to sponsored bodies with commercial bank accounts, so that the bodies receive money when they need it, and not before. This amendment may be for more frequent payments, or making the monthly payments closer to the date when significant liabilities, such as payroll, need to be met.

2.1 Most Departments have now set up systems with their bodies to improve forecasting. This means that they have improved information regarding funding flows and helps to ensure that payments are not made in advance of need.

2.2 The Department for Business, Innovation and Skills (BIS) has undertaken an exercise to profile the spending of partner organisations and ensures that funding payments are made in alignment with their spending profiles. The Department for Environment, Food and Rural Affairs (DEFRA) funds its Executive Agencies at the beginning of each month via a GBS account, but large balances or funding requests are queried to ensure that there is no funding in advance of need. The Ministry of Justice (MOJ) has added cash flow reconciliation to its month end management accounts. Outturn data from sponsored bodies is compared against previously submitted cash flow forecasts. They then identify variances to identify where cash forecasting can be improved.

PAC RECOMMENDATION 3

Public bodies need to gather information from business units to forecast individual monthly expenditure. To do this effectively, they need to structure them to facilitate continuous dialogue between those staff responsible for forecasting cash requirements, and those making payments. They also need to emphasise to budget holders responsible for approving large payments and claiming receipts in their own organisation, as well as any sponsored bodies, the importance of accurate forecasting and communicating any changes to forecasts as soon as possible to the cash managers.

3.1 Departments have engaged internally and with their sponsored bodies and have put actions in place to improve individual forecasting. Many departments have instigated rigorous new processes and are now providing feedback to their bodies on performance, highlighting the importance of good cash forecasting and investigating discrepancies.

PAC RECOMMENDATION 4

With the tighter fiscal position, Boards should have greater oversight of information on cash flow, so they better understand the pattern of spend, as well as total spend, and can address any potential risks. Central finance teams should develop more informative reports, which ought to include movements in the main current bank accounts and comments on variances. Where there is an operational need to have commercial accounts, Boards should ensure that cash balances are invested in interest earning accounts, while having due regard for credit risk. They should also receive reports on the proportion of their cash which earns interest, the rates earned, and a credit assessment of the institution with which their funds are held.

4.1 Departments have concentrated on improving the ways in which they report cash flow to their boards and on methods to provide more detailed information. Some departments already have detailed processes in place whilst others are working to improve their lines of reporting.

4.2 BIS already provides detailed information to their Finance Director and are working on a new reporting regime which will provide further information to their Board. DEFRA circulate monthly information to Directors and Executive Agency Chief Executives and view continuous improvement in forecasting cash flow as a priority.

PAC RECOMMENDATION 5

Organisations should manage their payments in a way that allows them to use the most cost-effective methods, and develop strategies for limiting the use of expensive paper Handling.

5.1 BACS is the preferred method of payment and is used by all departments. The majority of payments are made this way and CHAPS is used only when necessary. Internal transfers (from GBS account to GBS account) are used when paying another Government department and GPC cards used for low value payments.

PAC RECOMMENDATIONs 6 to 8

6. The Treasury needs to extend its incentives to encourage public bodies to keep more money in accounts at the Exchequer, for example: by making bodies' performance in this regard more transparent. It could also, together with the Government Banking Service, take a more active approach to achieving compliance with its guidance on minimising commercial balances. Any of these steps would need to be taken in a way that minimises unintended behaviours, and would also incur some limited additional staff cost. However, new mechanisms are critical in shifting the focus away from just accurate forecasting. The most cost-effective system would be for all public bodies to bank with the Exchequer and manage their cash in accordance with the guidance without the need for incentives.

7. The Treasury is already working with Departments to improve their performance, but should focus more on those Departments with the greatest scope to improve, based on current performance and the context in which they operate. In light of the tighter fiscal position, it should work with all Departments to help them identify how they can improve their forecasting accuracy, particularly at the end of the financial year, without compromising the policy of minimising cash balances held in commercial accounts.

8. Where there is a value for money case for using a commercial provider for standard banking services, public bodies should seek approval from the Treasury. When procuring specialised banking services, organisations should first check whether the new Government Banking Service is able to provide them. If not, they should work with the Government Banking Service during the specification and tendering process, as it can coordinate knowledge sharing across the wider public sector.

6.1 The Treasury agrees that the most cost-effective system would be for all public bodies to bank with the Exchequer and to manage their cash in accordance with the guidance. The Treasury and the GBS have worked with departments to secure this objective. In October 2009, the Treasury wrote to all departmental Finance Directors reminding them of the Treasury guidelines set out in *Managing Public Money* and particularly of the need for departments, and their sponsored bodies, to hold their main account with the GBS and to minimise commercial balances.

6.2 Since then, the Treasury has collected information about balances held outside the Exchequer as part of the Cash Management Scheme on a quarterly basis. This information will help the Treasury to work with departments to validate, to analyse, and to take action to minimise these balances. The Treasury now formally authorises Commercial Accounts which departments and their pubic bodies can hold and asks departments to review and maintain these accounts on an annual basis.

