HM TREASURY

TREASURY MINUTES

Progress on implementing recommendations from the Committee of Public Accounts: Session 2010-12 and the National Audit Office

Cm 8271

January 2012

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Progress on implementing recommendations from the Committee of Public Accounts: Session 2010-12

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First Report

Department for Work and Pensions (DWP)

Support to incapacity benefit claimants through Pathways to Work

Summary of the Committee's findings

During 2008-09, the Department for Work and Pensions (the Department) paid £12.6 billion in incapacity benefits to 2.6 million people who were unable to work because of disability or ill health. The Pathways to Work programme was launched nationally between 2005 and 2008 to help reduce the number of incapacity benefit claimants through targeted support and an earlier medical assessment. It is delivered by contractors in 60% of districts, with Jobcentre Plus providing the service in the remainder. By March 2010, the programme had cost an estimated £760 million. The numbers on incapacity benefits reduced by 125,000 between 2005 and 2009. Pathways contribution to this reduction has been much more limited than planned.

The Department had an objective to build a healthy market, but has failed to develop an adequate understanding of the supply chain. It has not monitored how well prime contractors are sharing rewards and risks with the more than 80 specialist sub-contractors involved, and the Committee had concerns that effective small private and voluntary organisations working in local communities are being asked to take an unfair share of the risk by prime contractors. The Department should consider the evidence of the Committees enquiries thoroughly before embarking on its new Work Programme. It should ensure good value for money by making good use of Jobcentre Plus resources and maintaining a sustainable balance between public, private and voluntary providers to allow proper competition and a good basis for comparing performance.

In reaching its findings, the Committee took evidence from the Department and two major providers 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.

PAC RECOMMENDATION 1

The number of incapacity benefits claimants has remained in excess of 2.5 million for over a decade, and nearly 1.5 million claimants have been in receipt of these benefits for more than five years. This has been an intractable problem for the Department and it deserves credit for trying to tackle it. Nevertheless, its work has, at best, reduced the number of claimants by just 125,000 between 2005 and 2009. The Committee's recommendations suggest how it believes the Department should prioritise its work to ensure resources are used effectively to tackle this problem and help claimants back into work.

1.1 The Government agreed with the Committee's conclusion.

1.2 The Pathways to Work programme failed to deliver the impact intended. The Programme represented a significant change of approach to try to tackle a very challenging problem. It was recognised internationally as a sound system of support for this customer group. However, the overall evaluation of Pathways to Work now suggests that the programme did not have the scale of impact for which originally hoped.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Incapacity Benefit reassessment programme was implemented nationally in April 2011 and will take three years to complete. Over 1.5 million people will be reassessed through a Work Capability Assessment to see if they are fit for work. Currently 11,000 people a week are being contacted for reassessment. Once reassessed and moved onto Jobseeker's Allowance or Employment and Support Allowance, the Department can then begin to support them actively to progress into employment. All Incapacity Benefit claimants can get support from Jobcentre Plus. In England, they may also volunteer for the Work Programme prior to reassessment.

PAC RECOMMENDATION 2

The Department should be more ready to challenge bids from providers where there are grounds to suspect performance projections are over-optimistic. The Department should seek to maintain a balance between public, private and voluntary providers to ensure adequate opportunity to compare performance and value for money.

2.1 The Government partly agreed with the Committee's conclusion. It is not evident why agreeing lower performance targets would have led to better performance, but it would have led to higher costs.

2.2 For the future, the Department is reviewing the role that performance targets should play in the procurement of the Work Programme. The Department believes that the key is to give providers greater incentives to deliver high levels of performance by paying largely for achieving job outcomes, which are then sustained, and by ensuring there is continuing competition in each location. Providers receive three main types of payments: a provider attachment fee; job outcome fee; and sustained employment payments. The majority of the payments are outcome based. The Department has not stipulated to providers that they must get claimants into better jobs. Their objective is to get people into work and help keep them there.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department developed the Merlin standard and made changes to tendering processes to ensure bids were realistic and supply chains properly managed. The tendering process carried out for the Work Programme was rigorously assessed both internally and externally by the Office of Government Commerce and by the Major Project Review Group. The Work Programme gives providers greater incentives to deliver high levels of performance by paying largely for achieving job outcomes, which are then sustained, and by ensuring there is continuing competition in each location, and minimum performance standards.

PAC RECOMMENDATIONS 3, 4 and 6

3: The Department should make sure it properly evaluates its pilots so that it has precise evidence of the likely employment impact for claimants before it launches future programmes.

4: The Department should fundamentally review the nature and funding of its employment support for claimants of incapacity benefits. It should provide clear guidance to those involved in delivering the Work Programme on the type of support that is most likely to deliver additional jobs, drawing on robust evidence.

6: Providers favour a differential pricing system that would reflect the varying levels of support needed to help people with different problems. The Department should collect data so that it understands the costs and benefits of the different types of support for incapacity benefits claimants. It should use this knowledge in designing and testing the contracting model it develops to deliver the Work Programme from Summer 2011

3.1 The Government partly agreed with Committee conclusions 3 and 4 and agreed with conclusion 6.

3.2 While Pathways to Work was extensively evaluated and was rolled out in a number of controlled phases it is clear, with hindsight, that despite the care taken in developing the evaluation strategy, it did not account for all eventualities. The Department will take this experience into account in developing its evaluation strategy for the Work Programme.

3.3 The Department will pay Work Programme providers largely on the basis of the outcomes that they deliver, rather than on the activity they undertake. The Department will encourage the sharing of good practice and will continue to publish, on its website, evidence on what support is most effective to ensure that providers are well equipped to support the Department's customers. However, the Department does not propose to specify requirements for providers. The Department believes that allowing providers to design support, without government intervention, will result in a broader and more innovative range of services, giving providers the opportunity to deliver personalised and individual services designed to support more customers back into work.

3.4 A differential payment system is needed to help ensure, as far as possible, that everyone gets the support that they need to get back to work. The Department is actively developing differential funding as part of the Work Programme. As part of the evaluation, the Department will investigate how the payment system influences the support delivered by providers.

Current Status

3.5 Implemented.

Action taken to implement recommendations

3.6 The Department has arranged to carry out an independent evaluation of the Work Programme, which will gather evidence on three aspects of the programme – commissioning, delivery and outcomes.

3.7 The evaluation will run from 2012 to 2015 and the evaluation consortium will publish regular reports during this period. Alongside the external evaluation, the Department will also conduct an impact assessment using administrative data to measure the impact of the programme on job entry, retention and benefit off-flows.

3.8 The Department will also publish official statistics on the Work Programme in the spring and autumn of 2012. The spring statistics will set out attachment and performance information by claimant group. The autumn statistics will set out information on outcomes.

PAC RECOMMENDATION 5

The Department does not hold proper information on the number of incapacity benefits claimants who have failed to take part in mandatory elements of Pathways and had their benefit reduced as a result. In developing the new Work Programme, the Department should build on its experience of measuring sanction rates for Jobseeker's Allowance claimants and create a robust equivalent system for claimants of incapacity benefits.

5.1 The Government agreed with the Committee's conclusion.

5.2 The Government agrees with the Committee's conclusion. While the Department publishes statistics on sanctions applied to Jobseeker's Allowance customers, it does not currently publish such information on Employment and Support Allowance (ESA) customers. ESA is a relatively new benefit and the Department is working to develop data on ESA sanctions. The Department will publish relevant statistics once this development is complete.

Current Status

5.3 Implemented.

Action to implement recommendation

5.4 The Department publishes monthly statistics which include Jobseeker's Allowance sanctions statistics. They are available on the Department's website. The Department also publishes quarterly Employment and Support Allowance sanctions statistics.

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.

7.1 The Government partly agreed with the Committee's conclusion.

7.2 The Department has already taken steps to improve the controls in place to ensure that payments made to contracted employment provision providers are valid. The Department will monitor payments via a series of pre-payment checks, which will be conducted in all cases, supported by post-payment checks conducted on a sample basis. These checks will combine checks of benefit systems with checks of HM Revenue and Customs (HMRC) records as well as contacting employers and customers directly. Using a statistically valid sample for the post-payment sample check will also allow the Department to extrapolate the error rate found in the sample across all payments to the provider in that period and recover on that basis.

Target implementation date

7.3 December 2012.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 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.

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.

8.1 The Government partly agreed with the Committee's conclusion.

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.

Target implementation date

8.3 July 2012.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 The Department is concluding the contracting process to select an independent third party to deliver the Merlin accreditation service from January 2012. The first Merlin assessments for the Work Programme are on track to commence by summer 2012. The Department will report to the Committee in summer 2012, once the Standard has been assessed in a 'live' environment.

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.

9.1 The Government partly agreed with the Committee's conclusion.

9.2 The Department agrees that those who are able to work should receive the support they need to move into work. The Department keeps the Work Capability Assessment (WCA) under continuous review and has a statutory duty to independently review the WCA annually for the first five years of its operation. The first independent review, 'An Independent Review of the Work Capability Assessment' led by Professor Malcolm Harrington, reported in November 2010 and the Government has accepted the review's recommendations.

Target implementation date

9.3 December 2012.

Current Status

9.4 Work in progress.

Action being taken to implement / partly implement recommendation

9.5 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.

9.6 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.

9.7 Professor Harrington is due to publish his second independent review report before the end of the year. In this review he is, amongst other things, considering our implementation of the year one recommendations and will make further suggestions for improvements as necessary. A third independent review will be launched soon after Professor Harrington publishes his second review report. This will be completed during 2012.

PAC CONCLUSION AND RECOMMENDATION 10

The Department has no information on claimants who are refused incapacity benefits. It should monitor them to know how many move onto Jobseeker's Allowance. The Department has also not yet fully evaluated its capacity to support large numbers of people who transfer in this way. It should undertake such an assessment and put in place the additional support required before the medical assessment is rolled out.

10.1 The Government disagrees with the Committee's conclusion.

10.2 The Department has commissioned a survey on customers who made a claim for Employment and Support Allowance. This survey includes people who were found fit for work, or whose claim ended before they received a decision. A report of the findings from the first survey, including information on the activities of people no longer claiming Employment and Support Allowance, was published in the Department's research report series in November 2010. A report of findings from the second survey, which re-interviews the same people approximately six months after their first survey, will provide more information on the subsequent activities of this group. This was published in 2011.

10.3 DWP Research Report 762[1] was published in June 2011. This was a report of the findings from a second survey.

[1] http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

Second Report

Ministry of Defence (MOD)

Delivering multi-role tanker aircraft capability

Summary of the Committee's findings

In March 2008, the Ministry of Defence (the Department) signed a private finance initiative (PFI) contract with AirTanker Ltd, for the Future Strategic Tanker Aircraft (FSTA) to provide air-to-air refuelling and passenger transport services. FSTA is based around 14 modified Airbus A330s and will replace the 24 Tristars and VC10s that form the Royal Air Force's current fleet. Under the contract, AirTanker owns the aircraft and will provide them to the Department when required. AirTanker will also provide the associated aircraft support, maintenance and infrastructure, making the scope of the deal broader than any other defence PFI contract to date. The value of the contract, worth £10.5 billion over 27 years, also makes it the largest signed.

There are significant shortcomings in the Department's procurement of FSTA and the Committee does not believe the procurement was value for money. In order to obtain best value going forward, the Department must retain contract expertise and ensure that staff make decisions regarding FSTA in the full knowledge of the financial implications. Without this action, the risk is that extra demands will be placed on AirTanker which result in additional, and unnecessary, payments being made by the Department.

In reaching its findings, the Committee took evidence from the Department 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.

PAC RECOMMENDATION 1

The Department, working with the Treasury, should set out clearly when PFI is appropriate for defence and the characteristics of a successful defence PFI deal.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Government agrees that PFI is not necessarily suitable to deliver military capability in every case. However, the Department has signed off 54 PFI projects and of these has a current portfolio of 45 operational projects, the majority of which are operating successfully. Although less widely adopted than in the United Kingdom, several countries (such as The Netherlands, the United States and Australia) have used Public Private Partnership (PPP) as a procurement route for defence infrastructure, such as headquarters and accommodation.

1.3 The Treasury's *Value for Money Assessment Guidance* sets out a quantitative and qualitative approach to assessing the potential for value for money of PFI procurement. In addition, the Department has its own guidance setting out the criteria for selecting PFI as a procurement route in defence. A key requirement of a business case is to consider alternatives as part of the options appraisal. Where PFI is being considered, the project team will evaluate whether a PFI procurement strategy is expected to deliver a value for money in accordance with the Treasury's and the Departments guidance., The Department will work with the Treasury to review this guidance to ensure that together they set out clearly when PFI is appropriate for use in Defence.

Current Status

1.4 Implemented.

Action taken to implement recommendation

1.5 The recommendation has been implemented by the Department's Private Finance Unit (PFU). The Department's policy is contained in the *Introduction to PFI in Defence* guidance note, which is available on the Defence website. The Department has now agreed with the Treasury a set of amendments to the guidance note to address the Committee's recommendation. A revised guidance note has now been published.[2]

PAC RECOMMENDATION 2

The Treasury should publish the basis upon which it reviews the value for money offered by the contracts the Department proposes to enter into, and the robustness of the option appraisals underpinning the initial choice of procurement route.

2.1 The Government noted the Committee's recommendation.

2.2 The statement that 'in 1997 the Department committed to a £10.5 billion PFI' is incorrect. Commitment only takes place after Main Gate approval and Treasury approval, which occurred in 2007. However, the Department accepts that, in 1997, when it elected to pursue a PFI strategy, more could have been done to look at alternative methods of procurement to ensure that a PFI approach represented value for money.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Treasury instituted a revised process for assessing the value for money of PFI projects in 2004. This process is defined within the *Value for Money Assessment Guidance*.[1] This sets out the basis on which the Treasury assesses the value for money of PFI projects. Departments are required to follow this when preparing their business cases. The Treasury has also published the requirements for conducting robust options appraisals. These requirements are listed in the *Green Book*[2], which sets out the core principles on which all public sector economic assessment is based. Both sets of guidance are published on the Treasury's website.

PAC RECOMMENDATIONS 3 and 4

3: At the outset of all future major investments the Department should identify:

- **a realistic alternative against which to assess the value for money of its preferred solution, and**
- **the latest point at which it would be credible to adopt the fallback option so that a realistic comparison of the relative value of alternative ways of delivering a capability can be made.**

4: On future projects, the Committee expects the Department to demonstrate it has truly learned and successfully applied the lessons from its repeated procurement failings.

3.1 The Government agreed with the Committee's recommendations.

3.2 The Public Sector Comparator (PSC) was realistic as a value for money comparator and showed that the PFI deal offered good value for money, using either discount factor, at the level of confidence against which the Department would expect to deliver. But it is accepted that it was not an affordable alternative to the PFI procurement. Indeed, the PSC is a cost comparator for delivering an equivalent service, and therefore must not be constrained by affordability considerations. It is not intended to be a fallback. The Department has identified, as one of the key lessons learned, the importance of developing a viable fallback option at an early stage and updating it regularly.

[2] www.mod.uk/NR/rdonlyres/226B4238-50F8-467F-8D88-6899A8895FFF/0/IntroductiontoPFIinDefence.pdf

3.3 In relation to PFI projects, project teams will be required to demonstrate, as part of the assurance process, that they have reviewed all of the relevant PFI lessons (contained within the Department's PFU guidance documents) and applied these to their project.

3.4 The Department is continuing to improve the way in which it understands, sets and reviews requirements from the outset, especially to improve on agility and flexibility in relation to contractual arrangements. The Department accepts the importance of identifying clear funding responsibilities, and through its programme and project management aims to achieve this beyond equipment alone. It is important to consider all the factors (including personnel, training, infrastructure, future exports and potential international collaboration) which will affect the long-term affordability of the capability.

Current Status

3.5 Implemented.

Action taken to implement recommendations

3.6 The recommendation has been implemented for defence PFI and enforced by the Department. However, no new PFI procurements have been launched since the date of the recommendation, although a number of estates housing projects are considering using PFI, subject to Departmental and Treasury approvals. Should they pursue PFI, project teams will be required to demonstrate (to the relevant lead assuror for the commercial function, supported by the MOD Private Finance Unit as subject matter experts), as part of the assurance process, that they have reviewed all of the relevant PFI lessons (contained within the Department's PFU guidance documents) and applied these to their projects.

3.7 Examination of wider acquisition issues is being addressed by the Department as part of the ongoing review by the Defence Reform Unit, including the implications for the Department's operating models.

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.

5.1 The Government agreed with the Committee's recommendation.

5.2 For the FSTA project, the Department had access to the prime contractor cost data including the financing costs. It is accepted that the Department did not have access to the detail of the subcontractor costs, but it is not accepted that this undermined the VFM assessment. Furthermore, the situation with FSTA was not unusual. When price is set by competition, the right of the purchaser to underlying cost information is limited - "open book" accounting rules apply only to single tender situations and changes after contract award.

5.3 *'A Partnering Handbook for Acquisition Teams'*, published by the Department in August 2008, along with associated Commercial Policy Statements, sets out the requirement for "open book" transparency in partnering and similar arrangements. This requires project teams to put in place with industry partners a joint disclosure agreement governing the approach to continuing access to cost, schedule and performance information throughout the contract term. Where appropriate, these principles flow into the supply network.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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 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.

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.

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

6.2 The value for money assessment was based upon an industry competition, a public sector comparator, and cost modelling. The absence of some aspects of the information referred to did not undermine the ability to assess value for money.

6.3 The Department has striven to strengthen the collection of information on total *Through Life Costs* of individual capabilities and alternative options in support of the development of proper Investment Appraisals and Combined Efficiency and Investment Appraisals in support of major acquisition decisions. The Department said that it would conclude a pilot study in spring 2011, in which such information has been regularly collected, before deciding on the wider utility and rollout of such information requirements.

6.4 With respect to PFI, the department's Private Finance Unit is conducting an exercise in parallel to identify the key data sets required to enable effective cost comparisons on PFI projects. This exercise will report in 2011.

Target implementation date

6.5 2011.

Current Status

6.6 Work in progress.

Action being taken to implement recommendation

6.7 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.

6.8 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.

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.

7.1 The Government agreed with the Committee's recommendation.

7.2 As part of the Department's Director General for Defence Commercial's five year strategic plan, the Commercial Capability (CC) team is leading on his strategy for:

- a refreshed and strengthened learning and development programme;
- a commercial strategic workforce plan;
- new commercial skills and capability framework;
- matching commercial need with resource; and
- continuous improvement of the business graduate and mid level management entry schemes.

7.3 A recurring lesson from PFI project *Learning from Experience* exercises is that a suitably skilled, resourced and stable project team is one of the key factors in achieving a successful PFI project outcome. The Department has carried out an assessment of corporate PFI related risks. This identified that the lack of skilled resources in acquisition teams is one of the key strategic risks affecting the Department's PFI programme.

Target implementation date

7.4 March 2012.

Current Status

7.5 Work in progress.

Action being taken to implement recommendation

7.6 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.

7.7 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.

PAC RECOMMENDATION 8

The Department accepted this failure, but stated that all major projects do now have someone with an overview of the various elements of the project and influence over them. This is not the same as strong leadership. The Department should take action to ensure its managerial and budgetary structures enable SROs to act as empowered leaders able to drive the delivery of defence equipment capability.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Permanent Secretary approved a revision to the Department's policy, in July 2010, that guides the role of the Senior Responsible Officer (SRO). The guidance follows the best practice guidance published by the Cabinet Office's Efficiency and Reform Group (ERG), including a single list of generic and Departmental specific responsibilities ; and closer alignment in respect of SROs' levels of empowerment, authority and accountability needs to examine as part of the work of the Defence Reform Unit. For major military capability, business change programmes and projects, the appointment is made by the Permanent Secretary and the SRO is accountable to the Defence Board.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 The SRO is responsible for overseeing all aspects of programme delivery to ensure that it is successfully implemented, that the potential of the change or capability is fully exploited and that the through-life benefits are delivered. A key theme of the Defence Reform work is to ensure that accountability for delivery is aligned with the authority and levers necessary to ensure delivery.

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 us 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.

9.1 The Government agreed with the Committee's recommendation.

9.2 FSTA will be fitted with a Defensive Aids Suite. In the light of the evolving threats faced on current operations the Department is looking at the possibility of providing additional protection. Aircraft modification may not be the most cost effective solution.

9.3 The Department will provide the Committee with a written response within six months of the completion of the Strategic Defence and Security Review.

Current Status

9.4 Work in progress.

Action being taken to implement recommendation

9.5 Work is in hand with industry to develop an enhanced FSTA Aircraft Platform Protection system, and we are expecting this to be placed on contract in 2011-12 financial year.

Third Report

Department of Health (DH)

Tackling inequalities in life expectancy in areas with the worst health and deprivation

Summary of the Committee's findings

Inequalities in health outcomes between the most affluent and disadvantaged members of society are longstanding, deep-seated and have proved difficult to change. In 1997, the Government put tackling health inequalities at the heart of its health agenda and subsequently published a number of policy documents and related targets. In 2004, the Government set the Department of Health (the Department) the target of reducing the gap in life expectancy between 70 'spearhead' local authorities with high deprivation and the population as a whole by 10% by 2010. The Department has not met this target and has been exceptionally slow to tackle health inequalities.

