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

May 2009

TREASURY MINUTES DATED 20 MAY 2009 ON THE FOURTH TO THE SIXTH, THE EIGHTH TO THE ELEVENTH AND THE THIRTEENTH TO THE SIXTEENTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2008-09

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Fourth Report

Department for Innovation, Universities and Skills (DIUS)

Widening participation in higher education

1. Whilst overall participation in higher education has increased since 1999-2000, particular groups remain under-represented. Men from lower socio-economic backgrounds are significantly under-represented, particularly those from white ethnic backgrounds, as are young people living in deprived areas compared with the general population. Socio-economic background, gender, ethnicity and place of residence all influence the likelihood of an individual attending higher education, primarily because of their effect on attainment at school. GCSE performance is a strong predictor of higher education participation.

2. Between 2001-02 and 2007-08 the Department for Innovation, Universities and Skills (the Department) and the Higher Education Funding Council for England (the Funding Council) allocated £392 million of widening participation funding to higher education institutions (hereafter 'universities'). Despite the substantial amount of expenditure, progress in widening participation has been slow.

3. Performance across the higher education sector varies. Overall, there is an improving trend in the participation of students coming from state schools, low participation neighbourhoods and lower socio-economic backgrounds. Some universities, however, perform significantly better or worse than expected and this varies by university type. Universities have a role to play in widening participation by working with schools to increase the pool of pupils who aspire to participate in higher education. Some run outreach activities with the aim of raising aspirations and achievement. To be more effective, universities need to target schools in disadvantaged areas to reach those most in need.

4. On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department, the Funding Council and the Office for Fair Access (OFFA) on progress in widening participation.

PAC Conclusion (1): Although the gap is narrowing, more than twice the proportion of people from upper socio-economic backgrounds go into higher education than those from lower socio-economic groups. The participation of young full-time students from lower socio-economic backgrounds has improved slightly, by two percentage points over the last four years. Nevertheless, although this group make up around a half of the population of England, they still only represent just 29% of young full-time first entrants to higher education.

5. The Department recognises the conclusion that, while the gap is narrowing, there is more to be done and the Department has continued to work with universities to find ways of making further progress. An extra 300,000 people have gone to university since 1997. In 2008 the number of accepted applicants to university from England aged 18 who were from lower socio-economic groups rose by 8% compared with a 3.8% rise for those in the higher groups.

6. The government have made significant progress in many deprived areas, for example in Camberwell and Peckham, there has been a rise of 184% with 525 teenagers going on to university in the 2007-08 academic year, compared to 185 in 1997-98, and in Dagenham 340 youngsters went into higher education last year, compared to 125 a decade ago – a rise of 172%. Key to increasing progression to higher education from young people from lower socio-economic backgrounds is to raise aspirations, which leads to improved attainment.

7. The White Paper *New Opportunities: fair chances for the future*¹ sets out a range of measures to support young people to make the most of their potential. The measures include:

- by 2012, identifying young people from disadvantaged backgrounds with potential to succeed at university, and offering them a package of support whilst at secondary school; and
- providing £1 million for some National Challenge schools to fund a higher education experience at Key Stage 3 to raise aspirations.

8. The National Council for Educational Excellence (NCEE) recognised the immense value of effective partnerships between universities, schools and colleges in raising aspirations and attainment levels. It made a series of recommendations to improve outcomes for children. The Government has accepted the recommendations and is supporting an Ambassadors Group of representatives from higher education and the broader education sector, which is testing ideas and options for implementation.

PAC Conclusion (2): The Department for Innovation, Universities and Skills and the Higher Education Funding Council know too little about how universities have used the £392 million allocated to them over the last five years to widen participation. The requirement for universities to report annually on their widening participation activities is being reintroduced. It will be important that the information provided is sufficiently detailed and comprehensive so that universities' progress in widening participation is clear and transparent. The Funding Council and Office for Fair Access should use such information to help spread good practice and hold universities to account if they do not meet their commitments.

9. The Department notes this recommendation. The £392 million is part of the funding passed by the Department to the Funding Council for higher education teaching and learning. It is calculated in such a way as to reflect the students from non-traditional backgrounds that an institution has already recruited. It is paid to institutions as part of their teaching and learning budget, and it is not ring fenced for any specific activities. While there is currently no centrally collected information on the spending associated with outreach, information on the range and depth of such activities is often made available through institutions' own websites and through reports.