6.3 The Treasury agrees with the NAO's conclusion that the main strength of the Treasury's Cash Flow Management Scheme is that it uses a combination of incentives in the form of notional charges and rebates and league tables. The Treasury keeps the rules of the scheme under constant review to ensure that it meets the desired objective.

6.4 The role of the GBS as an expert on money transmission services is now being more widely recognised across Government with attendant benefit. Major external contracts with other providers have been aligned so that they can be brought within one major re-tender exercise ahead of the expiration of GBS contracts with Citibank and Royal Bank of Scotland in early 2015.

6.5 Knowledge of existing and new products is shared across Government by a regular newsletter to Finance Directors as well as the hosting of a regular Customer Advisory Board comprising the major money transmission users. The Head of the GBS has also been appointed the Crown Commercial Representative for Banking with sign-off for all banking contracts which further protects against leakage to the commercial sector.

Annex B (1)

Balances in commercial bank accounts from departments returns September 2012

B1 Total number of commercial accounts.

Department (in NDPBs)	Total number of commercial accounts held June 2011	Total number of commercial accounts held September 2012	Quantity to be retained	Quantity closing, under review or migrating to GBS
Business (BIS)	67	105	88	17
Communities (DCLG)	22	56	24	32
Culture (DCMS)	36	34	10	24
Energy (DECC)	25	29	29	0
Environment (DEFRA)	97	62	12	50
Health (DH)[28]	293	285	285	0
Transport (DFT)	9	10	7	3
Education (DFE)	12	8	6	2
International (DFID)	57	54	54	0
Work and Pensions (DWP)	48	52	33	19
Foreign (FCO)	293	304	304	0
Revenue and Customs (HMRC)	28	21	21	0
Home Office	24	28	18	10
Ministry of Justice (MOJ)	17	201	160	41
Defence (MOD)	476	443	427	16
Total from Department returns through CFM	**1504**	**1692**	**1478**	**214**

[28] Includes NDPBs, NHS Trusts, Primary Care Trusts, and Special Health Authorities

Annex B (2)

Balances in commercial bank accounts from departments returns: September 2012

B2 Total value of commercial accounts.

Department (in NDPBs)	Total value commercial accounts held June 2011	Total value commercial accounts held September 2012	Total value to be retained	Of which Exchequer	Value closing under review or migrating to GBS	Of which Exchequer value under review or closing
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Business (BIS)	577.35	255.39	173.11	30.58	82.28	6.67
Communities (DCLG)	37.36	23.98	6.07	2.30	17.91	0.74
Culture (DCMS)	179.50	57.94	28.74	1.19	29.19	17.02
Energy (DECC)	50.03	61.63	61.63	61.63	0	0
Environment (DEFRA)	24.10	33.75	6.47	0.67	27.28	3.13
Health (DH)[29]	174.86	8.53	8.53	8.53	0	0
Transport (DFT)	159.57	148.51	144.82	6.34	3.67	3.67
Education (DFE)	14.8	1.14	0.04	0.03	1.09	1.09
International (DFID)	1.22	0.67	0.67	0.67	0	0
Work and Pensions (DWP)	142.36	336.41	304.67	57.22	31.74	0
Foreign (FCO)	41.67	354.91	354.91	0	0	0
Revenue and Customs (HMRC)	1.20	48.84	48.84	18.34	0	0
Home Office	49.49	70.02	9.82	0	60.23	0
Ministry of Justice (MOJ)	90.65	88.52	31.13	0	57.39	57.39
Defence (MOD)	28.30	23.09	22.93	22.93	0.16	0.16
Total from Department returns through CFM	**1572.43**	**1513.33**	**1202.38**	**210.43**	**310.94**	**89.87**
DFE Academies		1480				
Foundation Trusts funds in commercial accounts	1828	1945				
Nuclear Liabilities Fund	500	500				
Total	**3900.43**	**5438.33**	**1202.38**	**210.43**	**310.94**	**89.87**

[29] Includes NDPBs, NHS Trusts, Primary Care Trusts, and Special Health Authorities

Annex C

Accuracy of cash forecasting against actual outturn – April 2011 to March 2012

Department	Cumulative Ranking	Average % monthly variance on cash forecast
Revenue and Customs (HMRC)	1	1.27
Work and Pensions (DWP)	1	1.27
Communities (DCLG)	3	1.35
Business (BIS) – inc UKAEA	4	1.43
Treasury (HMT)	5	2.32
NHS Pensions	6	2.63
International (DFID)	7	2.64
Energy (DECC)	8	2.91
Culture (DCMS)	9	3.55
Wales	10	3.57
Education (DFE) inc Teach Pension	11	4.16
Scotland	12	4.64
Transport (DFT)	13	5.17
Justice (MOJ)	14	5.46
Health (DH)	15	5.56
Export Credits Guarantee (ECGD)	16	6.22
Home Office	17	6.70
Defence (MOD) inc Pensions	18	7.30
Northern Ireland	19	12.03
Foreign (FCO)	20	12.12
Civil Service Pensions	21	14.35
Environment (DEFRA)	22	14.45

Forecast Net Payment Flow and Outturn Figures: 2011-12

- Total forecast: £453.36 billion.
- Total outturn: £452.45 billion.
- Variance: £0.91 billion.

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