Equity and Excellence: Liberating the NHS sets out the Government's long-term vision for the NHS. In the transitional period while this change is managed, it is important that tackling health inequalities does not slip down the Department's agenda. The Department will need to set a clear framework of accountability at all levels of the health service if it is to be successful in addressing health inequalities in future.

In reaching its findings, the Committee took evidence from the Department 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.

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.

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

1.2 The Department accepts that the NHS was not fully and effectively engaged in reducing health inequalities early enough. However, the task of developing the evidence of what worked, and expressing it in a form that was useful to the local NHS, in its decision-making, was challenging, requiring analysis and understanding of the complex drivers of health inequalities and the development of appropriate and targeted interventions.

Current Status

1.3 Work in progress.

Action being taken to implement recommendation

1.4 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.

PAC RECOMMENDATION 2

It knew at an early stage that certain key interventions cost little, but could have a major impact, but did not provide relevant tools and guidance until 2007. It also failed to put in place mechanisms to hold providers and commissioners to account over whether they apply these interventions, and even now 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.

2.1 The Government agrees with the Committee's recommendation.

2.2 Following the abolition of the Public Service Agreement (PSA) target on health inequalities, the Department has been considering what has been learnt on how to narrow health inequalities, including from the innovative work it undertook to develop the methodology on interventions. In the light of the publication of the two White Papers: *Equity and Excellence: Liberating the NHS* and *Healthy Lives, Healthy People: our strategy for public health in England*, and the consultations on these, the Department is developing new architecture for both the NHS and public health systems. The Department is embedding a focus on tackling health inequalities into the emerging systems.

Target implementation date

2.3 April 2014.

Current status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 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.

2.6 Work is under way to design the functions of the NHS Commissioning Board. *Developing the NHS Commissioning Board* published on 8 July 2011, states that the Board will provide national leadership for reducing health inequalities and that one of the most important functions of the Board will be the reduction of health inequalities in all its activities. On 31 October 2011, the Board was established in shadow form as a Special Health Authority. The Board will make decisions about the detailed delivery in due course.

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.

3.1 The Government agrees with the Committee's recommendation.

3.2 The previous focus on targets did not improve the situation. A new approach is needed to improve the health of the poorest, fastest.

Target implementation date

3.3 Ongoing. It will be for the annual negotiation process with the BMA General Practitioner Committee to agree.

Current status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Department has opened 103 new practices in areas with the fewest GPs and greatest health needs since February 2009. The budget for this currently totals £117 million in 2011-12, and the primary care trusts (PCTs) where these are located have been allocated £1.1 million per practice. Central funding to support these practices will continue for 2012-13.

3.6 As announced on 2 November 2011, the BMA General Practitioners Committee and NHS Employers have 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.

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.

4.1 The Government agrees with the Committee's recommendation.

4.2 Incentives for GPs are insufficiently focused on outcomes. The Government will reform the current payment system, so that GP practices are rewarded appropriately for improving patient outcomes and to ensure that all patients, including the most deprived, receive the quality of care that they need.

Target implementation date

4.3 April 2011 and April 2014.

Current status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 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.

4.6 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.

4.7 The Public Health White Paper proposal to increase incentives for GP practices to improve the health of their patients 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. Following a public consultation, the Department published a summary of responses in July 2011. The work to develop the proposal is proceeding according to plan.

PAC RECOMMENDATION 5

The Department is seeking to move all areas towards the right level of funding based on an assessment of need, but significant imbalances remain. 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.

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

5.2 Primary Care Trusts (PCTs) are moved towards their target allocations, but this takes place over a number of years. Moving below-target PCTs to target as quickly as possible must be balanced against the need to minimise financial instability in the NHS, recognising the unavoidable cost pressures that all PCTs need to meet. In 2010-11 just over half (56%) of PCTs in the most deprived decile (IMD 2007) were under target and just under half (48%) of PCTs in the two most deprived deciles were under target.

Target implementation date

5.3 April 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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.

5.6 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.

5.7 Work is underway preparing for shadow allocations to clinical commissioning groups and to Local Authorities for 2012-13, to be published shortly. The Department anticipates that actual allocations for 2013-14 will be published in late 2012. In the interim, the Secretary of State has asked the Advisory Committee on Resource Allocation to continue to advise on the development of target allocation formulae. Their recommendations will be published.

PAC RECOMMENDATION 6

In the new NHS structure the Department's intention is that the public health budget will be ring-fenced and Directors of Public Health will be responsible for how it is spent. 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.

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

6.2 Transparency and accountability are critical and will be achieved in several ways, though not through a central requirement on benchmarking.

Target implementation date

6.3 April 2013.

Current status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 On 20 December 2011, more 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.

6.6 The Advisory Committee on Resource Allocation (ACRA) has advised the Department on the allocation formula for the ring-fenced public health budget. The Department will be publishing shortly details of the advice from ACRA, the health premium and the grant conditions which will accompany the ring-fenced grant, and the arrangements for reporting how the grant has been spent.

6.7 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 deciding on public health investments, and which will assist in benchmarking the effectiveness of interventions.

PAC RECOMMENDATION 7

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.

7.1 The Government agrees with the Committee's recommendation.

7.2 The Government proposed, as part of the White Paper *Equity and Excellence: Liberating the NHS,* that reducing health inequalities will be a core role for the Department and will lead work across Government. The NHS Commissioning Board would be mandated to reduce inequalities in access to and outcomes from healthcare.

Target implementation date

7.3 April 2013.

Current status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 On 7 December 2011, *The NHS Outcomes Framework 2012/13* was published, as an updated version of the first NHS Outcomes Framework published on 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.

7.6 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.

7.7 A Public Health Outcomes Framework will be published early in 2012, setting out the broad range of opportunities to improve and protect health and to reduce inequalities in health that still persist. 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.

PAC RECOMMENDATION 8

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.

8.1 The Government agrees with the Committee's recommendation.

8.2 The Secretary of State for Health will set the NHS Commissioning Board an annual mandate, which will cover the totality of what the Government expects from the Board including progress against the outcomes specified by the Secretary of State in the NHS Outcomes Framework, delivering improvements in choice and patient involvement, and tackling inequalities in access to and outcomes from healthcare.

Target implementation date

8.3 April 2013.

Current status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 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.

8.6 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 not completed its passage through Parliament. The Department of Health wrote to the PAC 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.

Fourth Report

HM Treasury (HMT)

Progress with VFM savings and lessons for cost reduction programmes

Summary of the Committee's findings

The £35 billion value for money target set as part of the 2007 Comprehensive Spending Review required public bodies to make sustainable cash-releasing savings, whilst maintaining the delivery of departmental priorities. The CSR07 Value for Money Programme (the Programme) set demanding criteria for what could be classed as a saving—for example, one-off savings were ruled out as they would not constitute sustainable cost reductions. The £35 billion target represented savings of 3% a year for each department's expenditure at the start of the period. By March 2010, two years into the three-year programme, departments and local authorities had reported only £15 billion of savings, less than half of the total needed to reach the £35 billion target.

The Committee was concerned at the implication from the Treasury that it will simply reduce departments' budgets and then walk away from responsibility for the delivery of the level of savings required across Government. Bearing in mind the disappointing performance of this Programme, the Committee believed the Treasury would need to take a very different approach to value for money improvement in the next spending period.

In reaching its findings, the Committee took evidence and from the Department on 8 September 2010. The Committee issued its report on 4 November 2010 and the Treasury Minute – the Government's formal response – was published on 16 February 2011.

PAC RECOMMENDATIONS 1 to 6

1. The following recommendations reflect how the Committee expects the Treasury and Departments to respond to the lessons from the CSR07 Programme.

2. The Treasury should set and agree expectations for each Department based on individual assessments of their circumstances, the improvements they have achieved to date, and their ability to deliver improved value for money.

3. Departments should include contingencies sufficient to allow for the risk that, inevitably, some individual efficiency projects will be delayed or will fail to produce the intended benefits.

4. Departments should only report savings which have been subject to robust quality assurance.

5. Departments need to be able to predict better the impact of their actions on their bottom line and to demonstrate any impacts on performance. They need a clear understanding of factors affecting costs and the net financial effect of savings measures on the public purse.

6. Departments should create opportunities for staff to have a say in how service delivery can be made more efficient and to improve value for money. The Treasury should expect Departments to prepare a long term plan to reduce their costs, with realistic timetables. The Treasury should regularly monitor progress against milestones.

7. When delegating responsibility to departments, the Treasury should establish information requirements with clear parameters of success, tailored to individual departments, to enable it to monitor progress and intervene where performance fails to meet expectations.

PAC RECOMMENDATIONS 7 to 10

8. The Treasury will need to work in partnership with the new Efficiency and Reform Group to support and challenge departments to seek value for money improvements, provide appropriate expertise, disseminate best practice and establish a centralised approach in areas where it is most efficient to do so.

9. There should be clear consequences for senior civil servants who fail to deliver planned improvements in value for money for taxpayers.

10. Departments need to fully exploit opportunities to improve value for money by delivering existing services in radically more efficient ways... There should be full and transparent reporting of the impact of cost reduction on services, and where Departments do cut service lines altogether, this should be based on a full understanding of the value that is no longer produced, in particular so that a cut in one area does not lead to additional expenditure elsewhere

Current status

1.1 No longer being implemented.

Reason for no longer implementing recommendation

1.2 In his 15 November 2010 response to a Parliamentary Question from Dr John Pugh MP, the Chief Secretary to the Treasury announced that Departments would no longer be required to report against their CSR07 Value for Money Programme targets. As the Committee's report made clear, less than 50% of the £35 billion target savings had been reported two years into the three year programme; and of the savings reported, the NAO found that only a third qualified as genuine by the programme's criteria.

1.3 In the Spending Review 2010, the Government therefore announced a more specific and innovative approach to efficiency and reform, including: a reduction in administration budgets of 34% across the whole of Whitehall and its Arm's Length Bodies; a sharp reduction in the number of ALBs across Government; and the establishment of the Efficiency and Reform Group (ERG) within Cabinet Office to drive savings in back office functions, major projects and procurement, resulting in savings of £3.75 billion in 2010-11.

1.4 Notwithstanding the cancellation of the CSR07 Value for Money Programme, many of the actions described in the original Treasury Minute response have been or are being taken forward

1.5 On risk management, the Treasury expects Departments to adopt appropriate risk management strategies to live within their SR2010 spending settlements. All major spending departments will be asked to identify and share with Treasury at least 5% of spend that could be reprioritised to fund unforeseen pressures and hold a Departmental Unallocated Provision.

1.6 On the robustness of savings calculations, ERG now has responsibility for reporting the savings that fall within its remit. Its 2010-11 estimate of £3.75 billion of savings has been validated by independent internal audit. On the Committee's 49th report (session 2010-12) on the Efficiency Reform Group, the Chair of the Committee said: "*We welcome the level of detail in the Group's reported savings. This degree of transparency is a big improvement on the very poor standard of reporting by Departments*."

1.7 On improving the standard of financial management and information across Government, significant steps have been taken. 2011-12 sees full implementation of the Clear Line of Sight reforms, which improve the scope for Parliamentary scrutiny of Government spending by better aligning Departmental budgets, estimates and accounts, and simplifying Government spending documents presented to Parliament. The first set of Whole of Government Accounts (WGA) was published in July 2011, bringing together financial information from central Government, local Government, the NHS and public corporations. As a result of these and other reforms, Government financial information is now more transparent and accessible, improving accountability to Parliament and the public and giving Departments a better understanding of their cost base.

1.8 Earlier this year, the Government launched a Finance Transformation Programme focusing on four areas to improve financial discipline: effective leadership, a cost conscious culture, professionalism, and expert central functions. To underpin this, financial management is a core competency for all senior civil servants. To drive further improvements, from April 2011, all senior civil servants have a mandatory financial management or efficiency objective on which their performance is assessed. Finally, to support the development of financial skills more widely across Government, an e-learning package of financial management training is available to all civil servants, free of charge.

1.9 Staff and public participation in driving value for money savings is supported by the Government's commitment to changing the way public services are delivered. This will see power transferred from the centre to local areas, frontline staff, communities and individuals. In June 2010, the Spending Challenge invited public service workers and members of the public to suggest money saving ideas. Over 100,000 suggestions were submitted with public sector workers contributing 63,000 ideas. The Tell Us How campaign, launched in October 2011, invites public sector workers to submit suggestions on how to make the delivery of public services 'quicker, cheaper and simpler'.

1.10 On Departmental progress and performance monitoring, performance information in the form of input and impact indicators is recorded in the Quarterly Data Summaries which Departments now publish on their websites. Progress against key objectives is recorded in monthly Structural Reform Plan Implementation updates, also published on Departmental websites. ERG is drawing up a Management Information Strategy for central Government, which will see Departments supplying the centre with standardised, up-to-date information on a regular basis.

1.11 On partnership with ERG, the Treasury and ERG are working closely together to advance the efficiency and reform agenda. The Chief Secretary to the Treasury and the Minister for the Cabinet Office are co-chairs of the Public Expenditure (Efficiency and Reform) Committee, and of the Efficiency and Reform Board.

1.12 On transforming the delivery of public services, the Open Public Services White Paper, published in July 2011, signals a shift in power away from central Government and into the hands of front line staff and local people. This will create more freedom for citizens and communities, increase the scope for innovation, allow services to be tailored for local needs, and reduce bureaucracy, improving the quality of public services while saving money.

Fifth Report

Department for Transport (DFT)

Increasing passenger rail capacity

Summary of the Committee's findings

The Department for Transport is eighteen months into a five-year, £9 billion investment programme to improve rail travel, in particular by increasing the number of passenger places on trains by March 2014. This was to be achieved by a combination of longer platforms and other station improvements and more carriages coming into London and other major cities during peak hours. The Department is responsible for securing the extra places on trains from train operators. The Office of Rail Regulation is responsible for ensuring Network Rail delivers infrastructure efficiently.

The Regulator's ability to drive efficiency in Network Rail is limited by a lack of transparency of Network Rail's costs which, it seems to the Committee, is compounded by the Regulator's lack of urgency and effectiveness in challenging Network Rail's efficiency at a detailed level. Network Rail is a company without shareholders and is the monopoly provider of rail infrastructure. It is vital therefore that its costs are scrutinised and challenged robustly and independently on behalf of Parliament and taxpayers. The National Audit Office is ideally placed to do this.

In reaching its findings, the Committee took evidence from the Department and the Office of Rail Regulation 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.

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.

1.1 The Government agreed with the Committee's recommendation.

1.2 Train operators should take the lead role in responding to passenger demand, determining the appropriate service pattern and investing to add capacity. Whilst existing franchise contracts require train operators to plan to minimise overcrowding, the Government's new franchising policy, published on 19 January 2011, aims to create an environment where operators focus more on their passengers' requirements and less on Government prescription. Franchises of sufficient length will allow operators to recoup the cost of investment through increased patronage generating revenue growth. Each franchise is different, but the Government will include obligations to manage crowding wherever this can deliver good results for passengers, whilst being affordable and good value for taxpayers.

Target implementation date

1.3 The first relevant franchise replacement is InterCity West Coast, scheduled to commence in December 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 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.

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.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Department is actively exploring the scope for promoting smart ticketing. This is in order to enable and encourage operators to develop smarter fare options. In particular to manage peak demand and to recognise that traditional options such as period season tickets, might not offer an attractive deal to passengers with a more flexible work pattern. For example: those travelling regularly but fewer than four or five days a week. There are a number of customer models that could be explored. Smart ticket technology should also benefit operators through generating prompt feedback of detailed information about passenger usage at different times of the day.

Target implementation date

2.3 Immediate commencement.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 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 farepayers alike.

2.6 Development of smart-enabled demand management pilot schemes with rail operators is planned to commence during 2012. 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.

2.7 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. A further £50 million funding for this project was announced in November 2011 as part of the Chancellor's autumn statement. Completion is planned for 2013.

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.

3.1 The Government agreed with the Committee that the industry, and the Department, need better information about passenger numbers.

3.2 The Department has, for some time, sought full or partial installation of automatic count equipment in new train fleets, in addition to requiring franchisees to provide detailed count data. Until more carriages have automatic count equipment information can often be provided through representative sampling. Operators generally cycle rolling stock between services and routes so that counts covering all trains can be made over a set period. Looking ahead, the development of smart ticketing systems might overtake the need for on-train counters. The Department will continue to explore the most cost-effective and efficient means for capturing and analysing timely passenger data and will report back to the Committee.

Target implementation dates

3.3 Automatic train count systems ongoing. Database implementation expected 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 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 is procuring a rail passenger counts database and expects to select a supplier in 2012. 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 Departments 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.

4.1 The Government agreed with the Committee's recommendation.

4.2 There should be greater transparency about costs, subsidy and fare income at the route and franchise level. The Government's view is that this should be part of the railway industry's relationship with its passengers, rather than the product of Government prescription. The Department is actively exploring how best this can be achieved as part of the work in hand to establish a more sustainable railway.

4.3 The Government's view is that detailed provision of passenger capacity through timetable planning and rolling stock deployment should be determined by train operators in response to market demand, and should flex over time in response to forecast and experienced demand.

Target implementation date

4.4 Immediate commencement.

Current Status

4.5 Work in progress.

Action being taken to implement recommendation

4.6 The railways are a public service supported by both farepayer 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 farepayers and taxpayers. The Command Paper on rail reform will set out proposals on transparency in early 2012.

4.7 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.

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 he 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.

5.1 The Government agreed with the Committee's recommendation that there is more to be done to challenge Network Rail's record on reducing industry costs.

5.2 The *Rail Value for Money Study*, chaired by Sir Roy McNulty, and guided by the Department and the Regulator, is examining the cost structure of the rail industry and will identify options for improving value for money. Sir Roy's work includes: consideration of the regulatory structure of the industry; and the extent to which current arrangements deliver the right incentives to align and focus the industry on providing an efficient and cost-effective service to its passenger and freight customers. Sir Roy will be submitting his recommendations in Spring 2011.

Target implementation date

5.3 Immediate commencement.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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).

PAC RECOMMENDATION 6

The Department should conduct a fundamental review of the rail industry's structure, to ensure better accountability and value for money, with the aim of reducing conflicts of interest, aligning efforts on maximising efficiency, and restraining the tendency to seek solutions through growth.

6.1 The Government agreed with the Committee's recommendation.

6.2 Sir Roy McNulty's *Rail Value for Money Study* is examining the cost structure of all areas of the rail industry and will identify options for improvement.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The independent *Rail Value for Money Study* was published in May 2011. The Study recommended greater alignment of industry parties between the infrastructure manager and train operators. It also recommended that while new capacity was likely to be required, there was significant scope to make better use of existing capacity.

6.5 The Government has been working with industry to implement, where appropriate, the recommendations of the Study. Steps have already been taken to achieve greater alignment within the rail industry, through the establishment of the industry leadership body – the Rail Delivery Group – and by Network Rail's devolution of greater decision-making powers to its regional 'routes', making Network Rail a more operationally focused and responsive organisation.

6.6 The Department will publish, in early 2012, a Command Paper setting out its direction of travel on rail reform, accompanied by a review of fares and ticketing. The Department is working closely with the Office of Rail Regulation to set in place the right incentives for the rail industry to work more closely together in pursuit of lower costs and benefits for passengers. The aim will be to implement these principles in the next round of franchises for passenger train services over the coming months and years.

PAC RECOMMENDATION 7

The Department should take the necessary steps so that the Comptroller and Auditor General becomes the auditor of Network Rail, including full access rights so that he can report on value for money to Parliament.

7.1 The Government disagreed with the Committee's recommendation.

7.2 Independent scrutiny and greater transparency are important, but the Government is not currently persuaded that the best way to achieve this is necessarily through extending the role of the Comptroller and Auditor General.

Current Status

7.3 Not being implemented.

Reason for not implementing recommendation

7.4 The Office of Rail Regulation, which is itself open to audit by the Comptroller and Auditor General has access to the information it needs from Network Rail to scrutinise the company's performance and ensure that it is delivering value for money on the public subsidy it receives. Extending the role of the Comptroller and Auditor General would therefore result in an unnecessary duplication of functions. Network Rail's private sector status has been determined by independent Office of National Statistics.

7.5 The Department will be exploring options for delivering greater transparency as part of the wider work to reform the railway.

PAC RECOMMENDATION 8

The Permanent Secretary must in future satisfy himself that facts and their presentation within National Audit Office reports are accurate before their publication, and not wait until the committee hearing to reveal new evidence. Such late presentation of evidence also prevents the NAO being in a position to provide us with independent evaluation of new material. The Treasury should reinforce to Accounting Officers the importance of providing supplementary material in time for the Committee to consider it and for the NAO to validate it.

8.1 The Government agreed with the Committee's recommendation.

8.2 The evidence presented to the NAO covered the cost of 1,300 carriages, and the capacity provided by the 950 carriages for which the Department could demonstrate firm plans. The Department regrets that it failed to identify the juxtaposition of these separate facts in the report.