¹ Cm 7533

10. The Government challenged the sector to be more accountable for the investment made in widening participation. This has resulted in the introduction of Widening Participation Strategic Assessments (WPSAs). The first of these will be submitted by higher education institutions to the Funding Council by the end of June. The assessment will contain detailed information about the university's progress in widening participation through information about: the full range of the institution's widening participation activity at an appropriately aggregated level; the detailed targets and milestones set by the university; and the level of resource committed to widening participation, including, but not limited to, the Funding Council's widening participation allocation and the spending on outreach and bursaries covered by access agreements.

11. Institutions are required to submit their WPSAs as a condition of their continued receipt of the widening participation allocation. Appended to a university's strategic assessment will be its access agreement made with OFFA. If an institution breaches the commitments it has made in its access agreement, the Director of OFFA may, for example, instruct the Funding Council or the Training and Development Agency for Schools (TDA) to withhold part of an institution's grant. In serious cases, OFFA may refuse to renew an institution's access plan, thereby preventing it from charging higher-level fees.

PAC Conclusion (3): Guidance for young people on how to progress into higher education is often of variable quality and not provided face-to-face. Poor advice and guidance can lead to potential students making the wrong choices about which subjects to study, making unrealistic applications or not applying at all. The Department for Innovation, Universities and Skills and the Department for Children, Schools and Families should jointly provide teachers, particularly those offering careers advice, with up-to-date guidance on the financial support available for students and the academic requirements for chosen career paths.

12. The Government accepts this recommendation. Later this year the Government will set out its strategy for improving information, advice and guidance (IAG) for young people in schools, colleges and through local authority provision. This will include improvements to careers education and guidance and advice on routes into higher education. The strategy will cover 'what good looks like' – what young people and their parents should expect from their school or college, encompass a whole school approach which supports young people to make decisions that will impact on their later learning and career options, ensuring effective partnership working takes place, and having a well equipped workforce.

13. The strategy includes the placing of a new statutory duty for schools to provide a programme of careers education and on 7 May the Department for Children, Schools and Families (DCSF) launched a consultation on the proposed duty. Following consultation DCSF will also publish statutory guidelines for local authorities and for schools that will support the delivery of their respective statutory duties for IAG. In response to a specific recommendation from the NCEE, the Office for Standards in Education, Children's Services and Skills (Ofsted) are currently reviewing how IAG support is covered in their school inspection process.

14. The Government anticipates a positive response to the recommendation and that Ofsted will strengthen coverage of this in the school Self Evaluation Form, which is the basis for the subsequent inspection process, and the evaluation schedule which sets out what inspectors need to cover when inspecting a school.

15. Much work has already been done in schools to embed information on careers into the curriculum in the fields of science, technology, engineering and mathematics. The TDA has been undertaking pilot work with three subject associations (English, Languages and History) to develop resources to support the embedding of careers education within lessons for these subjects. DCSF will build on these pilots, extending good practice into other subject areas. In addition, DCSF is developing a suite of classroom materials for teachers to break down some of the misconceptions about higher education.

16. In respect of the financial package available, the new Student Finance England service provides a network of regional consultants to work with local IAG practitioners, schools, colleges and universities to ensure they have consistent and up to date IAG on student finance.

PAC Conclusion (4): In 2006-07, some 12,000 students did not apply for a bursary, although many were likely to have met the necessary criteria. While information on financial assistance is available from a range of sources, it is not easily accessible or understood. The Department should develop a single source of information to enable potential students to identify easily the bursaries and grants for which they may be eligible.

17. The Department accepts this recommendation. Since the Comptroller and Auditor General published his report, Student Finance England has been launched. Student Finance England provides a comprehensive one-stop shop for all matters relating to student finance in England. In addition to its network of regional consultants, Student Finance England provides web and telephone based IAG on financial support for those entering higher education.

18. There has been a marked improvement in the take up of bursaries. The Student Loans Company's (SLC's) application form has been redesigned to encourage applicants to allow their personal financial information to be made available to higher education institutions (HEIs). This information triggers the automatic payment of bursaries without the need for individual application. OFFA has seen significant improvement in bursary take up reported by institutions up to an average of around 90% in 2007-08 from around 80% in 2006-07 and take up has increased to 95% or more in 2008-09 for institutions that deliver their bursaries automatically through the SLC.

19. OFFA has commissioned research to identify good practice for institutions on raising awareness about bursaries. OFFA expects to publish this shortly.

PAC Conclusion (5): Although performance at school is a strong predictor of entry to higher education and is influenced by a number of factors, early contact with universities can help overcome some young people's reservations about higher education. While more young people living in deprived areas are now going to university, they are, as a group, still less likely to obtain good GCSEs and progress to higher education than those not living in deprived areas. University mentoring of secondary school pupils living in deprived areas, primary school networks and pre-entry programmes can help raise the ambitions of young people. These initiatives and others need to be much more widespread than at present if more people from deprived areas are to benefit.

20. The Government agrees that performance at school is a strong indicator of entry to higher education and accepts the recommendation. There is a large and persistent gap between the proportion of pupils eligible for Free School Meals who achieve 5+GCSEs including English and Maths, and their peers. *Breaking the link between disadvantage and low attainment*² was published on 13 March 2009. It sets out a framework for school and local authority action, which includes broadening pupils' experiences and raising their aspirations. A forthcoming White Paper will show how the Government will create a system with personalised education at its core.

21. Links between undergraduates and young people living in deprived areas can indeed raise aspirations, as can work in primary schools and other pre-entry programmes. The new Aimhigher Associates scheme will link 21,000 young people from disadvantaged backgrounds with 5,500 undergraduates, mainly from a similar background. The pathfinder phase of Aimhigher Associates, established late in 2008, is proving popular. By the end of February, 77 universities were engaged out of a target of 50; 313 schools and colleges were participating from a target of 150; and 1,380 Associates were helping 7,227 learners, well on target to meet our anticipated 1,875 Associates and 7,500 learners by September. The WPSAs will enable an assessment of the use and effectiveness of university ambassador and mentoring schemes.

22. NCEE has recommended that primary schools should devote time to raising pupils' aspirations. The NCEE Implementation Plan, published in February, has set out how this work will be taken forward through the higher education sector led Ambassadors Group. The newly established Council for Learning Outside of the Classroom will be asked to explore opportunities for establishing links with HE institutions. DCSF is also exploring the impact of careers related interventions in Key Stage 2 through a suite of local authority led projects.

PAC Conclusion (6): Despite the potential benefits for their pupils, some schools in England do not have links to a university and do not access widening participation activities. The Funding Council has issued guidance for universities on the targeting of activities, but there is limited regional or national oversight to ensure that all schools are targeted adequately. The Department and the Funding Council should, jointly with the Department for Children, Schools and Families, review the coverage of widening participation activities and encourage every school to establish regular contact with at least one university.

² Available at www.publications.dcsf.gov.uk, reference DCSF-00357-2009&

23. The Department agrees that links between schools and universities can have significant benefits for pupils, particularly those from lower socio-economic groups, and notes the recommendation. Young people whose families have experience of higher education often receive informal support and guidance to encourage them to aspire to higher education and to apply. Young people who do not have this advantage rely on support from their school. Many schools have strong and sustained links through local networks such as Aimhigher but there are many other models for links, which Government continues to support.

24. Last year, as part of the support provided to the NCEE, Universities UK asked every university about its engagement with schools. Many universities reported having links with hundreds of schools through a wide range of activities. Following the publication in 2007 of a prospectus launched jointly by the Department and DCSF about how universities could become involved in Trust and Academy schools, there are now 48 universities who have agreed to partner or support academies, and more than 40 have signed up as partners with Trust Schools.

25. One of the NCEE's recommendations, accepted by the Government and being taken forward by the Ambassadors Group, was that schools and universities should try to ensure that every pupil visits a higher education campus either during primary or early secondary education.

26. This year £30 million was transferred from the element of the widening participation allocation for retention of non-traditional students to the widening access element. This transfer recognises the additional costs involved in developing deeper, structural links with schools. The Funding Council has also launched a grant programme for selected higher education institutions to undertake research into effective practice in models of higher education links with schools.

PAC Conclusion (7): Many universities, particularly those in the Russell Group, perform poorly in admitting students from under-represented groups. The existing funding formula is not designed to provide incentives for universities to widen participation. The Funding Council should agree specific improvement plans for those universities performing consistently poorly, and should encourage better performing universities to share good practice with those that are less successful.