8.3 The Treasury issued guidance to Departments and public organisations stressing the importance of ensuring the NAO has access to accurate and timely information. The Treasury fully recognises the Committee's concerns and will continue to re-emphasise to Departments and public bodies the importance of this guidance in preparing for all Committee hearings.

Current Status

8.4 Implemented.

Action taken to implement recommendation

Department of Transport:

8.5 The Department has developed revised guidance on the principles for completion of NAO VFM Reports. The guidance has been agreed with the NAO and training on the revised principles has been provided to staff involved in the work of those studies. The guidance includes information on how to prepare for a Committee hearing; that the Committee will start from the premise that the NAO report is factually correct with the Departments agreement; and that no new evidence will emerge at the hearing. The guidance also confirms that where there are differences of opinion between the Department and the NAO; that this needs to be recorded in the report; and that the NAO will allow the Department to put a ‘disagreement paragraph’ in the report, if amendments to the report cannot be agreed. Departmental staff applied the revised principles to NAO reports from 2011.

HM Treasury:

8.6 The Treasury issued guidance[3] to Departments on 4 November 2011 that the NAO has statutory rights of access to a wide variety of official documents, including to inform on drafting of value for money reports (section 8 of the NAO Act 1983) and for the financial audit of accounts (section 8 of the Government Resources and Accounts Act 2000).

[3] DAO 04/11 - http://www.hm-treasury.gov.uk/d/dao_04_11.pdf

Sixth Report

Department for Education (DFE)

Cafcass's response to increased demand for its services

Summary of the Committee's findings

The Children and Family Court Advisory and Support Service ('Cafcass') has a vital responsibility to vulnerable children suffering huge disruption in their lives. Following the publicity around the Baby Peter tragedy in 2008, Cafcass experienced a significant and sustained increase in demand for its services, receiving around 34% more care cases in 2009-10 than the previous year. This led to chaos across the family justice system, and exposed Cafcass as an organisation that was not fit for purpose in dealing with the increased number of cases.

While there have been some improvements in Cafcass's performance, the Committee does not share the Department for Education's confidence that the substantial organisational problems will be overcome by 2011. Cafcass also faces the challenge of dealing with the relentless rise in open cases that is putting pressure on all organisations working in the family justice system. Renewed energy and vigour are needed to sort this situation out if Cafcass is to become the world-class organisation it aspires to be.

In reaching its findings the Committee took evidence on 7 September 2010 from the Department and Cafcass. The Committee took additional evidence on 12 October 2010 from the President of the Family Division and the Family Division Liaison Judge for Greater London. The Committee issued its report on 11 November 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

PAC RECOMMENDATION 1

Cafcass and the Department should report back to the Committee in a year, when it will expect to see that the Department and Cafcass have completed firm actions and undertaken rigorous monitoring to achieve the large amount of improvement that is still required.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Department would report on the actions that both the Department and Cafcass had undertaken to make further improvements, particularly in terms of Cafcass's performance against the Key Performance Indicators (KPIs) set by the Secretary of State for Education for 2010-11 and 2011-12. The report would include any recommendations that the Government planned to take forward as a result of the Family Justice Review.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 Cafcass have implemented a number of measures to reduce the average number of days to fully allocate a case. These measures have ensured that the average number of days to fully allocate a care case fell to 4 days in March 2011 and has remained between 4 and 5 days since then.

1.5 In 2010-11, the Department set Cafcass a KPI that 97% of cases should be allocated (either substantively or on a duty basis to a named Cafcass practitioner) when taken as a snapshot. Performance in 2010-11 showed that 98.6% of public law cases were allocated when the monthly snapshot was taken (as an average of the 12 months). The Department will continue to monitor progress in this area. The KPI for 2011-12 is more demanding in that it requires 97% of workload to be substantively allocated to a named practitioner. At the end of September 2011, 98% of public law cases were substantively allocated when the monthly snapshot was taken.

PAC RECOMMENDATION 2

Cafcass should establish plans with clear milestones for every area to manage the reductions in duty allocation of care cases and take prompt action in circumstances where unallocated cases start to rise.

2.1 The Government agreed with the Committee's recommendation.

2.2 Those of Cafcass's 17 service areas (reduced from 21) that continue to operate duty systems for the initial handling of care cases would work in conjunction with the arrangements agreed with local senior judiciary and the President of the Family Division, to bring to an end the use of duty allocations and unallocated cases.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 All of Cafcass's 17 service areas maintain business plans, which are actively monitored and updated on a quarterly basis. This has assisted Cafcass in achieving a substantial reduction in the number of duty allocation of care cases – from 568 cases in October 2010 down to 232 cases in September 2011. Duty allocations are primarily confined to those areas which experience sudden unforeseeable increases in new local authority care applications (which are at unprecedentedly high levels).

2.5 The Committee was concerned that a reduction in the number of duty allocation of care cases would result in an increase in the number of unallocated care cases. This has not happened. There were only two unallocated cases in September 2011, down from a high of 551 in April 2010.

2.6 In 2011-12, Cafcass's KPI on the allocation of care cases was strengthened so that only those cases which have been fully allocated are included in the measure. The Department will continue to monitor the number of duty allocation of care cases and the number of unallocated cases.

PAC RECOMMENDATION 3

The specific impact of the Baby Peter tragedy was hard to predict, but the possibility of a sustained increase in cases was a scenario that Cafcass should have planned for. It should prepare robust contingency plans so that it is prepared to act when changed circumstances affect its business.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Government considered that Cafcass, the Department and other organisations could not have predicted the sustained impact that the publicity around the Baby Peter case in November 2008 would have on demand for care cases. Cafcass's management could not have been expected to recognise earlier than they did that the increase in demand would be sustained.

3.3 While the majority of Cafcass's resources continued to be allocated to front line service delivery, a small contingency reserve (£2 million in 2010-11) was available to be allocated to areas that experience unforeseen pressures. When the level of 2011-12 funding was confirmed, it was expected that Cafcass will continue this practice. However, such a level of provision would be unlikely to be adequate if there were to be a repeat of the 34% increase in care applications that was experienced in 2009-10. At the time, the Government intervened to provide additional financial resources. Because of its legislative framework, Cafcass cannot control or depress demand for its services in the way most organisations are able to, for example by introducing eligibility criteria. This is a genuine constraint.

Current Status

3.4 Implemented.

Action taken to implement recommendation

3.5 Cafcass uses a business planning approach at service area and national level to regularly analyse resources, demand and performance in a comprehensive way. The review of local and national plans takes place quarterly including updating financial, HR, key performance indicators and demand / allocation trends to understand how the area has performed in the period under review. A key part of this process is to review each of these in light of any risks to them as well as developing and keeping under review mitigating actions.

3.6 A key means by which Cafcass has responded to variations in the level of care applications is through increased specialisation among staff, operating across wider geographical areas. There have also been examples of using staff from other areas who, with specific judicial support for the arrangements, utilise video conferencing and other new technologies to maximise efficient working, despite geographical distances. More widely, Cafcass has been an active participant in the Ministry of Justice sponsored Local Performance Improvement Groups, many of which have focused on concluding old (50 to 80 weeks duration) and very old (80 weeks plus) care cases, in order to free up system capacity to deal with new cases.

3.7 Cafcass has made savings in recent years in back office and corporate management costs, so that 92% of its budget is now spent on frontline staff. This will ensure that Cafcass is better equipped to deal with any further increases in caseloads.

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.

4.1 The Government agreed with the Committee’s recommendation.

4.2 Cafcass had already put in place training and development measures and in 2011-12 would implement further measures designed to meet the identified learning and development needs of its practice, business support and managerial staff. These plans, if effectively implemented, would be essential to improving both performance and staff morale.

Original target implementation date

4.3 December 2011.

Revised target implementation date

4.4 June 2012.

Current Status

4.5 Work in progress.

Action being taken to implement recommendation

4.6 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.

4.7 In January 2012, Cafcass will be introducing measures to streamline supervision and performance management processes, as outlined in its operating manual. An example of this streamlining is the integration of the revised performance management framework within its new

'Midland' Human Resources IT system. The effect of this is to make it simpler to record and monitor performance. This will be augmented by the launch in April 2012 of an Individual Employee Performance Card which will provide managers with key performance data on each member of staff (for example: productivity, supervision frequency, training cost, sickness levels, and salary cost). From the same date, Cafcass will also be able to track skills and development for all staff through this new approach. The National Improvement Service (NIS) was formed in July 2011 and is providing direct support to managers and staff on training, development and practice improvement matters.

PAC RECOMMENDATION 5

Cafcass should develop a comprehensive set of actions to drive sickness absence down to acceptable levels, building on best practice elsewhere in the public sector. The Department should monitor Cafcass' progress against the implementation plan.

5.1 The Government agreed with the Committee's recommendation.

5.2 During the 12 months to December 2010, Cafcass took concerted action to reduce the levels of sickness absence to acceptable levels, particularly among Family Court Advisers (FCA) who make up 61% of the Cafcass workforce. There was a substantial reduction in FCA sickness absence rates between 2009-10 and 2010-11. The 2009-10 average sickness rates for FCAs were 16.4 days. In the first half of 2010-11 the average sickness rate had reduced to 12 days (per year). This represents a reduction of 27% (or 4.4 days per year) on 2009-10 rates. For all other Cafcass staff the 2010-11 year to date sickness rate was 7.7 days per year. The overall 2010-11 year to date average for all Cafcass staff (including FCAs and other staff) was 10.2 days per year.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 Cafcass has made a determined effort to reduce sickness absence by targeting work at individuals and teams, and improving the process for managing, developing and supporting staff. Cafcass' overall sickness rate for current staff was eight days a year for the period October 2010 to September 2011. The social work practitioner sickness rate for current staff is 9.2 days, and the average for all other staff is now 5.7 days. These figures compare favourably with those found across the wider public sector, where the average sickness rate is around 8.5 to 9.5 days a year. The number of long-term sickness cases has reduced by 60% in the same period, from an average of 45 to 20, which has made a significant contribution to the overall reduction in average sickness rates.

5.5 The Department will continue to monitor sickness absence within Cafcass through regular meetings with the Cafcass senior management.

PAC RECOMMENDATION 6

Cafcass should manage individuals' caseloads so that staff morale does not fall and the quality of reports to the courts is maintained or improved. Cafcass should also plan for the succession of the many experienced and longstanding family court advisers who are approaching retirement, in order to protect the continuity and quality of service.

6.1 The Government agreed with the Committee's recommendation.

6.2 Cafcass was actively engaged with its main trade union partner bodies, Napo and Unison, in developing a new workloads agreement to replace the existing 2004 agreement. The agreement was based on the differential weighting of the various types of cases dealt with by Cafcass, which vary in their demands across the successive stages to each case type. It was intended to identify a range of workloads that were agreed as being manageable and sustainable.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 Cafcass has introduced systems to ensure that caseloads are effectively managed, so as to maintain high quality reporting to the courts and to improve staff morale. Caseloads are being regulated using a trial workload weighting tool, and work on cases has become more targeted and proportionate to ensure that the service level is based upon the resources available, is affordable and is sustainable.

6.5 Cafcass is aware that many experienced family court advisers are nearing retirement and has taken steps to replace these staff. Recruitment is healthy in nearly every part of the country, and Cafcass' ability to recruit high quality and experienced practitioners has not been affected by uncertainty about the future shape of a court social work service.

PAC RECOMMENDATION 7

In driving through its Transformation Programme, Cafcass' top management should take personal responsibility for effectively communicating changes to staff. Managers at all levels should be assessed on their effectiveness in both inspiring staff to comply with corporate requirements and holding them to account for non-compliant behaviour.

7.1 The Government agreed with the Committee's recommendation.

7.2 The active involvement of senior management with staff has been a central element of many aspects of the Transformation Programme. For example, the formulation and early drafting of Cafcass' Future Operating Model has involved the Chief Executive meeting and taking note of the views of approximately 40 teams across England. In revising the performance descriptors for Service Managers and Heads of Service a clear emphasis has been placed on the leadership and management qualities that are required of these two types of managers. These managers are subject to the same supervision and performance assessment requirements as practitioners, with interventions available for use in those instances where improvement is needed.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 Cafcass Service Managers went through a development programme around leadership, change management and performance management. In addition, a small number went through assessment centres where performance was deemed to be satisfactory or below. Some of the staff subsequently left the organisation. Cafcass' current approach is to ensure that all Service Managers have access to good, regular and focussed training.

7.5 Staff became increasingly aware of the Cafcass Transformation Programme as it developed and gave the programme strong support. Coupled with this, compliance is no longer a major issue for Cafcass and any non-compliance is dealt with through the use of employee relations policies. Individual cases are being completed much quicker and have radically reduced in number - at the end of October 2011, no Cafcass member of staff was suspended in relation to non-compliance or other performance or conduct concerns.

PAC RECOMMENDATION 8

The Department should work with local authorities to ensure that they are fulfilling their responsibility under the Public Law Outline to undertake appropriate pre-action work with the family, and to produce good assessments so that cases can proceed without requiring extra interventions or investigations by Cafcass.

8.1 The Government agreed with the Committee's recommendation.

8.2 High quality assessments by local authority children's services are essential if care cases are to progress effectively. A range of work to support this was underway. Updated practice guidance on public law proceedings was issued by the President of the Family Division and the Ministry of Justice (MOJ) in March 2010. The guidance stresses the importance of effective case preparation by local authorities and sets out the information, including assessments, which should be provided for the courts with all care applications.

8.3 In Coventry and Warwickshire, Cafcass, in partnership with local authorities, was piloting a new collaborative approach in which Cafcass officers work with local authorities at the pre-proceedings stage, providing independent advice on potential care cases. The aim was to test how local authority assessments and case analysis can be strengthened to deliver better decision-making by local authority teams, more robust processes and supporting evidence where cases do proceed to court, and better outcomes for children. Results of the pilot were expected to be available in late 2011 but will not be ready until 2012.

8.4 Professor Eileen Munro's review of Child Protection also considered how social care practice in care proceedings could be strengthened. The review findings, are informing the Department's on-going work to improve social care practice as a whole and will feed into the Government response to the Family Justice Review, which was published in November 2011; the response is due to be published in 2012.

Original target implementation date

8.5 December 2011.

Revised target implementation date

8.6 December 2012. Implementation delayed as the Department is awaiting the findings of the Coventry and Warwickshire pilot and is considering the recommendations of the Family Justice Review.

Current Status

8.7 Work in progress.

Action being taken to implement recommendation

8.8 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.

8.9 Ministers are considering the recommendations of the Family Justice Review in this area and will consider the outcomes of the Coventry and Warwickshire pilot.

PAC RECOMMENDATION 9

Shortcomings in the Case Management System make compiling trend data laborious but, even so, Cafcass must undertake the data collection it needs to manage its business. It should agree with the Department the quality and type of information required and put in place measures to secure it. In addition, the Department should support Cafcass in securing a better service from the provider of its corporate IT systems.

9.1 The Government agreed with the Committee's recommendation.

9.2 The Department already had in place an agreement with Cafcass about the quality and type of information required, and the measures to secure it. Key Performance Indicators (KPIs) are set each year by the Secretary of State for Education, following consultation with Cafcass. Information from the Cafcass' Case Management System (CMS) drove all except one of the seven KPIs set by the Secretary of State for 2010-11.

Current Status

9.3 Implemented.

Action taken to implement recommendation

9.4 The Department provided Cafcass with strong support during the Transformation Programme. As part of the Transformation programme, the National Business Centre was established to deal centrally and more efficiently with data processing and inputting tasks. To ensure the quality of data entered on the Case Management System, Cafcass carries out internal audits at the National Business Centre. No significant data problems have shown up in the last 12 months and recent data validation audits routinely show more than 98% accuracy.

9.5 The Department will continue to liaise with Cafcass regarding its corporate IT systems provider. The Department will also consider the recommendations of the Family Justice Review on system-wide data.

PAC RECOMMENDATION 10

Driving through the Transformation Programme while overseeing consistent improvements in the level of service will take strong and vigorous leadership and communication. The Department should regularly monitor Cafcass' progress in implementing the Transformation Programme, holding senior management to account for any delay. Cafcass and the Department should review the robustness of the Programme regularly and take action promptly to resolve emerging problems.

10.1 The Government agreed with the Committee's recommendation.

10.2 The Department would continue to monitor Cafcass actively. Cafcass' Chief Executive has quarterly meetings with the Parliamentary Under-Secretary of State for Children and Families; in addition there are regular meetings between senior Departmental officials and Cafcass. Departmental officials attend Cafcass's monthly Transformation Programme Board.

Current Status

10.3 Implemented.

Action taken to implement recommendation

10.4 The Department regularly monitored progress throughout the Transformation Programme: at sponsorship meetings, attendance at Board meetings and through monitoring performance reports. The programme was also monitored for its exit strategy and sustainability. The programme came to an end in March 2011.

10.5 The Department continues to monitor Cafcass's progress and receives monthly performance reports from Cafcass which are assessed against their KPIs. In addition, the Parliamentary Under Secretary of State for Children and Families meets the Chief Executive of Cafcass quarterly, and there are regular meetings between the Department and Cafcass officials.

Seventh Report

Department of Energy and Climate Change (DECC)

Funding the development of renewable energy technologies

Summary of the Committee's findings

Developing renewable energy technologies is vitally important if the UK is to help tackle climate change and maintain secure national energy supplies. The Department of Energy and Climate Change (the Department) told the Committee, however, that it was going to miss its target to supply 10% of electricity from renewable sources by the end of 2010. The Department and its predecessors had not done enough to address the slow progress in increasing the supply of renewable energy. As a result, it does not expect to meet the 10% target until 2012, from a starting position of 2.7% in 2000.

Achieving the 2050 target for an 80% reduction in greenhouse gas emissions will need further innovation in renewable energy technologies to increase supplies after 2020. The Committee observed that the department has developed pathways to achieving the 2050 target, but has not set out the innovation milestones that it will need to meet if it is to achieve its longer-term goals.

In reaching its findings the Committee took evidence on 19 October 2010 from the Department. The Committee issued its report on 30 November 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

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.

1.1 The Government partially agreed with the Committee's recommendation and shares the Committee's view of the scale of the challenge and the action required.

1.2 The UK is committed to sourcing 15% of its energy consumption from renewable sources by 2020. Whilst the Department recognises the target is challenging, the Department's analysis, along with discussions with industry, indicates that the UK has extensive renewable resources and that the build rates needed to reach the target are attainable. The initial advice, in September 2010, from the Committee on Climate Change (CCC) on the level of the Department's renewables ambition also provided reassurance on the level of the target. The Department awaits the CCC advice later this year on its level of ambition on renewables beyond 2020.

Target implementation date

1.3 October 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 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.

1.6 The Government published an updated 2050 pathways analysis in Spring 2011[4]. The Departments 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.

1.7 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 (TINAs) 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.

PAC RECOMMENDATION 2

The Department should, in future, act more quickly to identify and address the reasons for under-spends, so that resources available for supporting the development of renewable energy technologies are fully utilised.

2.1 The Government agreed with the Committee's recommendation.

2.2 Innovative technologies are inherently risky due to their pioneering nature and some funds may not be able to be fully spent if technologies do not develop at the speed expected. The Department operates a programme and financial management Board to oversee Department-funded technology innovation programmes. The Board monitors progress against milestones and key performance indicators including spend against profile and advises on steps needed to rectify problems and to ensure spend can be delivered. It also manages controlled over-programming as a key way of minimising likely under-spends.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department has updated and strengthened its programme management processes and strengthened delivery by creating a centralised Innovation Delivery team to manage the innovation portfolio. Delivery, including spending against budget, will be closely monitored by an Innovation Programme Board. This Board is already operational, and recruitment for the new Innovation Delivery team is well advanced. These steps will help mitigate the risk of under-spends. The constraint of fixed financial year budgets will however remain a challenge and when coupled with the inherent uncertainties of innovative technology programmes it is likely that some under-spends may continue to occur, though the Department will take measures to try and avoid this.

PAC RECOMMENDATION 3

The Department took far too long to begin to translate its high-level renewable energy strategy into a detailed delivery plan. It should in future demonstrate much greater urgency in preparing the detailed plans that are needed to drive the implementation of its strategies.

[4] http://www.decc.gov.uk/en/content/cms/tackling/2050/2050.aspx

3.1 The Government agreed with the Committee's recommendation.

3.2 The draft Directive, published in January 2008, set out a framework and indicative targets for Member States to consider rather than a detailed delivery plan. The UK used the draft Directive and its existing analysis in developing its draft Renewable Energy Strategy published later that year.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department published the Renewable Energy Roadmap in July 2011. The Roadmap sets our view of the projected contribution from key renewable technologies by 2020 and the actions the Government and others are taking to overcome barriers to deployment of the range of renewable technologies.

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.