27. The Department accepts this recommendation. To increase the opportunities available for young people to show what they can achieve if they are given a chance, the Department is currently working with a group of 11 of the most selective universities. One strand of this work will pilot ways to identify talented students from groups currently under-represented in higher education. A second strand is exploring the recognition of each other's compact schemes by participating universities, broadening the options for these young people. The Department expects pilots to begin next year, with a new scheme beginning in 2012. When this scheme is up and running, the Department expects around 10,000 pupils a year to benefit from opportunities offered by between 15 to 20 universities, which will aim to increase geographical coverage.

28. Much of the differences seen in the participation rates of different groups of pupils to different types of universities is directly influenced by prior educational attainment. Where the competition for places on a particular course is fierce, the standards for prior educational attainment are high. Paragraph 18 sets out the next steps in raising attainment levels for all pupils, especially those in disadvantaged areas.

29. Given the effect of prior attainment the use of funding incentives would not address the main issue. The Department believes that developing stronger school, college and university links that both raise aspirations and attainment, alongside a range of other policies, will increase opportunities at some of the most selective universities better than funding incentives. WPSAs will provide information on the institution's widening participation activity. Progress will be reported and reviewed by the Funding Council annually.

PAC Conclusion (8): Data collected by universities and UCAS on the characteristics of the student population is incomplete. Although data is collected nationally, it is incomplete, particularly for part-time students and in relation to the socio-economic background of full-time students. In addition, little is known about the extent to which disabled students and people from care participate in higher education. The Funding Council should research the participation of such groups, and develop and promote the use of measures which best capture participation rates, such as pupil data linked with higher education records.

30. The Department accepts this recommendation and agrees that there are limitations to the data. These limitations relate not just to coverage and quality of items on the student records, but also the availability of matching population estimates to be able to assess participation rates. These limitations affect institutional and national practice and development of policy.

31. The Department is working with the Funding Council and other organisations to improve the data where this is possible or to develop alternative participation measures. Social class data is based on job title information offered voluntarily by applicants applying through the Universities and Colleges Admissions Service (UCAS). It suffers from being difficult to code to social categories reliably, being vulnerable to applicants supplying the information they feel will best aid their application, and from excluding part-time students who do not currently apply through UCAS.

32. In response to these issues the Funding Council has developed alternative methods of measuring widening participation using small area classifications that do not suffer from these problems and the report by the Comptroller and Auditor General acknowledges the value of this approach. The advent of linked pupil and higher education records offers new ways of measuring participation rates for those in state schools. Data on disabled applicants and applicants from care backgrounds are now also available, and the Department now makes use of linked data covering schools, further and higher education.

Fifth Report

Department of Energy and Climate Change

Programmes to reduce household energy consumption

1. Reducing household energy consumption is central to efforts to mitigate climate change and can help decrease fuel poverty by reducing household energy bills. The Government encourages the installation of energy efficiency measures through obligations on energy suppliers. The Government also seeks to influence householder behaviour through the provision of information on energy saving measures and the labelling of the energy efficiency of appliances. Building Regulations specify minimum energy efficiency standards for new dwellings and for certain categories of work to existing dwellings including extensions, conversions and replacement windows and boilers. European Union regulations set minimum energy efficiency standards for some appliances, such as fridges and freezers.

2. Together these programmes cost the UK around £2.6 billion a year: a mixture of government expenditure and compliance costs borne by businesses and households. The value of the potential energy savings is significant; the typical household could save around £300 a year from introducing energy efficiency measures.

3. To meet the government's longer-term carbon targets, household energy consumption will need to reduce by 36% by 2020, compared to 2001-05. The government's programmes may have contributed to the reduction in household energy consumption in the last three years, 2004 to 2007, which followed a long-term trend of rising household energy consumption. However, without sufficient improvements in energy efficiency, energy consumption may rise again due to trends such as the growth in the number of households, the demand to use more electronic appliances and a desire to live in warmer homes.

4. On the basis of a Report from the Comptroller and Auditor General, the Committee took evidence on progress in reducing household energy consumption from the Department of Energy and Climate Change (the Department), which was recently formed with the aim of bringing together energy and climate change policy, and from the Department for Communities and Local Government (DCLG), which has responsibility for delivering some of the supporting programmes.

PAC Conclusion (1): Household energy consumption has started to fall, which is encouraging, but the United Kingdom still lags behind some other European Union countries such as the Netherlands and Sweden. We welcome the Department's recognition that much more needs to be done to achieve substantial reductions in future, particularly to encourage people to change their behaviour.

5. The Department agrees with the Committees conclusion. The UK is one of the leading European Member States on energy efficiency. Through the 2007 UK Energy Efficiency Action Plan, the Department set out measures, which are expected to deliver an 18% cut in energy consumption by 2016 compared to 2001-2005 levels, double the savings required by the Energy Services Directive. This was the most ambitious action plan of all Member States. The Department has subsequently reinforced this with further policy developments including a proposed 20% increase in the 2008-2011 Carbon Emissions Reduction Target (CERT), the proposed Carbon Emissions Saving Programme (CESP), progress on the zero carbon homes policy and the decision to roll out smart metering through the household sector.

6. But the Department is under no illusion of the task facing this country and accepts there is evidence the UK lags behind other EU countries in some areas – such as the sale of very efficient fridges and freezers (those rated A+ and A++) for example. More broadly, the Government remains committed to continue to share experience and learn from international best practice as part of its action plan to meeting the energy saving challenges ahead.

7. The Department recognises the need for concerted action to engage individuals to secure changes to behaviour. The Department needs to influence the decisions of 26 million households, with many different barriers to their take up of low carbon measures. These barriers include lack of information, access to capital, apathy, and the hassle factor. As recognized in the Heat and Energy Saving Strategy consultation of 12 February, ensuring consumers have the information, advice and motivation to act will be critical.

8. The Government has a role in supporting individuals to make low carbon choices. It does this in a number of ways, including the Act on CO₂ calculator, which gives the user their CO₂ emissions figure (carbon footprint) and an individualised detailed action plan giving tips and ideas on how to reduce their carbon footprint. Support and advice on how to reduce carbon emissions is also available through the Energy Saving Trust, which operates the Act on CO₂ advice line.

9. In order to build an energy saving society, the Department recognises that it needs to promote a cultural shift in consumer behaviour and lifestyles. The Department must therefore find new, more effective ways of engaging with the public on this issue. Responses to the Heat and Energy Saving Strategy consultation will inform the development of a comprehensive and long-term approach to behaviour change.

10. The energy performance of appliances plays a vital role. The Department's strategy includes negotiating in EU for ambitious minimum standards under the Ecodesign for Energy Using Products Framework Directive to ensure that the most inefficient products are no longer able to be sold and that the EU mandatory energy labelling scheme (the A – G label) is expanded to cover a wider range of products and that existing labels are updated.

PAC Conclusion (2): The creation of the new Department of Energy and Climate Change provides an opportunity to improve the coordination and effectiveness of programmes to reduce household energy consumption. The Department for Communities and Local Government and the Department for Environment, Food and Rural Affairs are nevertheless still responsible for some aspects of programme delivery. The Department of Energy and Climate Change should:

- set out, in its response to the forthcoming carbon budget, the risks to programme delivery across all programmes, as well as the associated risk to achievement of overall targets to reduce household energy consumption, and
- monitor, as part of its annual monitoring of performance against objectives, the risks to achieving target reductions in household energy consumption across all Departments' programmes, identifying any additional actions necessary

11. The Department partially agrees with the PAC's conclusion. The Government will publish its proposals and policies to meet the first three carbon budgets, as required under s14 of the Climate Change Act 2008, in summer 2009. The Government is determined to meet the carbon budgets, so on a continuing basis, the Department will monitor progress in delivery against the carbon budgets, and work with other departments as necessary to ensure they are met – including policies to reduce household energy consumption. Under the Act, the Committee on Climate Change is required to report annually to Parliament on progress against the budgets, and the Government to respond to this. We would expect these reports to include reference to significant risks to achievement.

PAC Conclusion (3): Departments are not gathering enough data from real homes to evaluate the impact of programmes on consumer behaviour and household energy efficiency. The Department of Energy and Climate Change and the Department for Communities and Local Government should set out and implement strategies for evaluating and learning from the environmental and financial impact of their programmes, distinguishing the programme impacts from those of other factors, such as energy prices and household growth. The strategies should address how energy-use data will be obtained to:

- understand, monitor and respond to changing patterns of energy use in households, including appliance use and wastage,
- understand the impact in real homes of installing energy efficiency measures, and
- understand and improve the actual energy performance of new homes built to standards set out in the current and future Building Regulations.