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

4.2 The Renewable Energy Delivery Plan (the Plan) will be a coherent plan for delivering the renewable energy target, covering not just the financial incentives, but also the key non-financial deployment barriers, such as planning, supply chain and grid. The Plan will include appropriate objectives, milestones to monitor performance and indicative trajectories up to 2020. The Plan will also include deployment statistics for renewable energy, which are already available through a variety of sources – such as RESTATS, Renewable Energy Planning Database, Digest of UK Energy Statistics, Energy Trends and the financial incentive reports (Renewables Obligation and Feed-in Tariffs).

Target implementation date

4.3 October 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 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.

4.6 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.

4.7 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.

4.8 Evaluations of the Departments energy company obligation policies – the Carbon Emissions Reduction Target (CERT)[5] and the Community Energy Saving Programme (CESP)[6] - 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.

4.9 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.

PAC RECOMMENDATION 5

Unless planning rules are changed, the Department will need to build contingency for this project attrition rate into its 2020 delivery plan, to create a realistic picture of the number and size of renewable energy projects that need to be in the pipeline, and when construction must start if it is to meet its 2020 renewable energy target.

5.1 The Government partially agreed with the Committee's recommendation

5.2 The Office of Renewable Energy Deployment (ORED) leads on the identification and resolution of individual barriers to delivering renewables, and works to facilitate renewables deployment on land and offshore through a variety of measures including through Renewable Financial Incentives.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Renewable Energy Roadmap sets out the pipeline for key renewable technologies. The analysis of the pipelines also includes indications of the historic planning attrition rates for large scale electricity applications. The Roadmap also includes a comprehensive summary of the actions being taken to facilitate deployment of renewables, both before and after the decisions on planning consent. The Department will continue to monitor renewables deployment levels and progress of projects through the pipeline.

PAC RECOMMENDATION 6

The Committee welcomes the Department's efforts to accelerate staged reviews of banding and wish to be updated on the revised timetable once it is agreed. The Department will need to act more quickly in response to changing circumstances, which may require it to move away from rigid review timetables that could result in delayed investment or increased costs for the bill payers who fund the subsidies.

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

[5] http://www.decc.gov.uk/assets/decc/11/funding-support/3339-evaluation-of-the-delivery-and-uptake-of-the-carbo.pdf
[6] http://www.decc.gov.uk/assets/decc/11/funding-support/3342-evaluation-of-the-community-energy-saving-programm.pdf

6.2 Energy Minister Charles Hendry announced on 8 December 2010 that the timetable for the 2013 Renewables Obligation Banding Review will accelerate. The original timetable set out in the RO Banding Review Process document indicated that the Government would launch a statutory consultation on new banding proposals in Spring 2012 and announce its decision on banding levels by Autumn 2012. The Department now intends to consult on new banding proposals in Summer 2011 and confirm the new bands by Autumn 2011, one full year ahead of schedule. The new bands will still come into effect as planned on 1 April 2013 (1 April 2014 for offshore wind), subject to Parliamentary and State Aid approval.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The Renewables Obligation Banding Review was published for consultation on 20 October 2011. The consultation closes on 12 January 2012.

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.

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

7.2 The Department continues to develop its 2050 Pathways Analysis and the updated Calculator will be published in February 2011 in response to the Call for Evidence. The pathways to 2050 published in July enabled the Department to understand the common messages between pathways that hit the 2050 target. The Department is working to add costs analysis to the Calculator. This will enabled the Calculator, along with other tools and models, to support development of a reduced set of plausible pathways to 2050.

7.3 In addition, the Department is working to develop a shared evidence base for a range of renewable and low carbon technology families. This work will identify the innovation needs in these technology areas and what forms of Government intervention are desirable, addressing the committee's concerns

Target implementation date

7.4 October 2012.

Current Status

7.5 Work in progress.

Action being taken to implement recommendation

7.6 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.

7.7 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 (TINAs) – a collaborative evidence project undertaken by the Low Carbon Innovation and Coordination

Group. The central analysis for the TINAs drew on a variety of models and data sources, including the Departments 2050 pathway analysis. The Department continues to support technology development beyond 2020.

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 us that the funding landscape could be simplified.

8.1 The Department accepted the Committee's recommendation.

8.2 The Department has taken the lead in coordinating support for renewable energy innovation by expanding the Low Carbon Innovation Group (LCIG) membership in 2010. This Group now consists of the major funders of energy innovation: the Department of Energy and Climate Change (DECC), the Department for Business, Innovation and Skills (BIS) and the Engineering and Physical Science Research Council (representing the UK Research Councils), which funds early stage academic research; and the bodies that deliver energy innovation. The latter include the Carbon Trust (CT), Energy Technologies Institute (ETI) and the Technology Strategy Board (TSB).

Target implementation date

8.3 October 2012.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 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.

8.6 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.

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.

9.1 The Government partially accepts the Committee's recommendation.

9.2 The Department continues to work closely with BIS to ensuring the continuation of VFM programmes previously funded and managed by the Regional Development Agencies (RDA) which contributes materially to the Department objectives.

Target implementation date

9.3 Summer 2012.

Current Status

9.4 Work in progress.

Action being taken to partly implement recommendation

9.5 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.

Eighth Report

Department for Business, Innovation and Skills

Customer First Programme: delivery of student finance

Summary of the Committee's findings

Under the Customer First Programme, delivery of grants and loans to Higher Education students in England is being transferred from local authorities to the Student Loans Company (the Company), a non-departmental public body of the Department for Business, Innovation and Skills (the Department). In 2009, the first year of a three-year phased implementation, the Company began assessing applications from new students; from 2011 it is responsible for applications from all students in England.

In 2010 the Company improved its performance, although the rate of improvement had been disappointing. The Committee expected better. Over two-thirds (69%) of applications from new students were fully processed by the start of term, the Company's contact centre outperformed its targets for answering calls, and management information and governance arrangements had been overhauled. However, a quarter (26%) of applications were not sufficiently processed for students to receive even an interim payment by the start of the first term, which was only a limited improvement on the 34% of applications unprocessed in 2009. and uncertainties remain over the Company's ability to deliver and maintain a service that provides value for money.

In reaching its findings the Committee took evidence on 27 July 2010 from the Department. The Committee issued its report on 7 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011

PAC RECOMMENDATION 1

The Company has a target to process applications within six weeks of receipt and for 2011 it should guarantee to make at least an interim payment on all eligible applications submitted more than six weeks before terms starts. The Department should provide the Committee with a further Memorandum on performance next October. The Committee expects to see a step change in performance to give us the assurance that proper value for money is secured from this programme.

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

1.2 The Department agrees that the Company's performance in 2009-10 was unacceptable, as made clear in previous evidence to the Committee, but believes that the Company's performance was better than the Committee's report implies for 2010-11. The Department and the Company put in place new leadership and performance management, which markedly improved the level of service experienced in 2010-11 for which due credit should be given. In 2010-11, the Company met its published commitment to process more than 99% of applications received with the required evidence by the published deadlines, and exceeded its contact centre targets, answering more than 93% of calls received from April to November 2010.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 A Memorandum was delivered to the Committee in December 2011. In the 2011-12 cycle, the Company processed more than 99% of applications received with the required evidence by the published deadlines.

PAC RECOMMENDATION 2

The Department and the Company must develop clear, customer-focused targets for all loans, grants and allowances covering the full process from application to approval and payment.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Department accepts that the targets in place to measure the Company's performance in 2009 were inadequate. Revised targets were introduced in 2010-11 that were clearer and more customer-focussed for all loans, grants and allowances. These targets covered the parts of the process for which the Company is responsible and focus on the process from when the application is submitted to it being prepared for payment. Not all applications for loans and grants that are submitted will result in a payment being made, as not all applicants will in the end enter into higher education. The targets therefore focus on ensuring that the Company has processed as many applications as possible for a payment to be made at the start of term for those that do attend.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 Revised performance targets were introduced in 2010-11 that were clearer and more customer-focussed for all loans, grants and allowances. These targets were further revised in 2011-12 to drive improved performance and the Company now aims to process 70% of core applications within four weeks and 95% within six weeks.

PAC RECOMMENDATION 3

The Company must work with the Department to set stringent targets for processing applications for Disabled Students' Allowances and ensure sufficient resources are in place by next summer to provide a better service for disabled students.

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

3.2 The Company has worked to improve its relationship with stakeholders and in particular with groups that represent the interests of students with disabilities. Steps have already been taken to improve the service for disabled students, including better training and allocating more staff. This improvement has been widely acknowledged by the relevant stakeholder groups. The Department will work with the Company to ensure that it continues its work to provide a better service for disabled students.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department and the Company will continue to work with stakeholders and delivery partners to improve the end to end applications process for Disabled Students' Allowances. It is the Department and the Company's view that measuring the time between an application being made and when the payment is made does not fully reflect the Company's performance or students' experience. Rather, a student needs to know that their application has been processed and approved ready for payment promptly, and well before they begin their course.

3.5 The targets that the Department agrees for processing Disabled Students' Allowances applications therefore focus on the steps in the process for which the Company is responsible: firstly the time taken to assess whether the student is eligible; and then to assess the level of support to which they are entitled based on the report of an independent needs assessment. These targets were improved from processing 95% of applications within 15 days for both stages in 2009-10, to processing 95% of applications within 10 days for both stages in 2010-11.

3.6 The Company is committed to improving its performance against agreed targets to provide a better service for disabled students.

PAC RECOMMENDATION 4

The Committee expects the Company to achieve the industry best practice standard of answering at least 95% of calls. The Committee notes that the Company's performance improved in 2010, answering 96% of telephone calls in the peak period of August to September. The Company now needs to bring its target into line with best practice and maintain its performance at or above that level.

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

4.2 As made clear in previous evidence to the Committee, the Department and the Company fully accept that performance in 2009-10 was unacceptable. As a result of better management of the Company's contact centre, that performance was dramatically improved in the 2010-11 cycle.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 Performance targets for the Company's contact centre service are reviewed annually, with a long term aim of achieving the industry best practice standard

4.5 The Company showed exceptional improvement in the performance of its contact centre in 2010-11, answering 93.5% of telephone calls. The Department and the Company agreed a revised target for 2011-12 of answering 90% of calls throughout the year and a minimum of 70% calls to be answered in each two-week period. From April to September 2011, the Company has answered 90.4% of calls and exceeded the floor target throughout. The Department and the Company review performance targets on an annual basis and intend to further review the Company's contact centre targets as the performance and stability of the contact centre improve.

PAC RECOMMENDATION 5

The scanning system is crucial to the timely processing of applications and the Department should assure itself that the Company now has robust contingency plans for maintaining an effective service in the event that the scanning system, or other aspects of its IT, fails again.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Company has developed robust contingency plans for a wide range of risks in the delivery of the student finance service, including plans to manage backlogs in applications processing.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 As part of its contingency planning for the 2010-11 cycle, the Company moved its scanning equipment so that all paper documentation was sent to Darlington where the processing teams are based. This ensured the Company could react quickly to any technology failures and maintain the level of service that it has committed to provide. Thanks to improvements put in place, scanning operated successfully throughout the 2010-11 and 2011-12 cycles.

PAC RECOMMENDATION 6

The Department's plans for achieving financial savings of £20 million a year from 2011-12 have slipped to 2012-13, and it now considers that these savings might be delayed further and possibly reduced. At a time when the Department is facing financial challenges, it is imperative that it achieves the planned savings once the service to the public has been improved and stabilised. The Department should seek increased efficiency at the Company through faster processing and minimising the need for telephone contact with applicants.

6.1 The Government agreed with the Committee's recommendation.

6.2 The tighter programme management arrangements now in place between the Department and the Company will allow closer scrutiny and better management of costs. The Department agrees this needs more management effort.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 It is the Department's view that the rationale behind the centralisation of the student finance service in England under the Customer First Programme remains valid. While the Department acknowledges that the level of financial savings has reduced from the original £20 million per year, the programme is still expected to produce savings in the region of £15 million a year from 2011-12, resulting in an eight year payback period and a positive return on investment of 4%.

6.5 The Company has implemented a number of measures to reduce the time taken to process applications, introducing more automation resulting in less reliance on paper being sent to the Company. These include electronic links with the Identity and Passport Service (IPS) and HM Revenue and Customs (HMRC) to establish customers' identity and household income respectively, and implementing a mainly automated reassessment process for applications from returning students whose parents' earnings are above the upper income threshold and are therefore not entitled to means tested support. These and other measures should also help to reduce the number of telephone calls received by the Company.

6.6 It is likely that the Company will require further investment during this spending review period, both to respond to the challenges it faces in light of the Government's reforms of higher education and to replace its core customer accounts systems. As these additional costs, which have yet to be finalised, are not related to the centralisation of the service, it is the Department's view that the revised savings of £15 million a year from 2011-12 will not be affected. The Department will, of course, fully assess the value for money of any future investment in the Company.

PAC RECOMMENDATION 7

The Department and the Company should review whether the revised governance structure successfully addresses the weaknesses in the old Programme Board. They should ensure there is full and open communication between all tiers of management, including robust challenge and interrogation of management information and emerging risks.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Department and the Company have taken steps to ensure that the appropriate skills are applied to the management of the student finance service in England. Once the problems in delivering the 2009-10 cycle were identified, resources were drawn in from across the Department including senior management. The Company recruited experienced interim directors for 2010-11 who were supported by external programme management expertise. The Department has also been supporting the Company in programme management whilst permanent specialists are recruited.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 Revised programme management arrangements have been established with responsibility for all of higher education and revised governance arrangements support full and open communication between the Company and the Department and between all tiers of management. The programme structure involves officials from the Department, the Company and HMRC at each level.

7.5 Programme management skills have been strengthened across the Department and the Company, including the appointment by the Company of a permanent, experienced Head of Programme Management. Meetings are held regularly and working relationships are now much improved with programme managers and officials from the Department and Company working together openly and collaboratively. This is supporting a shared understanding of risk and of the service to be delivered.

PAC RECOMMENDATION 8

The Committee expects the Department to provide assurance that in future it will closely monitor the performance of the Company, and indeed that of other bodies within the Departmental group, and intervene quickly and decisively wherever the quality of service being provided to users falls short of the standards expected.

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

8.2 The Company's poor service in 2009-10 was reflected in the performance appraisals of the responsible officials in the Department. However, those officials were instrumental in helping the Company to improve its performance and the level of service in 2010-11. Following a much improved 2010-11 cycle, a fresh team of senior officials are taking responsibility for delivery of the student finance service.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 A full review of the Department's sponsorship of its partner organisations has undertaken and its recommendations implemented. A Governance Group has been established, chaired by the Departments Director General for Finance and Commercial, which consists of senior staff from the Department and its partner organisations to advise the Departments Executive and Departmental Boards on the Department's relationship with its partner organisations. Over the past year, the Department has improved its focus on understanding emerging risks and issues, so that it is better placed to intervene if required.

PAC RECOMMENDATION 9

The Treasury has responsibility for disseminating lessons across Government and should write to the Committee to explain how it will draw the lessons from this report to wider attention. The Cabinet Office Efficiency and Reform Group should examine the operation of the OGC Gateway process in this case to see if improvements can be made to ensure it operates as intended and provides early notification of problems.

9.1 The Government agreed with the Committee's recommendation.

9.2 The Efficiency and Reform Group accepts that the "point-in-time" style of assurance review undertaken using the Gateway process can occasionally have limitations in the depth and breadth of view achieved. Gateways of the Customer First Programme appear to reflect this, though broader matters cited by the Committee have been part of continuing dialogue with the Department. The type of problem identified in relation to the Customer First Programme has occurred only rarely, but the Efficiency and Reform Group is now developing a more continuous form of assurance as part of its new Major Projects Authority role.

9.3 The Treasury recognises the Committee's comments on drawing upon the lessons from this report to wider attention across Government. The Treasury always has an opportunity to remind departments on the available guidance that they should be following, and will advise on any updates to that guidance.

Current Status

9.4 Implemented.

Action taken to implement recommendation

9.5 The Government launched the new Major Projects Authority on 1st April 2011 with the aim of working with Departments to improve the likelihood of success of the Government's Major Projects and Programmes.

9.6 A new process for both planned and consequential assurance and approval of Major Projects was also introduced on 1st April. This approach introduces tools that operate alongside the Gateway Review process including: Starting Gate Reviews which explore deliverability prior to public commitment; Project Assessment Reviews (PAR) which are flexible pieces of assurance tailored to the individual project and can operate as "deep dives" into known issue areas and; Assurance of Action Plans (AAP) which provide an assessment of whether the project's forward plans are sufficient to resolve issues identified through planned assurance.

9.7 This new toolkit is fully integrated with the strengthened Treasury approval process and continues to be supported by the Major Projects Review Group (MPRG) which scrutinises Government's largest and most complex Major Projects.

9.8 Together these tools and processes constitute the Government's Integrated Assurance and Approval Framework providing the structure for risk-based, proportionate and fit for purpose assurance throughout the lifecycle of Major Projects and Programmes.

Ninth Report

HM Treasury (HMT)

Financing PFI projects in the credit crisis and the Treasury's response

Summary of the Committee's findings

The 2008 credit crisis had an enormous impact on the Government's public infrastructure programme. Severe restrictions on bank lending at that time meant no sizeable Private Finance Initiative (PFI) contracts could be let. This affected the viability of a large number of infrastructure projects, including school and road building schemes, with a total investment value of over £13 billion.

The Treasury needs to be better informed about the active market in the sale of PFI shares. At present, unlike debt refinancing, the Treasury does not monitor the extent of gains to private investors from selling their shares. If gains are excessive, this may indicate an overpriced contract in the first place, raising concerns about value for money for taxpayers.

In reaching its findings the Committee took evidence on 26 October 2010 from the Department. The Committee issued its report on 9 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

PAC RECOMMENDATION 1

The Treasury failed to use its Infrastructure Finance Unit, which only made one loan, to promote a downward trend in the cost of private debt finance. The Treasury should expand the range of financing sources and assess the potential benefits from making further Treasury loans whenever commercial lending rates are unusually high.

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

1.2 The Treasury agreed that there was a high cost associated with bank finance and that encouraging competition between sources of finance will help to reduce this cost. As such, the Treasury continues to encourage the consideration of a range of funding sources and would expect the final decision on each individual financing to be based on value for money. For example, the Treasury continues to work with the EIB to ensure that the UK benefits from the lower cost of finance it offers. Since 2005, the UK has received very similar levels of EIB funding to those provided to France.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 A central part of the call for evidence on the reform of PFI, announced by Government on 15 November 2011, will be the consideration of alternative funding models and the means to access wider sources of finance. Related to this, in advance of the Chancellor's Autumn Statement, the Government has signed a Memorandum of Understanding with two groups of UK pension funds (including the National Association of Pension Funds and the Pension Protection Fund and a separate group representing pension plans and infrastructure fund managers) to unlock additional investment in UK infrastructure, public assets and services. The Government is also establishing an Insurers Infrastructure Investment Forum with the Association of British Insurers to explore ways to ensure that the capital markets continue to provide an efficient and attractive source of debt finance for infrastructure projects.

PAC RECOMMENDATION 2

In 2009, banks increased the cost of financing PFI projects by between 20% and 33%, adding £1 billion to the contract price over 30 years for the 35 projects financed. At the same time, the taxpayer was providing unprecedented support to the banking system. Yet the Treasury failed to set the bank's lending targets for PFI projects. It should now identify ways in which better deals can be obtained, at least from the Government-supported banks.

2.1 The Government disagreed with the Committee's conclusion.

2.2 It is true that the Government did not use its position as a shareholder to set lending targets for PFI projects. However, this was due to the Government's wider policy position.

PAC RECOMMENDATION 3

The Treasury did not have full information on project financing costs in the credit crisis. Value for money is often marginal for PFI projects. The Treasury should ensure it has full information on financing costs from Departments, and should also intervene after any significant changes in costs to assess whether PFI deals should go ahead.

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

3.2 The Treasury agreed that value for money is of primary importance when undertaking a new project and that selecting the most appropriate delivery route is vital to ensure value for money is achieved. As such, all PFI projects have been subject to a strict Treasury approval and scrutiny process, which includes a value for money assessment.

3.3 The Treasury does require that projects return for re-approval where they undergo a significant change. This re-approval requires the project to reassess key aspects of their business case, in line with any changes in market conditions, and so would highlight where there was a change in the VFM being attained. The Treasury does, however, recognise that the guidance in this area could be more robust and will reflect the Committee's recommendation in the revised PPP Value for Money Guidance that will be published in 2011.

Current Status

3.4 Implemented

Action taken to implement recommendation

3.5 The Treasury introduced new assurance and approval arrangements in April 2011 to strengthen the process of all projects that require Treasury approval. As part of the business case review process, all procuring authorities are still required to confirm the affordability and value for money of projects taking into account expected funding costs.

3.6 The Government has announced its intention to reform the PFI model and is currently engaged in a call for evidence to develop new delivery models. The Value for Money Guidance will be updated to reflect the conclusions from this process. Allowing for consultation with Departments and the NAO, the revised guidance should be published in 2012.

PAC RECOMMENDATION 4

The Treasury should identify the regulatory and other impediments affecting their willingness to invest in PFI projects and take steps to address them.

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

4.2 The Treasury agreed that life insurance and pension funds are important alternative sources of finance and acknowledges that their investment strategies will be affected by regulatory requirements under EU legislation. Aside from the intended regulatory objectives, the Treasury must therefore consider this legislation, not only with reference to the level of investment being made in PFIs, but also to the level of investment in non-PFIs, and any wider policy motivations.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The National Infrastructure Plan published on 28 November 2011 confirmed that the UK requires over £250 billion of infrastructure investment to 2015 and beyond, the majority of which will need to be provided by the private sector. UK pension funds are keen to invest in UK infrastructure assets and could be an important source of private investment. However, the current investment model and structure of UK pension funds does not support efficient investment in infrastructure by pension funds. If structured correctly, infrastructure could be a good match for pension funds by providing a source of stable, inflation-linked, longer term yields.

4.5 In advance of the Chancellor's Autumn Statement, the Government signed a Memorandum of Understanding with two groups of UK pension funds (including the National Association of Pension Funds and the Pension Protection Fund, and a separate group representing pension plans and infrastructure fund managers) to unlock additional investment in UK infrastructure.

4.6 The Government is also establishing an Insurers' Infrastructure Investment Forum with the Association of British Insurers to explore ways to ensure that the capital markets continue to provide an efficient and attractive source of debt finance for infrastructure projects.

4.7 These groups will identify changes to current traditional delivery models and suitable alternative investment platforms that can attract more pension fund and institutional investment in infrastructure including overcoming regulatory and other impediments to investment.

PAC RECOMMENDATION 5

The Treasury must consider unbundling service delivery from PFI contracts or find ways to lower the cost of financing the operating period.

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

5.2 The Treasury continues to review models for delivery of Public Private Partnerships (PPPs), and the appropriate nature of services to be included for each sector. The Treasury is open to new models of delivery of PPPs, as opposed to unbundling PFIs which would fundamentally impact the risk transfer.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 On 15 November 2011, the Government announced its intention to reform the PFI model. The Government launched a call for evidence process on 1 December 2011 to develop a new delivery model that draws on private sector innovation, but at a lower cost to the taxpayer, and offering better value for our investment in public services. All options for reform will be considered, including the potential to unbundle service delivery from asset delivery and alternative approaches to the financing of projects.

PAC RECOMMENDATION 6

The Treasury should monitor market conditions and ensure that Departments are ready to maximise these gains, as soon as conditions are favourable. In particular, the Treasury should identify groups of projects which could be refinanced at the same time. This portfolio approach would enhance the public sector bargaining position, reduce transaction costs and increase potential gains.

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

6.2 The Treasury agrees there is potential for future gains from refinancing PFI deals. However, the scope for these gains will be dependent on both the specifics of the individual deal and future market conditions.

6.3 Value for money will be the primary driver for any decision to call for a refinancing, and will also be key when considering whether a portfolio refinancing approach is appropriate. The Treasury's refinancing taskforce will continue to monitor the market, to provide advice and to promote good value for money refinancing. The refinancing taskforce will also look for opportunities to achieve value for money through a portfolio refinancing approach.

Current Status

6.4 Implemented.

Action taken to implement recommendation

6.5 The Treasury continues to monitor debt market conditions closely, to ensure continuing confidence in the affordability and value for money of debt raised for new projects reaching financial close; and for indicators of market conditions that would support the value for money refinancing of projects signed in 2009 onwards. At present, the Treasury does not believe that funding rates have improved to a point that would offer refinancing benefits for Departments, either as part of a grouped portfolio or on a standalone basis.

6.6 With respect to grouped or portfolio refinancing options, the Treasury considers that the scope for refinancing portfolios of projects would need to take into account the value for money of restructuring existing equity and / or debt and associated long term hedging arrangements, as well as the extent to which existing equity investors for these projects would be willing to participate in a grouped approach to refinancing,

6.7 Looking forward, the Government has confirmed that, as part of the current call for evidence process on PFI reform, it will consider the scope for accessing wider sources of finance, including pension funds and other sources of institutional funding, to support investment in public assets and services at a lower cost to the public sector.

PAC RECOMMENDATION 7

There has been an active market in selling PFI shares, with a large number of sales and a consolidation of ownership. This has led to portfolio gains that the Treasury has failed to monitor adequately. The Treasury should review whether investors are systematically realising gains on share sales, as well as refinancing debt.

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

7.2 Historically, Government policy has been that the public sector should not take a share of gains made from the sale of equity. Change of equity ownership is outside the PFI project and does not affect the public sector's rights or liabilities in that contract. Changes in equity ownership also allow for a recycling of equity to be used in new projects.

7.3 The Treasury does monitor the equity owners in all PFI contracts, and this information is available on the Treasury's website. However, there has been a significant secondary equity market and there could be enhanced monitoring of sales of equity in this market and the gains being made by equity holders from these sales. The Treasury will, therefore, seek more actively to collect equity ownership information and to track where equity is being sold. The Treasury will also request information relating to the gains being made by equity holders upon the sale of equity.

Current Status

7.4 Implemented.

Action taken to implement recommendation

7.5 As part of the current call for evidence on PFI reform, all options are being considered, including the potential for greater transparency of investor returns, including from sales of PFI equity; and for alternative approaches to the financing of projects that could reduce the cost for the public sector. Over the summer and autumn of 2011, the Treasury engaged in a study of the PFI equity market and the balance of risk and return to equity in PFI projects in the past. This work is being used to inform policy development on the reform of the PFI model. Options for reform of the PFI model will be the subject of future Ministerial decisions on the preferred procurement and financing models to be used for the procurement of public assets and services going forward.

Tenth Report

Ministry of Defence (MOD)

Managing the defence budget and estate

Summary of the Committee's findings

The Ministry of Defence (the Department) is responsible for over £42 billion of annual expenditure. While it has managed to stay within budget each year, it has failed to exercise the robust financial management necessary to control its resources effectively in the long term. It has also failed to match its future plans to a realistic assessment of the resources available. There is a shortfall in planned expenditure against likely funding of up to £36 billion over the next ten years. The Strategic Defence and Security Review (SDSR) did not explicitly set out how this long-standing gap between defence spending and funding would be resolved. It is imperative that the Department should now do so.

The Department has made some inroads into improving its financial management; however, it has yet to give financial management the serious consideration that it deserves. The Department has now appointed a professionally qualified Finance Director, and has undertaken to provide him with the full authority he needs to do the job. The Department does not assess its estate against clear objective criteria, such as the cost of running a site or the intensity of usage. The bias always appears to lie with keeping a site rather than disposing of it. The Department does not collect centrally the information and data that would allow it to manage its estate in an effective way. It appears to lack urgency in its plans to improve its information base.

In reaching its findings, the Committee took evidence from the Department 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.

PAC RECOMMENDATION 1

The Department needs to take immediate steps to sort out its financial management.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Government agreed that more must be done to improve financial planning. The Department has committed to implement Lord Levene's Defence Reform Review, published in the summer of 2011. This included reforming financial management and acquisition processes within its scope. Implementation of the Review is being taken forward under the 'Transforming Defence' programme.

1.3 The costs of the defence programme over the long-term will of course also depend on future cost trends, including in pay, pensions, fuel, foreign exchange and equipment inflation. The Department's programme to transform defence will ensure that the Department is better placed to manage these risks.

Target implementation date

1.4 March 2013.

Current Status

1.5 Work in progress.

Action being taken to implement recommendation

1.6 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.

1.7 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.

PAC RECOMMENDATION 2

The Finance Director should lead the creation of a realistic financial strategy which identifies and reviews spending priorities on an annual basis.

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

2.2 Successive external capability reviews recommended that the Department needed a corporate strategy. The first Strategy for Defence, published in October 2009, provided better linkage between policy, programmes, plans and available resources. The strategy provided clear guidance on the priorities for defence backed up by detailed guidance for planning and finance staff. Following the SDSR, the Department produced a new Strategy for Defence, underpinned by the more detailed Defence Strategic Direction document. This looks out from the present day to around 20 years hence and provides detailed direction to the Department on priorities for resource allocation. This direction will shape the Department's Planning Round 12.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 Interim strategic direction was provided to inform the detailed costing of the SDSR outcomes through Planning Round 11 (PR11). Once PR11 was concluded, an interim draft of Defence Strategic Direction was issued to the Department on 18 May 2011. This has 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. A Defence Strategic Direction was reissued in the summer to take account of the outcome of Defence Reform and the initial stages of Planning Round 12.

PAC RECOMMENDATION 3

In response to a recognition that the overall defence programme was unaffordable, a series of decisions to delay and change the scope of defence projects were made which offered poor value for money. The Accounting Officer did not, however, consider it appropriate to seek a direction from Ministers to proceed on any of these individual decisions or in respect of their cumulative effect. Whilst respecting his view, the Committee recommends that the Treasury and the Cabinet Office revisit the issue on seeking ministerial directions and strongly reiterate to Accounting Officers the importance of seeking such directions in appropriate circumstances.

3.1 The Government agreed with the Committee's recommendation, although it recognised that it must remain the duty of each Accounting Officer to decide, in the context of the programme, and the Department's other obligations, whether to seek a direction in any particular case.

3.2. The Government agreed that Accounting Officers need to consider seriously whether major programmes with long term spending implications are affordable, when deciding whether they are in accord with their responsibilities. As Sir Nicholas Macpherson told the Committee on 19 January 2011, the Treasury plans to reissue the standard guidance *Managing Public Money (MPM),* intended to ensure that this issue is given greater prominence in the chapter on Accounting Officers' responsibilities.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Treasury issued Dear Accounting Officer letter (DAO 01/11)[7] on 12 April 2011. The letter drew attention to the revised chapter 3 of *Managing Public Money (MPM)* and to a new draft annex 3.1 on Governance Statements. There are several areas in the revised chapter 3 which strengthen the duties of Accounting Officers. For example: Accounting Officers will now consider whether proposed policies or activities are feasible when considering whether to seek a Ministerial Direction.[8]

PAC RECOMMENDATION 4

The Committee welcomes the Department's commitment to give the Finance Director the full range of powers he needs to perform his job effectively. The Committee urges the Department to make sure the Finance Director has immediate responsibility for all financial matters, including strategic financial planning.

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

4.2 The intention behind giving responsibility for long-term financial planning to the Strategy Director was to ensure stronger linkages between departmental strategic planning and resources, particularly in the build-up to, and creation of, the SDSR. Over summer 2011, responsibility for long-term strategic financial planning came under the control of Director General Finance. The Finance Director was already a member of the Defence Board. The Defence Reform Review considered the roles and responsibilities of the Finance Director and other members of the top team as part of its review of the top structure of Defence and made recommendations as appropriate.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Finance Director took full responsibility for the financial planning process from 1 April 2011.

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.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department accepts the lessons of recent years regarding strategic financial management. The publication of the Strategy for Defence in October 2009 was the first step to ensure coherence between strategic and financial planning across the Department. A range of other improvements have been or are being undertaken to improve strategic financial management, which are being taken forward as a work strand under Defence Transformation

Target implementation date

5.3 'Quick wins' identified by April 2012, including introducing Directors of Resources in each Top Level Budget with new Terms of Reference, and Director General Finance chairing the Investment Approvals Committee. By April 2013, a decision should be made and implemented on delegation of

7 http://www.hm-treasury.gov.uk/d/dao01_11.pdf

8 Section 3.4 and box 3.2

equipment planning and programming to the Commands with associated strengthening of holding to account and approvals processes.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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.

5.7 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.

5.8 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.

5.9 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.

5.10 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.

5.11 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

PAC RECOMMENDATION 6

The Department must develop a more robust decision making process, which balances perceived operational need with the cost of holding and running major assets. It should change the way it takes decisions on the future of the estate, so that it can challenge more robustly whether the use of the estate is cost effective and efficient in the light of changing operational needs and reductions in personnel numbers.

6.1 The Government agreed with the Committee's recommendation.

6.2 Following SDSR, the Department is aware of the need to operate on a more centralised basis. It is currently considering how best to do this and the work will be taken forward as part of the Defence Reform Unit's Review, led by Lord Levene.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The Defence Infrastructure Organisation (DIO) was formed on 1 April 2011. This brought together the former Defence Estates organisation with property and infrastructure functions within the other six Defence TLBs and created a single organisation responsible for the Defence Estate. The DIO provides both hard and soft facilities management under a single organisation. This will greatly assist decision making by ensuring that the widest range of information relating to the management of the Defence estate is taken into account. The Defence Infrastructure Board includes representation from the Government Property Unit to assist in providing strategic leadership and commercial knowledge and senior Defence representation to ensure that users' requirements are taken into account, but do not act as a barrier to decision making or change.

6.5 The Department published a Defence Infrastructure Interim Land and Property Disposal Strategy on 5 October 2011. This sets out key sites already announced as surplus and the number of houses that might be built on them. The Department continues to work closely with the Cabinet Office and the Department for Communities and Local Government to assist in ensuring that Government targets on new housing are met. The strategic long term direction to bring the Army back from Germany and other work on basing may necessitate the re-use of sites which could otherwise have been released.

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.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Department will improve strategic management of the estate / infrastructure through the creation of a strategic asset management and programming team. The Department is in the process of developing an effective infrastructure management information system. Work has already commenced, building upon previous work to establish a coherent picture of the condition of the totality of the estate. This will require much better information than currently exists covering the utilization of assets, the value of our property portfolio and its sustainability characteristics.

Original target implementation date

7.3 Early 2012.

Revised target implementation date

7.4 An interim solution by April 2013 and full implementation by April 2014. With the creation of DIO the scale of the task has increased markedly: new opportunities have been created and the Department wishes to take advantage of these. Work to verify assets against each of the six Key Performance Indicators (size; utilisation; condition; importance, cost of ownership and value) is now in progress, but is a significant task.

Current Status

7.5 Work in progress.

Action being taken to implement recommendation

7.6 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.

7.7 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.

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.

8.1 The Government agreed with the Committee's recommendation.

8.2 Whilst good condition data on some 60,000 built technical assets and over 40,000 service homes on the estate is available, this needs to be expanded for the remainder of the estate and centralised. Work to improve the performance management systems had already commenced and utilisation (and other similar data) is being taken forward under the Asset Management Information Study (AMIS). In taking this forward the AMIS over the next twelve months, the Department will: define a future estate strategic information model and create specifications for future information providers; and establish the working practices, responsibilities, interfaces and governance to support efficient information reporting, including the Next Generation of Estates Contracts

Original target implementation date

8.3 Early 2012.

Revised target implementation date

8.4 An interim solution by April 2013 and full implementation by April 2014. With the creation of DIO the scale of the task has increased markedly. New opportunities have also been created and the department wishes to take advantage of these. Work to verify assets against each of these six KPIs is now in progress but is a significant task

Current Status

8.5 Work in progress.

Action being taken to implement recommendation

8.6 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

8.7 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 6 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.

Eleventh Report

Department for Work and Pensions (DWP)

The Community Care Grant

Summary of the Committee's findings

The Community Care Grant provides an important safety net for those most in need by helping them to obtain essential items, such as beds or cookers. The scheme has been frozen in cash terms since 2006-07, however, and the Department for Work and Pensions (the Department) expects future funding to remain at £141 million a year.

Under existing arrangements, applying for and awarding a grant is essentially a paper-based exercise and the quality of decision making in Jobcentre Plus is unsatisfactory. Around half of the appeals considered by the Independent Review Service were found to contain significant errors because decision makers were making poor judgements based on incomplete information and without challenging applicants' statements.

Funding is not fairly distributed across the country, with a clear imbalance between funding in each district and potential demand and need. The Department should do more to forecast demand based on established patterns and trends. Regional funding allocations are decided by Ministers but it is up to officials to provide clear advice about changes needed to improve the fairness of the scheme.

In reaching its findings, the Committee took evidence from the Department, the Independent Review Service and Jobcentre Plus 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.

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. The recommendations below outline how this should be done.

1.1 The Government agreed with the recommendation.

1.2 The primary purpose of Community Care Grants is to help vulnerable people, in receipt of certain income related benefits, to resettle and remain live as independent a life as possible in the community and to ease exceptional pressure on families. In 2009-10, the Department paid out 99.8% of its funding to its customers, an under-spend of £0.3 million against a budget of £141 million. The Department has previously given a commitment to review the current allocation methodology to consider how and whether funding could be is distributed more equitably around the country and this review will be conducted before the start of the next financial year.

Target implementation date

1.3 From April 2013, the discretionary elements of the Social Fund, Community Care Grants and Crisis Loans for general living expenses will be replaced by new local provision delivered by local authorities in England and the devolved administrations in Scotland and Wales.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 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.

1.6 The Government intends that the Community Care Grant Scheme (and Crisis Loan Scheme) will end in March 2013. The Community Care Grant will be replaced by 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.

1.7 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.

1.8 Work is currently under way to scope and calculate the additional costs of the new provision. The outcome of this work will be known in Spring 2012.

PAC RECOMMENDATION 2 and 3

2: The Committee recommends that the Department presents clear and well-evidenced proposals to Ministers to reform the funding distribution formula so that budgets are allocated more fairly across the country.

3: The Department concedes more could be done to even out regional funding inequalities by moving money around the country. The Agency should immediately start to prepare forecast of future demand for the Grant in each regions, update these regularly, and use these forecast to recommend changes to the budget allocations in year so that regions can meet expected need on a more equitable basis.

2.1 The Government partly agreed with the recommendations.

2.2 The Department is reviewing the funding allocation to establish whether there is a more equitable way of distributing funds between regions. As part of that process, the Department will consider options for forecasting demand locally and nationally. The Department will also examine whether changes to budgets in year are feasible, but the review of the current methodology will ensure a more equitable distribution reducing the requirement for any in year adjustments.

Current Status

2.3 Implemented.

Action being taken to implement recommendations

2.4 The Community Care Grant budget has been recalculated to give a fairer distribution of resources between areas and move to the optimal funding position prior to the introduction of the new local provision in April 2013.Budgets are being altered gradually between October 2011 and March 2013.

2.5 All social fund budget areas will be funded to meet a similar level of legitimate demand by the final quarter of 2012-2013. The legitimate demand model takes account of both the monetary amount applied for by those who receive an award or are refused on budgetary grounds and the volume of such applications. Using this definition means that all applicants who meet the dual qualifying criteria of eligibility to a defined means tested benefit and meeting the specific conditions set out in the Secretary of State's Direction 4 are taken into account when setting the allocation. Using the average of both value and number of applications takes account of the evidence that some people apply for more money than they actually require to meet their need and that there is some variation in the costs of goods and services around the country.

PAC RECOMMENDATION 4

The Agency should regularly monitor awareness and take-up levels across the population and work to raise awareness amongst under-represented groups.

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

4.2 The fact that CCGs are only available to people in receipt of a qualifying benefit means that they are only paid to the most vulnerable in society. Under the current scheme, every application has to be considered on its merits, regardless of client group or age. If an application satisfies the qualifying criteria, has sufficient priority and budgetary constraints allow, it will be paid. The Department recognises that the design of the current scheme could favour those who are more able, or who have structured support such as those leaving prison or who are in touch with a social worker. These are more likely to be people of working-age

4.3 The Department has already taken steps to raise pensioner awareness via the Pensioners Guide, Direct.gov and via local service teams. The Department is currently working with external organisations and customer representative groups to research levels of customer (including pensioner) awareness of the Community Care Grant scheme.

Current status

4.4 Implemented.

Action taken to implement recommendation

4.5 The Department now ensures that the Community Care Grant scheme is highlighted on all Pension Credit up-rating notifications, in Pension Credit (Guaranteed Credit) application packs and local service visiting officers carry application forms for Community Care Grants and assist potentially eligible customers to make an application.

4.6 The Department has also worked alongside third party organisations and customer representative groups to undertake research into levels of customer (including pensioner) awareness of the Community Care Grants scheme. The study found that the scheme is reasonably publicised, but similar to the take up of other benefits, pensioners appear to be particularly reluctant to make use of the Community Care Grant scheme. As a result of this research, no further action is being taken.

4.7 From April 2013, the discretionary elements of the social fund will be replaced by new local provision. English local authorities and the devolved administrations in Scotland and Wales will be better placed to determine and support the needs of local vulnerable people than the current remote centralised system. The Government believes that the delivery of local assistance will mean that any decisions made at a local level are the most appropriate ones for the citizens of that area.

PAC RECOMMENDATION 5

The Agency's procedures should be modified so that vulnerable people are routinely referred to alternative sources of support if they are deemed ineligible for Community Care Grant.

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

5.2 Customers who are not awarded a Community Care Grant are currently automatically considered by the Department for a Crisis Loan (for items) and vice versa. Budgeting loans are not payable to people who have been in receipt of a qualifying benefit for less than 26 weeks and therefore the Department does not automatically consider a Budgeting Loan where a Community Care Grant is refused.

Current status

5.3 Implemented.

Action taken to implement recommendation

5.4 Since April 2011, a combined application form for Community Care Grants and Crisis Loans for items following a disaster has been introduced. This helps ensure that the applicant receives the most appropriate discretionary social fund award for their circumstances.

5.5 The Department does not automatically consider a Budgeting Loan where a Community Care Grant is refused as Budgeting Loans are not payable to people who have been in receipt of a qualifying benefit for less than 26 weeks. A new combined application form has, however, been amended to ensure that people are signposted to the Budgeting Loan Scheme.

PAC RECOMMENDATION 6

The Agency has now introduced a pilot exercise of home visits to claimants before awards are made to check on their eligibility and will change the application form to ask them to keep receipts. The Committee welcomes these initial steps, but proper action is needed to correct current weaknesses. The Committee believes that there is a strong case for introducing a nationwide programme of spot checks as soon as possible, and recommends that the Agency decides and reports to the Committee by the end of the year on whether it intends to implement such checks nationally.

6.1 The Government agreed with the Committee's recommendation.

6.2 Physical spot checks on a percentage of applications could be undertaken to prevent customer abuse. In response to this, the Agency set up a pilot exercise to visit and check applications in advance of payment. The pilot commenced 25 October 2010 in the East Midlands region and will run to 11 February 2011. The pilot study will examine applications where a provisional decision to make an award has been made. Risk criteria will be applied to these applications and a selection of customers will then be visited. Evaluation of the pilot will take place between February and April 2011. Subject to the outcome of that evaluation and cost effectiveness, the Department will consider whether this approach should be rolled out nationally.

Current status

6.3 Implemented.

Action taken to implement recommendation

6.4 A risk based pre-payments visiting process was rolled out nationally in May 2011. Around 1500 home visits are made a month with "savings" running at £700,000 a month. All savings are recycled back into the Community Care Grant budget.

6.5 In addition amendments to legislation were made in July 2011 to prevent repeat applications for the same item being awarded for both the Community Care Grants and Crisis Loan schemes if they are made within 52 weeks. This restriction does not apply where there is a relevant change of circumstances. The previous limit was 28 days. Furthermore, the Community Care Grant application form, including the internet version, has also been amended to include:

- a statement notifying the customer that receipts may be requested - this message has also been reinforced throughout the form at the appropriate points.
- a declaration from the customer that they must purchase the goods requested if the application is approved.

6.6 The Department looked at developing a process for routinely requesting receipts but this was assessed as too resource intensive, and would have cost more than it saved. Available resource is being focussed on the pre-award visits.

PAC RECOMMENDATION 7

The Agency's senior management must take greater responsibility for reducing error and improving decision making, and as part of this, outline to the Committee the full range of measures they propose to improve performance in this area.

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

7.2 The Agency contests the view that applications are not properly challenged. In fact 59% of all decisions made in 2009-10 were initially refused. Of these (646,000), 4.6% (29,570) were referred to the Independent Review Service (IRS) for an independent decision. The IRS overturned 46% (13,190) of the cases they reviewed. This is 2% of the total decisions made by the Agency.

Current status

7.3 Implemented.

Action taken to implement recommendation

7.4 To monitor and improve the quality of all social fund decisions, the Department now operates a quality assurance framework.

7.5 Checks are made on a minimum of five decisions per month, per decision maker. This process gives feedback to decision makers and identifies and addresses training needs. The quality assurance framework has helped to reduce the number of decisions revised on review. In 2010-2011, 83% of decisions were not challenged and of those that were 65% were upheld on first review. 28% of applications for the first review were followed by an application for Social Fund Inspector reviewed by the Independent Review Service. In total, only 8% of original decisions were changed on either first or second review.

PAC RECOMMENDATION 8

The Agency has undertaken to review the end to end process for administering grants in January 2011 to identify where costs could be reduced. The Committee expects the Agency to report back on the outcome of that review, and how it will implement potential cost savings, before the start of the 2011-12 financial year.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Department believes that the costs of administering the scheme are reasonable. The Agency adopts a continuous improvement approach to identify further efficiencies and has commissioned an end to end (LEAN) review of the current processes. A report will be produced and the outcome of any potential cost savings shared with Minister in Spring 2011

Current status

8.3 Implemented.

Action taken to implement recommendation

8.4 In January 2011, the Department commissioned an end to end LEAN review of the business process. The new process was implemented nationally on 3 October 2011

8.5 Following an evaluation of the review, areas of duplication have been removed to make the decision making process more efficient. Savings from the efficiencies are currently being evaluated and should be realised by the end of March 2012. The Department estimates administration costs will reduce to £15 million.

8.6 As well as the end to end LEAN review, the Department has introduced a scanning process, which is now fully embedded into operational delivery of the Social Fund. Since January 2011, in excess of three million documents - over 100,000 a week - have been scanned within five working days of receipt. All cases and documents are scanned after each part of the decision making process. The Department is currently working on the introduction of front end scanning to further reduce administration costs.

PAC RECOMMENDATION 9

Introducing store cards or central contracts to supply frequently requested items, such as beds and refrigerators, could reduce fraud and generates significant financial savings: an estimated £14 million a year could be saved by negotiating contracts for goods centrally and thus gaining bulk discounts from suppliers. The Agency has said it will work with the Family Fund to learn from their use of payment cards. The Agency should investigate other promising initiatives and their potential for cost savings.

9.1 The Government agreed with the Committee's recommendation.

9.2 The proposal to abolish and replace the CCG scheme with new provision is currently being developed in discussion with other Government Departments, local authorities and the devolved administrations. If the legislation is passed and localisation of this new provision takes place, the Department will no longer have the responsibility for delivering this support – local authorities (and any other providers as determined by the devolved administrations) will assume this responsibility

Current status

9.3 No longer being implemented.

Reason for no longer implementing recommendation

9.4 The Department investigated operating a system of good and services on a national level and concluded it would only be cost-effective for the taxpayer if it was restricted to a limited range of high volume items which may not meet the needs of all the customers who currently access the scheme. For example: a small, but significant number of current Community Care Grants awards are made to people who require bespoke or adapted items.

9.5 Government policy is to replace the Community Care Grants (and Crisis loans for living expenses) with local provision that will be administered by English local authorities and the devolved administrations in Wales and Scotland from April 2013. The Department has taken no further action in this area.

Annex 1: Changes to Community Care Grant budget allocations by region

This annex shows the changes to the funding available for each Social Fund Budget Area that will be achieved before the funding is devolved from April 2013.

Social Fund Budget Area by Region	Allocations (£)[9]	Allocations (£)[10]	Variation
East of England			
Essex	2,347,144	2,469,733	5.2%
Norwich BDC	6,083,490	5,639,126	-7.3%
East Midlands			
East Midlands North	3,690,502	3,295,681	-10.7%
South East Midlands	5,027,738	4,975,673	-1%
London			
Central and East London	7,177,466	6,331,951	-11.8%
London South	8,985,071	7,754,153	-13.7%
North and North East London	4,314,406	4,575,973	6.1%
West London	3,660,504	3,386,882	-7.5%
North East			
Northumbria	2,627,314	3,135,255	19.3%
South Tyne and Wear Valley	2,622,220	2,569,649	-2%
Tees Valley	2,456,473	2,760,533	12.4%
North West			
Chorlton BDC	12,402,721	12,121,082	-2.3%
Greater Liverpool and Cheshire	8,141,316	8,482,818	4.2%
Scotland			
Inverness BDC	5,743,635	4,996,249	-13%
Springburn BDC	15,605,303	13,715,529	-12.1%
South East			
SE BOBS	2,630,592	3,314,194	26%
SE HIKYS	5,865,720	7,671,411	30.8%
South West			
South West Central	8,060,436	8,100,771	0.5%
Wales			
Llanelli BDC	2,555,656	2,488,923	-2.6%
South East Wales	5,616,541	5,690,617	1.3%
West Midlands			
West Midlands SF	13,207,411	13,739,021	4%
Yorkshire and Humberside			
Y & H Bradford	3,200,914	3,921,842	22.5%
Y & H Sheffield	8,977,427	9,862,935	9.9%
UK Total	141,000,000	141,000,000	

[9] Using the previous funding model
[10] Using the legitimate demand funding model

Twelfth Report

Cabinet Office

Central Government's use of consultants and interims

Summary of the Committee's findings

Spending on consultants and interims by central Government Departments amounted to over £1 billion in 2009-10. The Committee does not accept the view expressed by the Cabinet Office that it is impossible to assess the value for money of consultancy work, and the Committee is surprised that there is such a poor central understanding of spending on consultancy. The Committee recognises that there are legitimate reasons to buy in specialist skills where government does not have them internally, but the Committee is concerned that some Departments have failed to grow the skills they require, leaving them heavily reliant on consultants. Relying on consultants for commonly required skills is expensive and repeated use suggests poor value for money.

In May 2010, the coalition Government announced immediate plans to save £1.1 billion on discretionary spending. In the first 6 months of 2010-11, the Cabinet Office reports that consultancy spending has fallen by 46% since 2009-10 due in part to new measures it has introduced to control the use of consultants, but due in the main to Government stopping certain programmes. The Committee is concerned that this 'stop-go' approach to using consultants is not sustainable and does not deliver value for money.

Departments do not control and manage their spending on consultants. The price that Departments pay for consultants is often based simply on time spent on a project, rather than being fixed in advance or related to the achievement of specific objectives. Departments frequently fail to adequately define the service required or negotiate the most advantageous contractual terms, and therefore cannot assess the performance of consultants or whether the work done was of benefit.

In reaching its findings, the Committee took evidence from the Department 17 November 2010. The Committee issued its report on 21 December 2010 and the Treasury Minute – the Government's formal response - was published on 16 February 2011.

PAC RECOMMENDATIONS 1, 4, 7 and 8

1. The Cabinet Office should require all Departments to record their spending on consultants and interims on a consistent basis and routinely measure the benefits delivered against the objectives set, so that a Government-wide view of the value provided by consultants and interims can be established.

4. The Cabinet Office should meet the commitment it gave the Committee to establish clear categories of consultancy spending by the start of the next financial year and should also require arms length bodies to report their spending against these categories from 2011-12.

7. The Cabinet Office should encourage Departments to increase the proportion of contracts they let on a fixed price or incentive basis, recognising that to use such contracts effectively, Departments must first improve their ability to define clearly the output required.

8. The Cabinet Office should consider how they could help Departments share relevant information about the performance of suppliers to allow others to learn from their experience, so that Departments become more intelligent buyers and poor suppliers are not offered repeat business.

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

1.2. Steps were implemented in May 2010 to substantially improve the quality of data on consultancy and challenge it robustly. All consultancy spend with a contract value of £20,000 or more needs to be approved by a Departmental Minister or, in the case of Arms Length Bodies (ALBs), by Permanent Secretaries. In addition all consultancy contracts must be reviewed every three months with joint Ministerial approval from the Minister for the Cabinet Office and the Chief Secretary to the Treasury required for any proposals to extend a consultancy contract beyond nine months.

1.3 These measures, introduced by the Efficiency & Reform Group (ERG) in the Cabinet Office have been underpinned by significant improvements in the quality of management information. Since their introduction spend on consultancy across Whitehall has fallen by 46% compared to the same period last year.

1.4 Work on centralised procurement will ensure that there is a consistency of rates reflecting the scale of activity that is carried out with the Crown as a whole. In addition greater clarity will result on when, and how, it is appropriate to use consultants and how to ensure a clear separation between such work and other forms of resource support. Centralisation will positively contribute to Government’s management of consultants and other external resource. Management information from Centralisation and the Supplier Renegotiation Programme will also be used to inform future procurement decisions and the Government’s continuous drive for greater value for money through procurement efficiency and reform.

1.5 Time and materials is by far the most common method of payment for consultancy in both the public and private sectors. Some Departments have been more sophisticated than the private sector when it comes to buying consultancy. The Government is centralising the procurement of consultancy which will provide greater transparency in the requisition of consultancy, both above and below the EU threshold. The Government will deploy the most appropriate contract terms in accordance with what the consultant is expected to deliver; where outcome based, or risk and reward is most appropriate, these will be applied.

Current Status

1.6 Implemented.

Action taken to implement recommendation

1.7 At the end of 2010-11, the Government reduced expenditure on consultants and contingent labour (contractors & interims) by over £1.4 billion compared with spend in 2009-10. This was verified by independent auditors. Additionally, the first 6 months of 2011-12 has seen a further reduction of £334 million or 53% when compared with the same period in 2010-11.

1.8 Secretaries of State and Permanent Secretaries continue to decide the level of sign off required for specific Departmental consultancy requirements. However, where Departments wish to procure or extend a consultancy contract beyond nine months or buy in consultancy to assist with their procurements, then a request for authorisation must be made to Government’s Chief Procurement Office, the Minister for the Cabinet Office and the Chief Secretary of the Treasury. These requests must demonstrate a clear operational necessity for consultancy, that alternatives such as use of Civil Servants have been investigated and it represents good VFM to the taxpayer. As part of the approvals process, ERG will continue to work with Departments to ensure the most appropriate contract terms are deployed and encourage the use of outcome based payments for the right assignments.

1.9 In November 2011, the Government launched the *Consultancy One* procurement, which will consolidate 16 different consultancy frameworks into one. The procurement is also made up of 15 “lots” each of which categorises the different types of consultancy Government will procure addressing recommendation 4 made by the Committee.

1.10 This procurement will ensure that in the future, where there is an operational necessity, consultants are procured by Departments through a more efficient and transparent process whilst also leveraging Government’s buying power to achieve competitive prices. A similar centralised approach is now being developed for contingent labour (contractors & interims) that will be launched in the coming months.

1.11 The Government has procured and will be mandating the use of a new systemic spend analytics tool for Central Government that will capture monthly transactional spend data from all Departments. This data will then be analysed to monitor spend and support the identification of non-compliant or unauthorised spend by Departments. The spend analytics tool will further categorise the types of consultancy being procured by Central Government, including associated rates, and will inform future decisions made regarding the procurement of consultancy.

PAC RECOMMENDATIONS 2 and 3

2. The Cabinet Office should require each Department to prepare an annual assessment of need to support its proposed consultancy budget and should evaluate spending against this plan at year end.

3. The Cabinet Office should require each Department to report what consultancy spending has been cut in 2010-11 and why, so that it understands the impact of recent reductions.

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

2.2 It is good practice for Departments to consider their future consultancy needs as part of their annual business planning process and ERG will be recommending this approach to Departments, as part of the 2011 – 2012 controls and delegated authority process. The Government believes it is for Departments to centrally evaluate spending against plans. In addition, the measures introduced in May 2010 ensure demonstrable and rigorous scrutiny of consultancy use to ensure it is aligned with Departmental priorities. These measures, when coupled with greater centralisation of the procurement of consultants, will ensure better transparency of how Government uses consultants, including the associated cost and the types of consultancy work that has taken place over the course of each financial year. This information will inform how Government should further grow in-house skills to reduce reliance on consultants.

Current Status

2.3 Implemented.

Action taken to implement recommendations

2.4 Expenditure in 2011-12 is already being managed at lower levels than in 2010-11 and 2009-10. Current trajectory suggests that full year expenditure in 2011-12 will be around £800 million which is £279 million or 26% lower than 2010-11. The Government continues to believe that it is for Departments to centrally evaluate spend against their own plans. Departments will continue to ensure that expenditure on consultancy only occurs where there is an operational necessity and ERG will to monitor their spending to ensure any increases are properly accounted for.

PAC RECOMMENDATION 5

The Cabinet Office and Departments should increase the emphasis they place on programme and project management and IT roles, both to grow these skills within Government and to retain skilled staff. They should also collect better data on the experience of staff in key roles, such as the Senior Responsible Owners of major projects, to identify gaps and deploy the best people where they are most needed.

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

5.2. Progress has been made in strengthening the leadership of Government's major projects and programmes under the leadership of ERG, which is simultaneously improving the skills and capability of Senior Responsible Owners (SRO). During summer 2010, ERG reviewed 31 major projects which has resulted in recommendations on the re-scoping and restructuring of projects. The Major Projects Authority (MPA), which was established in November 2010 and implemented from April 2011, will result in a sea-change in the way that projects are managed and will significantly strengthen and improve Government's capacity and capability to manage what is a highly complex project portfolio.

5.3. The Government fully accepts the need to continuously develop the skills of civil servants, including the capability of SROs, and the Cabinet Office is already doing this through its programmes to fast stream ICT and Procurement Professionals. It is very much the view of the MPA that the level of authority and performance of the SRO role should be elevated further up the Department and supported by Accounting Officers within their overall business responsibilities; this issue will be addressed as part of the engagement with Departments to implement the Government's Major Projects Portfolio. ERG has also introduced the requirement for an SRO passport / accreditation, which ensures SROs have the prerequisite skills required to take on this key role, including effective management of consultants.

Current status

5.4 Implemented.

Action taken to implement recommendation

5.5 The Government has recognised the need to make better use of project and programme management skills and the Major Projects Authority (MPA) is working to significantly improve the successful delivery of all major projects. Part of the role of the MPA is to work collaboratively with Departments to provide assurance that they have the necessary skills and resources to deliver to time, cost and quality and to intervene when there are gaps in capability. This is a direct result of past experience which has shown the need to safeguard project and programme management skills capability.

5.6 In parallel, the Government is determined to return world-class Project Leadership capability to Whitehall, and create a profession of Project Leadership. In order to achieve this, the MPA is establishing the UK Major Projects Leadership Academy (MPLA), in partnership with an eminent education provider to improve the delivery of the Government's £400 billion portfolio of Major Projects. This will expose Whitehall's SROs and Project Directors to world-class teaching on how to lead successfully in this difficult and demanding environment. This type of focussed and practical training will produce an Alumni of exceptional Project Leaders who can be deployed across the entire Government Portfolio and commence the vital task of ensuring effective and efficient Project delivery. The Academy will become an exemplar on how to develop, enhance and retain top-level capability and how to deploy that capability in the best interests of the Government and the taxpayer.

5.7 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 including IT projects.

5.8 Part of the Academy programme will involve an assessment of capability and previous experience of Project Leaders, with a tailored development plan designed for each individual. This will ensure that there is a clear picture of the capability within the Civil Service and inform decisions of where to best deploy their expertise.

5.9 Finally, in October 2011 the Government published its ICT Capability Strategy. That strategy sets out how the Government will identify the key skills it needs to retain in-house; put in place development programmes, including enhancing the existing Technology in Business Fast Stream scheme; identify career paths for all ICT professionals to assist retention; and develop cross-Departmental processes for talent identification and deployment, that include the identification of key posts and staff.

PAC RECOMMENDATION 6

In making decisions about where savings should be made, each Department should prepare a robust analysis of the skills it needs to develop through training and should take into account the cost of acquiring those skills from elsewhere. Short-term financial cuts which lead to longer term additional expenditure does not constitute value for money.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Government is undertaking detailed work to improve the efficiency and effectiveness of learning and development, the results of which be communicated in due course. It is committed to ensuring that the civil service continues to develop skills in-house and that these skills are focussed directly on the business priorities. A `Common Curriculum' for all civil servants has been established and the large number of separate and inconsistent learning products currently offered or procured by departments will be replaced by a single portfolio of training leading to significant improvements in approach and better value for money through more effective larger scale procurement. Further, there will be a decisive shift to the use of blended learning, and online resources, and a reduction in costly face-to-face classroom based provision.

Current status

6.3 Implemented.

Action taken to implement recommendation

6.4 As part of the Government's focus on up-skilling its workforce, it has created a single organisation, Civil Service Learning, to oversee all training in generic skills areas. Since it was established in April 2011, Civil Service Learning has delivered an online portal for delivery of all e-learning and appointed contractors to develop a single set of e-learning in priority subject areas, including IT and PPM.

6.5 Government are now procuring one prime contractor, on an accelerated path which will provide all face to face learning and associated support replacing the inefficient duplication which existed across departments. This new arrangement is due to be in place by April 2012 and will give the Civil Service access to leading edge training providers at a much reduced cost to the taxpayer.

6.6 Controls on L&D spend and the creation of Civil Service Learning have already saved £60 million on 2009-10 expenditure across Government, and will lead to a more strategic skills focus, encouraging Civil Servants to learn the skills which the business requires them to have to carry out their roles now and for the future.

Thirteenth Report

Department for International Development (DFID)

Department for International Development's bilateral support to primary education

Summary of the Committee's findings

Within the context of an overall rising aid budget, the Department is currently reviewing how it allocates resources across its whole portfolio.

Under bilateral support to primary education the Department's aim has been to improve and expand state primary education, focusing mainly on sub-Saharan Africa and Asia. It works largely by influencing and financing developing country governments to pursue global Millennium Development Goals. The Committee universally support the aims of the Department's education programme. However the Committee has significant concerns about its ability to assess the value for money of its spending.

The Committee recognises the progress made in enrolling a higher proportion of children in primary schools, in the majority of the countries the Department supports but is concerned that the Department cannot adequately attribute impacts to its spending and its influence. The Committee also noted that the Department has paid less attention to how many children attend and complete primary education, and the literacy and numeracy they achieve.

The Department is currently trying to change its approach by building value for money criteria into its spending choices. This includes a range of mechanisms to ensure money is well spent, such as the establishment of the Independent Commission on Aid Impact. The Committee welcomes Liz Ditchburn's appointment as the Director of Value For Money and the prominence the Department is now giving to this role. It assured the Committee that it is placing an increasing emphasis on quality and attainment in deciding which programmes to support, and on measuring important indicators of education delivery against the costs. Until this is achieved, the Committee can have little confidence that UK taxpayers' money is securing the fullest benefits for poor people overseas.

In reaching its findings, the Committee took evidence from the Department on 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 February 2011.

PAC RECOMMENDATION 1

The majority of countries the Department supports are on track to meet global Millennium Development Goals for primary enrolment by 2015, with enrolment having risen from typically 50% or lower in the mid-1990s to 70-90% now. But the Department lacks a coherent framework for assessing the value for money of its aid. The recommendations that follow are intended to help the Department better target and manage its aid and so to increase its impact. The Committee expects to be informed of clear progress in a year's time.

1.1 The Government agrees with the Committee's conclusion.

1.2 The Government welcomes the report and its focus on education and girls. It is timely as the Government seeks to review and significantly enhance processes on results and value for money. The Committee's analysis is the same as that of the Government. The Department is addressing all of the recommendations and will report back to the Committee next year setting out its progress.

1.3 Since June 2010, the Department has introduced significantly more robust value for money framework. All Departmental investments now require a stronger value for money assessment prior to approval, as part of a new approach to programme design. There is no single measure of value for money that can apply across the whole diverse Departmental portfolio, but the Department is working to agree standard measures where possible. For example: for particular sectors, to enable meaningful comparisons between different interventions and assist in each value for money assessment. Stronger value for money assessment is part of a Business Case format for programme design, based on the Treasury good practice model. Each Business Case will be published, so that the Department's VFM assessments are open to public scrutiny.

Current Status

1.4 Implemented.

Action taken to implement recommendation

1.5 The Department submitted a Memorandum to the Committee on 23 November 2011 providing a one year update of progress in responding to the Committee's recommendations.

PAC RECOMMENDATION 2

The Department should place value for money at the heart of the new approach it is developing as part of its review of how it allocates resources.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Government has embarked on a major programme to strengthen the Department's focus on results and value for money alongside the creation of a new Independent Commission for Aid Impact. Since June 2010, the Department has been reviewing all major spending areas including bilateral, multilateral and humanitarian and emergency response. These reviews put results and value for money at the heart of decisions on aid allocations. Value for Money will become more evident once we have had long enough to measure, identify and publish the results we have achieved in response to our bilateral and multilateral aid reviews

Current Status

2.3 Implemented

Action taken to implement recommendation

2.4 A review of all major spending areas including bilateral, multilateral and humanitarian and emergency response has been completed. The outcome, in line with the Government's commitment to results and value for money, is that the Department: will close its bilateral programmes in: Angola, Bosnia, Burundi, Cameroon, Cambodia, China, the Gambia, Indonesia, Iraq, Kosovo, Lesotho, Moldova, Niger, Russia, Serbia and Vietnam by 2016; should focus on 28 countries, three aid dependent Overseas Territories and three regional programmes; and has ceased to fund UNHABITAT, the International Labour Organisation (ILO), UN International Strategy for Disaster Reduction (UNISDR) and UN Industrial Development Organisation (UNIDO).

2.5 The Department has a new framework which sets out the results it will deliver over the Spending Review period and how it will report progress. This enables the Department to link management of resources to results

2.6 The use of evidence, commercial awareness, evaluation and value for money (including unit costs and cost-effectiveness) has been strengthened in all programme spending decisions, including through the introduction of a new Business Case format for project design documents from January 2011 based on the rigorous Treasury investment appraisal criteria. The Department's new independent Quality Assurance Unit is working effectively and has quality assured 22 Business Cases for investments over £40 million since January 2011.

2.7 Since June 2011, there have been five new Business Cases for the bilateral education programme approved. All cases are now based on evidence of what works (and where this is not available, have planned evaluations to increase the evidence base). Prior to investing, feasible options (including doing nothing) are now appraised. All projects are accompanied by specific baseline and target indicators, including increases in learning outcomes, to facilitate systematic monitoring and evaluation.

2.8 The Department's new project scoring approach, starting in January 2012, will provide better information about whether each project has delivered the anticipated results over the previous year, and whether it continues to represent value for money. The Department will publish all annual reviews of projects, including the project score.

2.9 The Independent Commission for Aid Impact published its first four reports on 22 November 2011. These reports show that much of the Department's work is effective and provides value for money and highlights some areas where the Department must do better. The Department will implement in full the Commission's recommendations.

PAC RECOMMENDATION 3

The Department should analyse the extent to which its investment and influence supplements or simply displaces that of other funders, including the recipient governments and the private sector.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Department's new Business Case approach to programme design requires an evidence-based appraisal of the likely costs and benefits of investing compared to the alternative of doing nothing. This enables the Department to demonstrate the incremental or additional value for money of the intervention.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The new Business Case approach to programme design is enabling the Department to assess the incremental or additional value for money of its interventions. Prior to investing, there is an assessment of what would happen if the Department did nothing. Business cases are published on the Department's website.

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.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Government was pleased that the Committee acknowledges and supports the strong rate of increase in the enrolment of girls into primary education. An improvement in the performance of education systems and pupil attainment is the next stage, and the Department is now well underway in addressing this.

Target implementation date

4.3 End 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 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.

4.6 Data on these measures of education performance, delivery and cost enable the Department to make better informed decisions on programme design and education expenditure. DFID has education spend in 23 countries. Of these, one (Afghanistan) has no education spend in 2010-11. A further two (Burundi and Vietnam) will have no education spend by 2014-15. This leaves 20 countries with education spend, which we define as focus countries. By November 2011, five Departmental country offices already have data available for all indicators, with full data coverage available for 18 out of the 20 country offices with education spend in 2010-11 (excluding Vietnam and Burundi where the education programmes will close over Spending Review 2010) by end 2012. The remaining countries, DRC and Burma are fragile states with serious challenges in data collection.

4.7 The Department is actively using data on unit costs to improve the economy of education inputs. This includes comparing the costs across Government, private and / or NGO providers (Bangladesh, India, Malawi, Pakistan, South Sudan), and engaging in the design of tendering processes to ensure that quality textbooks are procured at the optimum price (Ethiopia; Nepal, Rwanda, Tanzania, Zimbabwe). In 18 out of 20 countries, with current education spend in 2010-11, the Department is planning or already supporting accountability programs, which aim to improve the efficiency of the education system by giving parents greater opportunity to hold schools and teachers to account. Interventions include school report cards (Ethiopia, Ghana, Mozambique, Nigeria, and Sierra Leone), creation of school management committees (Bangladesh, Ghana, Nigeria, Sierra Leone) and community assessment of student learning (Tanzania, Pakistan).

4.8 Data on learning achievement are a measure of education effectiveness. All new Business Cases specify learning outcomes, alongside evidence as to how these will be improved. Interventions to support and monitor early grade reading (and mathematics) are being designed or implemented in ten countries, with additional programmes to be reported by end 2012. The Department is also investing in new research to generate evidence of 'what works' in education, including a series of evidence reviews and systematic reviews. Joint research partnerships are being developed with international institutions to promote new research on quality, pedagogy and learning outcomes.

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.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department has a clear plan - it is working with its partner countries to strengthen government data systems and has supported international data collection so that there can be better measurement of outcomes. Over the next two years, the Department expects better data to emerge from the countries that are supported by UK aid through continuing strengthening of national statistics systems and education management information systems. The Department will complement efforts to improve national management of results and data with initiatives to raise public awareness of learning outcomes, and enable greater community participation in local education decision making. A 'How To' guide on Strengthening Education Management Information Systems is being developed for Departmental staff.

Target implementation date

5.3 End 2012.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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, we are developing and monitoring more advanced metrics, such as measures of early grade reading and literacy.

5.6 To collate data of sufficient quality requires strong underlying national data systems. In some countries, data limitations mean that the Department does not yet have access to reliable figures, particularly in fragile states. The Department is working with national governments to strengthen national data systems - actively engaging to support the strengthening of Education Management Information Systems in fourteen countries.

5.7 Education management information systems collect data on enrolment, retention, drop-out and completion, and provide information on the flow of students through the system. The Department is also supporting alternative approaches to improve data availability of additional indicators – such as sample based surveys on student achievement and teacher attendance.

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.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Government recognises the challenges that an increasing aid budget brings and has taken steps to ensure that the Department has sufficient resources on the front line delivering results and ensuring value for money for the UK taxpayer. The Department will cut administration costs in line with other UK Government Departments and increase efficiency over the spending review period. However, it recognises that there is a need to increase the number of Education Advisers in line with the outcome of the bilateral, multilateral and humanitarian and emergency response aid reviews.

Target implementation date

6.3 June 2012.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 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 our total operating resource into front line delivery to ensure that results and value for money in the programme are achieved.

6.6 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. The Department's Strategic Workforce Planning process has translated these individual Operational Plans into a workforce plan for the organisation so that it gets the right staff into the right places at the right times. This process ensures that front-line advisory staff are being put in place to manage programmes effectively, including assessing risks and cost-effectiveness, whilst maintaining central policy capacity, including in education, to ensure the effective management of its increased budget.

6.7 The Department has also been working to ensure that the quality of its cadre of education advisers is maintained, with good succession planning for filling posts. By spring 2012, there should be 42 education advisers in post, including a dedicated results and value-for-money adviser, about 35 of whom will be based in overseas offices. This compares to 34 and 20 respectively at the time of the NAO report (June 2010).

6.8 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.

PAC RECOMMENDATION 7

The Department had assessed the risk of investing in Kenya's education system as manageable, but serious frauds have arisen. The Department acknowledged that it needed to learn lessons and is undertaking its own review. In so doing, it should evaluate the wider implications for its risk assessment processes and the controls it relies on when delivering through other governments' systems, not just in Kenya.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Department does not tolerate fraud. In Kenya, fraud was discovered in September 2009. Funding was immediately suspended, and later terminated in March 2010 following unacceptable progress by the Government of Kenya. All losses identified in 2009 were reimbursed in 2010, and individuals suspected of fraud are being prosecuted through the Kenyan courts. The Department is now funding education in Kenya through other channels and has no plans at present to resume funding through the Government of Kenya.

Current Status

7.3 Implemented.

Action being taken to implement recommendation

7.4 The Department has supported an independent forensic audit of the Kenya Education Sector Support Programme covering the last two financial years. Provisional findings from this audit and the Departmental Kenya's internal review indicate that procedures for assessing risk were robust, but that there were weaknesses in the systems put in place to monitor and mitigate these risks. Improvements in these systems have been identified and are already being applied to other programmes in the Departmental Kenya's portfolio. The Department has received £1.1 million from the Government of Kenya as a full reimbursement for the bilateral UK funds lost. The Department is also continuing to press the Government of Kenya to hold to account those responsible for the fraud, and helping Kenyan civil society organisations to call for more accountability on behalf of Kenyan taxpayers.

7.5 The Department has developed a guidance note on *Addressing Corruption in the Education Sector* to raise greater awareness among Education Advisers about strategies for identifying and preventing potential misuse of education funds.

7.6 A report has been produced and disseminated across the Department setting out the lessons from the Kenyan Education Fraud and their application in other contexts. These lessons have already been incorporated into revised guidance on Managing Fiduciary Risk when providing Financial Aid which will strengthen the Department's assessment, oversight and monitoring of all funds provided to government partners.

Progress on implementing recommendations from the National Audit Office

HC 34	Financial Management in the European Union *(HM Treasury)*
HC 184	The efficiency of National Insurance administration *(HM Revenue and Customs)*
HC 185	Assessing the impact of proposed new policies *(Cabinet Office)*
HC 188	Tackling diffuse water pollution in England *(Department for Environment, Food and Rural Affairs)*
HC 284	Tackling the measure of Government performance *(HM Treasury)*
HC 285	Reducing the cost of procuring Fire and Rescue Service vehicles and specialist equipment *(Department for Communities and Local Government)*
HC 486	Engaging with tax agents *(HM Revenue and Customs)*

HC 34

HM Treasury (HMT)

Financial management in the European Union

Summary of the NAO findings

There has been a detectable improvement over recent years in the financial management of European funds across the European Union (EU). However, there remain seemingly intractable problems with reducing the high levels of error in some significant areas of EU spending.

For the second successive year, in its 2008 report on the implementation of the EU budget the European Court of Auditors provided a positive Statement of Assurance, without qualification, on the reliability of the EU's accounts. However, for the fifteenth successive year, the Court did not provide a positive Statement of Assurance on whether the underlying transactions conformed to applicable laws and regulations. Material error was found in categories making up some 53% of total expenditure, including Cohesion Policy funds, which are still associated with the highest level of error in the EU budget, and Rural Development. The value of irregularities, including fraud, reported by Member States decreased by 24% in 2008 while the number of cases reported increased by 9%.

The NAO points out that, while controls can be tightened and administration improved, many of these high levels of error are in part down to the sheer complexity of administering the programmes in question. Some changes have been introduced for programmes in the 2007-13 period, but it is too early to judge their impact. Weaknesses in the administration of EU programmes in the UK continue to have an impact on the taxpayer. During 2008-09, the Commission confirmed £140 million of disallowances[11] of expenditure and UK Departments have made provisions for some £350 million of further disallowances and reported the potential for liabilities beyond that.

The NAO issued its report on 11 June 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

In the next year or so the European Commission has a unique opportunity to develop programmes for the years ahead that address the weaknesses that have been evident. UK Departments should develop a clear view on how they wish the main programmes to develop, including the need for clear and measurable objectives that identify the added value to be delivered. From the start they should press for programme design that promotes efficient administration consistent with the achievement of the objectives.

1.1 The Department agreed with the NAO's recommendation.

Current status

1.2 Implemented.

Action taken to implement recommendation

1.3 The Government is actively participating in negotiations on the design of EU programmes over the next seven-year EU programming period (2014-20), with a focus on delivering budgetary restraint and improving the efficiency and effectiveness of EU spending.

[11] Failure to comply with EU regulations can result in the European Commission withholding funding from the Member State – a "disallowance".

NAO RECOMMENDATION B

Differences in recording practices amongst Member States and incomplete data reported to European Anti-Fraud Office (OLAF) hinder any attempt to draw comparisons over time and between Member States. These weaknesses have persisted for some years. The UK Government should encourage OLAF to make known, alongside its published figures, where it has concerns about the quality and timeliness of the information submitted by individual Member States.

2.1 The Department agreed with the NAO's recommendation.

Current Status

2.2 Implemented.

Action taken to implement recommendation

2.3 Reporting compliance and the quality of information transmitted by Member States have since improved with the introduction of the internet-based reporting system (IMS - Irregularity Management System) in 2009.

2.4 The Government has implemented the IMS and now record all irregularities using it. The exception is in Agriculture where recurrent problems have prevented the use of the IMS. The Rural Payment Agency (RPA) is continuing to manually record anomalies. The Commission is aware of this problem and is working with the RPA to resolve this issue.

NAO RECOMMENDATION C

It is not acceptable that Departmental mismanagement reduces the funding available from the EU and places an additional burden on Exchequer funds. The Treasury should take a stronger lead in encouraging the effective financial management of EU funds. In doing so it should set departments targets over the coming years to reduce the level of financial corrections with the ultimate target as close to zero as practicable.

3.1 The Department agreed with the NAO recommendation.

3.2 Proper management of EU funds is important, though lead Departments and Executive Agencies bear primary responsibility for steps to reduce errors, irregularities and waste. The Treasury already reports on the management of EU funds in the UK and encourages improvements should serious problems arise.

Current Status

3.3 Implemented.

Action being taken to implement recommendation

3.4 Since the NAO's report concerned the ECA report of 2008, the Department for Business, Innovation and Skills, who oversees the UK's Structural Funds programmes in the UK, has since enhanced its monitoring systems to provide clearer over-sight of financial control issues for the UK programmes. The Managing Authority (MA) for the European Regional Development Fund in England will use the opportunity presented by centralisation of the programmes within the Department for Communities and Local Government to improve and standardise monitoring and verification procedures. This was previously administered on their behalf by Regional Development Agencies until 30 June 2011.

3.5 The MA has implemented a schedule of extensive checks on projects in those programmes that had a high error rate in the 2010 Annual Control Report. The Treasury expects that these changes will help identify and remove anomalies and reduce the risk of major errors being found during closure of programmes in future.

3.6 On agriculture, a considerable investment of resources has been made to tackle underlying issues in data quality and debt, which stem back to the introduction of the Single Payment Scheme. The recent NAO report on the RPA 2010-11 Accounts acknowledged the improvement in financial controls. Jim Paice, Minister for Environment, Food and Rural Affairs, is personally driving performance forward by chairing a new Oversight Board to enhance the governance of the RPA. New Non-Executive Directors have been appointed to regularly review RPA's performance.

HC 184

HM Revenue and Customs (HMRC)

The efficiency of the National Insurance administration

Summary of the NAO findings

HM Revenue and Customs (HMRC) has taken significant steps to improve the efficiency of National Insurance administration. It has managed to reduce staff numbers substantially, while avoiding any major operational failures. However, HMRC needs to demonstrate more clearly that it is providing value for money from the £350 million it spends each year and take advantage of opportunities to secure further savings.

There are a number of ways in which HMRC could improve how the system of National Insurance functions. On accuracy, HMRC needs to ensure standards of accuracy for National Insurance records are applied consistently across all operations and take account of the longer term costs and consequences of inaccuracies in processing. On efficiency, although some improvements would depend on the availability of funding for IT enhancements, considering the system in its entirety would help secure savings.

The 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).

NAO RECOMMENDATIONS 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.

1.1 The Department agrees with the NAO recommendations.

1.2 As the NAO report acknowledges, the National Contributions Agency has already launched PaceSetter work in this area in 2009, and the Department will soon be proposing changes to its own organisation to strengthen its focus on end to end process management. The Department will also look at the consistency of targets for data accuracy.

1.3 The Department accepts the need to improve its data quality. This is a priority for National Insurance Contributions (NIC) records, as for all our other customer records. The Department also accepts the need to work with the Department for Work and Pensions (DWP) to ensure that the standard of accuracy required is appropriate given the changing significance of contribution records for benefit entitlement.

Target implementation date

1.4 Autumn 2012.

Current Status

1.5 Work in progress.

Action being taken to implement recommendation

1.6 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.

1.7 The emerging product strategy will include the aim of simplifying the NIC system to make it easier for employer 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.

1.8 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.

1.9 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.

NAO RECOMMENDATION B

To inform decisions on future design of activities, especially the mix between staff and IT support, HMRC should at regular intervals, and not less than annually, determine the full costs incurred on individual activities, within the Contributions Office and across other operating units.

2.1 The Department agrees with the NAO's recommendation.

2.2 This recommendation coincides with the work that the Department is undertaking (lead by Chief Information Officer, Phil Pavitt), reviewing process management capability.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department has now set in place a standard framework for capturing activity and cost data by regime and by process. This is an emerging programme that will, over time, deliver a more robust view of full costs by standard processes, both within the Contributions Office and across other operating units.

2.5 From 2011-12, all business units involved in the administration of NIC have been asked to forecast their annual costs on a monthly basis.

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.

3.1 The Department agrees with the NAO's recommendation.

3.2 This is a potentially wide ranging recommendation for the whole of the Department. It is unlikely that the Department could address this in the short term, but it is agreed that the Department needs to look closer at how it measures productivity.

Target implementation date

3.3 Autumn 2012.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 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.

NAO RECOMMENDATIONS 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

4.1 The Department agrees with the NAO's recommendations.

4.2 Within the framework of the Department's customer strategy, the Department accepts the need for a clearer strategy for our major processes.

Target implementation date

4.3 Autumn 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 Across the Department, focus is being strengthened on end to end process. For National Insurance (NI), 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.

4.6 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.

HC 185

Cabinet Office / Department for Business, Innovation & Skills

Assessing the impact of proposed new policies

Summary of the NAO findings

Impact Assessments, used to assess the need for and the likely impact of proposed government policy interventions, do not yet consistently provide a sound basis for assessing the relative merits of different policy proposals. Further improvement in the quality and use of Impact Assessments is needed in order to achieve value for money.

Departments have increased the resources that they allocate to preparing Impact Assessments and internal scrutiny has improved. Some Impact Assessments have altered the course of some policy development, yet only half of policy staff felt that they were useful in the policy process

The NAO issued its report on 1 July 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

There is scope to develop the role of Impact Assessments as a baseline for monitoring and controlling policy implementation, and new guidance by the Better Regulation Executive in March 2010 is intended to increase the quality of planning of post implementation review.

Departments' plans should include monitoring of enough data to enable significant variations from expected results to be identified early, and specify review periods. Impact Assessments should also recognise that policy decisions normally contain significant elements of uncertainty as to what implementation will involve. Impact Assessments should not imply false certainty over estimated costs and benefits, and the level of uncertainty should inform decisions on how to proceed.

1.1 The Department accepts the NAO's report.

Current Status

1.2 Implemented.

Action being taken to implement recommendation

1.3 A new *Impact Assessment (IA) Toolkit*[12] was issued in August 2011, drafted in consultation with the NAO. This document contains simple, step by step guidance for Departments including a new Chapter, 'Step 7: Plan for evaluation and evaluate implemented policy'. This emphasises the need to plan for your evaluation and the data gathering requirements. It also cross refers to the guidance in the Magenta Book, published in April 2011, which is the central government guidance for evaluation. Departments are also required to set a review date in the *IA Template*[13.] The *IA Template* also requires that Departments outline key assumptions, sensitivities and risks associated with the analysis, with guidance on this provided on page 23 of the *IA Toolkit*. The Regulatory Policy Committee's (RPC) role has also been reinforced to ensure more consistent enforcement of the IA guidance.

[12] The IA Toolkit can be found at: http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-1112-impact-assessment-toolkit.pdf

[13] The IA Template can be found at: http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-1109-impact-assessment-template.dot

NAO RECOMMENDATION B

Impact Assessments for interventions originating from European Union decisions are often produced only after a decision has been made at European Union level. This may limit the scope at national level to redefine the policy problem or develop implementation options.

Departments should produce Impact Assessments as early as possible in the process, and certainly by the negotiation stage, to define the problem and identify a range of evidence-based options while there is still an opportunity to influence the collective European Union decision. At the implementation stages, Impact Assessments involving European Union decisions should always include either an analysis of how other countries are planning to implement the decision, or an explanation of why this analysis has been omitted.

2.1 The Department accepts the NAO's report.

Current Status

2.2 Implemented.

Action being taken to implement recommendation

2.3 Paragraph 28 of the *Impact Assessment Guidance*[14] published by the BRE in August 2011 and the *Guiding Principles for EU Legislation*[15] clearly encourages departments to assess, from the outset, the impact on the UK of proposed EU legislation and effectively project manages the process from negotiation to transposition. Take up of a *Checklist for Analysis on EU proposals*[16] by Departments is generally good. Paragraphs 153 - 159 of the *IA Toolkit* provides further guidance for officials.

NAO RECOMMENDATION C

To improve the quality of Impact Assessments (IA):

- **In completing final IAs, Departments should include summaries of matters decided at an earlier stage of policy development. For example, where the main choice between implementation options has been made through an initial IA published for consultation, subsequent IAs should provide sufficient explanation for the reader to understand why the selected option has been chosen.**

- **To help Departments assess how much analysis is proportionate, the Better Regulation Executive (BRE) should publish examples of good practice by Departments.**

- **Departments' Better Regulation Units (BRU) should place greater emphasis on challenging the accuracy and completeness of information contained in IAs.**

- **The review by BRU should be supported by sample checks by the BRE or the Regulatory Policy Committee (RPC).**

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14 The Impact Assessment Guidance can be found at: http://www.bis.gov.uk/assets/BISCore/better-regulation /docs/I/11-1111-impact-assessment-guidance.pdf

15 The Guiding Principles for EU Legislation can be found at: http://www.bis.gov.uk/policies/bre/policy/european-legislation /guiding-principles-eu-legislation

16 The Checklist for Analysis on EU proposals can be found at: http://www.bis.gov.uk/ia and the guidance can be found at: http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-1112-impact-assessment-toolkit.pdf

NAO RECOMMENDATION C

To improve the quality of Impact Assessments (IA):

- **Chief Economist reviews should be supplemented with a formal requirement for peer review by economists, statisticians and research staff at an earlier stage.**

- **Departments should keep under review at a senior level their compliance with the BREs guidance and the standard of their IAs.**

3.1 The Department accepts the NAO's report.

Current Status

3.2 Implemented.

Action being taken to implement recommendation

3.3 The quality of IAs has been significantly improved, with 69% now considered 'fit for purpose'[17] by the Regulatory Policy Committee (RPC), compared to 54% in the previous six months[18]. This has been largely achieved through the new policy that only proposals with a 'fit for purpose' opinion can be sent to the Reducing Regulation sub-Committee (RRC) for final policy clearance (as of 1 January 2011, see page 16 of *IA Guidance*). This new policy has, to a large extent, superseded the specific policy recommendations in the July 2010 NAO report while delivering effectively on the ultimate objective. However, in response to each of the specific points, the following information is relevant:

- The RPC have highlighted the need to show how responses to consultation have been taken into account (page 13 of the third RPC report referenced above), compliance with this impacts the likelihood that an IA will be considered 'fit for purpose';

- The BRE issued a new version of the *IA Toolkit* in August 2001, drafted in consultation with the NAO, which included a new chapter on proportionality. This took into account recommendations from the NAO provided in March 2011;

- The new role of the RPC has increased the ability of Departments' Better Regulation Units to challenge estimates given the strong enforcement mechanism they can now rely on to give weight to their advice;

- The new role of the RPC involves ex-ante checks of all regulatory policy proposals before they are submitted to the RRC for clearance;

- The *IA Toolkit*, published in August 2011, details the Department's responsibilities in relation to quality assurance (page 33) and states that Departments are expected to set up robust Departmental processes which could include Ministerial challenge panels, peer group review, consultation with Chief Economists. The new role of the RPC has increased incentives for Departments to ensure that robust quality assurance processes are set up at a Departmental level.

3.4 Departments publish regulations they have introduced, or intend to introduce, in a regular *Statement of New Regulation*[19]. The Departments publish the equivalent annual net cost to business for each measure and link to the impact assessment. The assumptions underpinning the calculation of the costs and benefits for measures included in the statement are subject to rigorous scrutiny and challenge by the RPC.

[17] Based on first time submissions

[18] See the third report from the Regulatory Policy Committee that can be found at: http://regulatorypolicycommittee.independent.gov.uk/wp-content/uploads/2011/09/Rating-Regulation-July-2011-FINAL-A.pdf

[19] The Second Statement of New Regulation, and links to the detail published by the Departments, can be found at: http://www.bis.gov.uk/policies/bre/better-regulation-framework/one-in-one-out/statement

NAO RECOMMENDATION D

The establishment of the Regulatory Policy Committee (RPC) provides an opportunity to learn lessons from its scrutiny of Impact Assessments.

Once sufficient material has been reviewed by that Committee, the Better Regulation Executive should feed back lessons learnt to Departments.

4.1 The Department accepts the NAO's report.

Current Status

4.2 Implemented.

Action taken to implement recommendation

4.3 The Regulatory Policy Committee (RPC) has taken forward this recommendation. The RPC published its third report in July 2011. In chapter three it has published the performance of each Department and highlighted reasons why it had issued red, amber and green flags. The RPC also gives the Departments an opportunity to discuss opinions to clear up any uncertainties.

4.4 As a result of this feedback during the first six months of 2011 there was a significant improvement in the quality of analysis and evidence presented by Departments. Those impact assessments rated as 'fit for purpose' (green and amber flag) increased from 54% in the previous report to 69%.

HC 188

Department for Environment, Food and Rural Affairs

Tackling diffuse water pollution in England

Summary of the NAO findings

In 2009, only 26% of rivers, lakes and other water bodies in England met the required levels of water quality, as set out in the European Water Framework Directive. The Department for the Environment Food and Rural Affairs (DEFRA) and the Environment Agency do not expect that all English water bodies will achieve these levels by the 2027 deadline, as it may be disproportionately costly or not technically feasible. Unless the European Commission agrees a lower target accordingly, the UK could be exposed to considerable financial penalties.

The Agency's advice and the voluntary initiatives across Government on changing farming practices have had limited impact and need to be co-ordinated. One joint agency scheme, the England Catchment Sensitive Farming Delivery Initiative, has led to some farmers making changes that are likely to reduce levels of pollution, but there was considerable variation in take-up between areas. Sanctions have proved relatively ineffective in changing farming practices and progress in improving them has been slow. The Agency also has limited evidence of the effectiveness of its inspection activity.

The 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).

NAO RECOMMENDATION A

The 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.

1.1 The Department agreed with the NAO's recommendation.

Target implementation date

1.2 End of 2013 (for the 2009-15 River Basement Management (RBM) Plan period).

1.3 The implementation of European Water Framework Directive (WFD) RBM offered opportunities to the Agency and partner organisations to improve the approach to tackling agricultural diffuse water pollution. Within each six year RBM planning period, there is a cycle of collecting evidence, identifying measures, implementing measures and reviewing progress. Improving the evidence base is therefore an ongoing part of the RBM process and improving evidence on diffuse agricultural pollution is a key part of the cycle. The key RBM milestone on evidence is the production of RBM 'Significant Water Management Issues' reports. For the second cycle plan period (2015-2021) this will be at the end of 2013 and for the third cycle plan period at the end of 2019.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 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.

1.6 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 identify measures. First cycle RBM investigations (including local monitoring) are now improving understanding of impacts on the water environment and the contribution of diffuse pollution to WFD failures. As of April 2011, over 62% of the required investigations were underway and over 25% complete, with the remainder programmed. Outputs from investigations are being used to identify and plan measures to tackle diffuse pollution during the first cycle of RBM (2009-2015) and to help inform second cycle planning (2015-2021).

1.7 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.

1.8 The EA 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. So far, the Agency has established a project and steering group for this work and initiated a number of pilot initiatives in a range of catchments.

1.9 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.

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.**

2.1 The Department agreed with the NAO's recommendation.

Target implementation date

2.2 End of 2013 (for the 2009-15 River Basement Management (RBM) Plan period).

Current Status

2.3 Work in progress.

Action being taken to implement recommendation

2.4 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.

2.5 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. The Agency is also advising the Department on the effectiveness of Campaign for the Farmed Environment and learning lessons on sector-led campaigns.

2.6 The Agency is continuing to monitor and assess the effectiveness of Catchment Sensitive Farming (CSF) using monitoring, modelling and market research in CSF areas. A survey was undertaken in spring 2011 to measure effectiveness and impact. Evaluation of the first five years of CSF shows that:

- CSF advice has been delivered to over 9,000 farms covering an area of 1.3 million hectares; and
- 64% of farms have implemented more than half of the specific recommendations to reduce water pollution - in total 93,000 recommendations were made.

2.7 The Agency is working with the industry's Professional Nutrient Management Group through the *Tried and Tested* partnership to encourage nutrient management planning among the livestock sectors. The new *Think Manures* booklet (a farmer introduction to manures) has been produced with a variety of partners and was launched in 2011 as a companion to existing *Tried and Tested* publications. The Agency is also introducing more quantitative performance indicators to assess the cost effectiveness of the operational work that they do to tackle diffuse pollution, as part of the Agency's *Learning from Doing* initiative.

2.8 The Agency has established a specific project to collate information on the cost-effectiveness of WFD measures (including those for diffuse pollution) to inform RBM planning. The Department has funded the Demonstration Test Catchments Project, worth £8.5 million, which will produce field evidence of the direct impact of changes to water quality as a result of specific interventions on farms and this will help us understand more about which measures are most effective. Contracts have now been let for the main components of the project.

2.9 The Agency is working with the Department and others to provide a simplified set of messages to farmers on basic actions needed to reduce diffuse pollution from land management practices. This work links to both the work of the Departments Farming Regulation Task Force implementation team and the Department's work on Integrated Advice.

2.10 As part of its Future Approach to Regulation programme, the Agency is 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. Through the RBM process, the Agency is developing tools for more integrated appraisal of measures in order that more cost-effective and better targeted measures are developed, thereby keeping costs to farmers and other businesses as low as possible.

2.11 The Agency is 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.

NAO RECOMMENDATION C

The Agency should consider developing more formalised agreements with stakeholders for tackling diffuse pollution at a River Basin level.

3.1 The Department agreed with the NAO's recommendation.

Target implementation date

3.2 End of 2013 for roll-out of improved stakeholder participation in RBM.

3.3 The Department has asked the Agency to secure greater stakeholder participation in future planning rounds of RBM, and adopt a more local (catchment based) approach. This approach needs to be developed and implemented for the key planning phases of the second cycle of RBM by 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 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.

3.6 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.

3.7 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.

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.

4.1 The Department agreed with the NAO's recommendation.

Target implementation date

4.2 Ongoing to 2013.

Current Status

4.3 Work in progress.

Action being taken to implement recommendation

4.4 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. This updating will continue throughout the life of the current Rural Development Programme. This area of work has also been identified under the Making Environmental Stewardship More Effective Project as an area for improvement that is also being taken forward in conjunction with the Agency and Natural England.

4.5 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.

4.6 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.

4.7 Various 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.

NAO RECOMMENDATION E

The Agency should ensure that information is consistently managed and recorded across these databases, and properly integrated.

5.1 The Department agreed the NAO's recommendation.

Target implementation date

5.2 Tactical solutions implemented and strategic solutions identified by the end of 2013.

5.3 The Agency is aiming to implement tactical solutions that will improve management of data from farm visits with systems in place by the end of 2013. Work to identify a strategic solution is planned for 2012-13. This will support development of RBM measures and implementation of revised Common Agricultural Policy measures following the CAP review.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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.

NAO RECOMMENDATION F

In view of the recent changes to the rules governing Nitrate Vulnerable Zones, the Agency should assess the value of its regulatory visits and determine the optimum number of inspections required to achieve desired outcomes.

6.1 The Department agreed with the NAO's recommendation.

Target implementation date

6.2 End of 2013.

6.3 The Agency is working with the Department and others to rationalise the agricultural 'cross-compliance' regime, so that improved systems are in place by the end of 2013 to support development of RBM measures and implementation of revised Common Agricultural Policy measures following the CAP review.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 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.

6.6 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.

6.7 Transfer of responsibilities to RPA is being taken forward through the Department's Water Quality Sub-Group Change Forum.

NAO RECOMMENDATION G

The 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.

7.1 The Department agreed with the NAO's recommendation.

Target implementation date

7.2 End of 2013.

Current Status

7.3 Work in progress

Action being taken to implement recommendation

7.4 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.

HC 284

HM Treasury (HMT)

Taking the measure of Government performance

Summary of the NAO findings

Good performance measurement frameworks show taxpayers what they are getting for their money and enable the Government to assess whether it is achieving its key objectives cost-effectively. In its final review of the quality of the data systems used by Government departments to measure progress against Public Service Agreements (PSAs), the NAO concludes that the PSA framework provided a clear focus on the objectives that mattered for the then Government, and had gradually improved over the years.

The NAO found that PSAs became progressively more focused on key priorities, and more clearly stated. The use of indicators allowed for better measurement of progress against individual PSAs and better reflected the complexity of outcomes that departments sought. However, weakness in the operation and design of the framework means that accountability has not been as strong as it should have been. PSA indicators generally did not make clear the extent to which outcomes were the result of Government activity. Financial information has been poorly linked with PSA indicators. The ability to link financial and performance information is particularly significant at a time when public sector budgets face severe cuts.

The NAO issued its report on 14 July 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATIONS

Performance measurement arrangements under the new Government will need to be tailored to its objectives and the delivery models it chooses to operate. Lessons from the strengths and weaknesses of the PSA system that it should consider in any new measurement systems include the importance of:

- **clearly and unambiguously expressed objectives, indicators and success criteria;**
- **an explicit published 'business model' linking inputs (the resources used) through outputs (goods and services delivered) to outcomes (the impact on society), used as a basis for measurement and reporting. Such a 'clear line of sight' between inputs and outcomes should help interpret performance, and to promote lesson learning and the refinement of the model over time;**
- **firm integration of performance measurement into public bodies' management systems, such as budgeting, resource planning and allocation, programme evaluation and performance review processes – so that lower-level management systems feed into and support top-level objectives; and**
- **Departmental information strategies that define the range of contextual and performance information needed to assess progress and value for money. The strategy should state data quality standards, and set up arrangements to provide assurance that those standards are met. This will enable Government to produce clearer and more robust performance information.**

1.1 The Department accepts the NAO's report.

Current Status

1.2 Implemented

Action being taken to implement recommendation

1.3 The conclusions and recommendations of the report have been drawn from the Public Service Agreement (PSA) performance framework which has now been discontinued. However, the Public Services Transparency Framework, the Government's performance framework, reflects these NAO recommendations. As part of the framework, Departments now publish Business Plans that include clear objectives set out in the Departments' vision and Coalition priorities. The structural reform plan sets out in detail the actions each Department will take to achieve those objectives and input and impact indicators are included to demonstrate the cost and effectiveness of the public services they are responsible for at a high level. Operational management is the responsibility of each department.

HC 285

Department for Communities and Local Government (DCLG)

Reducing the cost of procuring Fire and Rescue Service vehicles and specialist equipment

Summary of the NAO findings

Firebuy, a specialist body established by the Department for Communities and Local Government to support procurement of kit by Fire and Rescue Services, has cost nearly twice as much to set up and run as the total savings it claims to have delivered. In a report to Parliament today, the National Audit Office recommends that the Department quickly assess whether to continue with a nationally directed central procurement body and, if so, to change the way Firebuy operates, or to transfer its operations to another professional buying body or a Fire and Rescue Service.

The Department expected Firebuy to be self-financing by its third year of operation (2008-09) but it is still heavily reliant on grants from the Department. Firebuy is expensive to run, with overheads between 5% and 10% higher than the industry norm.

The NAO issued its report on 23 July 2010. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATIONS A to C

A: The Department should quickly assess whether continuing with a nationally directed central procurement body is sensible. If it concludes that it is, the Department should assess how best to change the way Firebuy works to enable delivery of maximum savings cost effectively. If not, it should transfer Firebuy's operations to another Professional Buying Organisation, such as Buying Solutions, or to a Fire and Rescue Service with sufficient capacity.

B: If it decides to continue with a nationally directed central procurement arrangement, the Department should ensure the procurement follows best practice, by: establishing new contracts with limited numbers of suppliers and common specifications for each equipment type; mandating Fire and Rescue Services to use the contracts; and putting in place a robust, auditable and comprehensive mechanism for identifying and measuring savings generated and introducing arrangements to independently validate measurements made.

C: The Department should consider for non-fire specific equipment types, such as fire extinguishers and smoke alarms, alternative arrangements for provision, such as Buying Solutions.

1.1 The Department accepts the NAO's report.

Current Status

1.2 No longer being implemented.

Reason for no longer implementing recommendation

1.3 It was announced on 14 October 2010 that Firebuy was to close as part of the Government's Public Body Review, which recommended that its procurement functions be transferred to alternative suppliers. The basis of this decision was that the role of Firebuy was not one that should be undertaken by central Government. Firebuy went into voluntary liquidation and ceased trading on 13 July 2011. Firebuy's framework contracts were formally novated to Wiltshire County Council on 31 May 2011, with the Consortium for Purchasing and Distribution Ltd managing these on Wiltshire's behalf.

HC 486

HM Revenue and Customs (HMRC)

Engaging with tax agents

Summary of the NAO findings

HM Revenue and Customs (HMRC) might be able to increase tax revenues by providing more support to professional tax agents, third parties paid by taxpayers to act on their behalf in their dealings with the Department.

The NAO affirms that good tax agents help their clients get their tax right. At present, lack of data on individual tax agents prevents the Department's taking a tailored approach to its dealings with agents and providing feedback on performance. With better use of data, HMRC could make more targeted interventions based on risk and achieve greater value for money.

HMRC has recognized the importance of developing its relationship with tax agents and has taken steps to work more effectively with this group. Initiatives have included the introduction of a priority telephone line for agents' queries on self-assessed income tax and PAYE. The Department has also encouraged tax agents to file tax returns online

The 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).

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.**

1.1 The Department agrees with the NAO's recommendation.

1.2 This recommendation is consistent with the Departments agent strategy and its implementation will focus on strengthening the Department's ability to identify and target poor agent performance through the compliance activity of their clients. An automated solution for data collection and presentation by reference to a specific agent is subject to the outcome of the current spending review.

Target implementation date

1.3 Spring 2013 for targeted communications and support.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 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.

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.

2.1 The Department agrees with the NAO's recommendation.

2.2 Applying sanctions is heavily reliant on setting standards and criteria for applying them and building a firm evidence base to underpin the process.

Target implementation date

2.3 Spring 2013 for targeted communications and support, and 2014-15 for applying sanctions.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 Better targeting of the Departments 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 Departments 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.

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.

3.1 The Department agrees with the NAO's recommendation.

3.2 This is an area that will require careful handling with and buy-in from the tax agent community.

Target implementation date

3.3 Autumn 2013 for new agent enrolment process.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 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.

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.

4.1 The Department agrees with the NAO's recommendations.

4.2 The Department accepts the need to improve its data collection and improve the quality of its services in respect of tax agents.

4.3 This recommendation is consistent with the agent strategy in terms of consultation and collaboration on design and implementation. However, sharing investment costs was not well received by the external stakeholders consulted during this study and the underlying question would be how well received this would be by the agent community more generally. The Department would need to explore reaction to this aspect of the recommendation more fully.

Target implementation date

4.4 Autumn 2013 for the first new self serve capabilities, with further enhancements and services to be delivered during 2014 and 2015.

Current Status

4.5 Work in progress.

Action being taken to implement recommendation

4.6 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.

4.7 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.

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.

5.1 The Department agrees with the NAO's recommendation.

5.2 Within the framework of the agent strategy, the Department accepts the need to reduce the costs of its major processes, including the authorisation process, either through improved guidance or process redesign.

Target implementation date

5.3 Autumn 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 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.

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