12. The Department and DCLG partially agree with the Committees conclusion. The Government is committed to evaluating its programmes in this area and does have in place a framework for doing so. Already, the Department gathers up-to-date data on domestic energy consumption, as published annually in the Digest of UK Energy Statistics. For example: these show that domestic energy consumption fell for three years running between 2004 and 2007.

13. The Department also monitors the numbers of installations of key energy saving measures under various programmes. This has shown significant progress since 2002, including transforming the market for certain A-rated appliances such fridges and condensing boilers; insulating some five million homes; and distributing enough high efficiency lights to allow every home to benefit from eight. Work is underway to improve reporting to Energy Saving Trust's Home Energy Efficiency Database to provide a more complete overview and to better understand the geographical distribution of different measures.

14. The DCLG English House Condition Survey (now integrated with the Survey of English Housing in the new English Housing Survey) provides detailed information on the energy performance of housing stock based on the Government's Standard Assessment Procedure (SAP) for energy efficiency and is phasing in indicators of energy use, cost, CO₂ emissions, improvement measures, based on the methods developed for the Energy Performance Certificate. The survey annual information, which can be related to different sections of the housing stock (tenures, housing types and age etc) and to occupants' characteristics (vulnerability and income etc), and provides the basis for annual Fuel Poverty monitoring.

15. While the EHCS assessments are based on notional measures of performance that assume standard occupancy levels and heating patterns, this provides robust evidence to inform how resources are best directed for housing stock improvement. As the survey must meet a wide-range of Government information needs, it is not able to gather very detailed information required to monitor actual behaviours in relation to energy performance and consumption.

16. To understand the impact of building regulations, DCLG carries out post implementation monitoring and research to help inform how actual performance compares against construction standards and are committed to continue to do so.

17. Establishing real savings from energy efficiency measures is a focus of research, using a statistical approach to obtain "before" and "after" gas bills for sample households installing energy efficiency measures (cavity and loft insulation in the first instance), as well as to compare the corresponding savings with those predicted from theory, laboratory and test house measurements.

18. Government will continue monitoring and is exploring the benefits or more innovative means of building understanding in this area, for example through a pilot project with Energy Saving Trust and energy suppliers to match the Departments regional data sets on energy consumption by individual house with others on house properties and on acquisitions of efficiency measures in order to track progress more directly. The Department expects the first results shortly.

19. The Department is developing pilots of a new National Energy Efficiency Data Framework to link information from existing databases for the entire building stock³. The framework will bring together data from energy suppliers, buildings, installers and other sources. This should provide a comprehensive source of information on building energy use and performance, which can be used, with appropriate confidentiality and data protection safeguards, for analysis and reporting in aggregate form, or for feedback to energy users. This approach should enable comparison of performance against benchmarks, and help to identify where energy can be saved and efficiency improved.

20. Such information is also expected to be valuable for monitoring and evaluating the effectiveness of different policy measures, for example the progress of local initiatives in saving energy, so that we can learn from our experience and improve schemes where necessary.

21. The Department is co-funding, with four energy suppliers, a £20 million project to test through a variety of interventions how energy consumers respond to better information about their energy consumption. The Energy Demand Research Project (often referred to as the “smart meter trials”) involves 50,000 households across Great Britain, with around 18,000 testing smart meters and a further 8,000 testing display devices. Other interventions include additional billing information, monthly billing, the provision of energy efficiency information and community engagement. The trials will continue into 2010 and the database of results will be made available publicly (with personal and confidential details removed) after the project finishes.

22. As part of its Low Impact Buildings Technology Platform, the Technology Strategy Board will be launching a competition on Monitoring of Demonstrator Buildings. The opening date for this is still to be determined. This competition will enable companies constructing demonstrator buildings to apply for funding to monitor building performance, enabling comparison with predicted performance. The Technology Strategy Board is set to invest £10 million in the competition. In addition, the current Retrofit for the Future competition includes a requirement for evidence of actual in-house performance and costs.

³ www.defra.gov.uk/environment/climatechange/uk/energy/energyservices/documents/need-report090129.pdf

PAC Conclusion (4): Householders are confronted with a confusingly wide range of advice on energy efficiency from the Government, energy suppliers and others. The Department of Energy and Climate Change and the Department for Communities and Local Government should routinely evaluate their programmes to identify the extent to which the information provided is trusted, understood and appropriately tailored, and results in changes in householder behaviour. In particular, the Department of Energy and Climate Change should evaluate the effectiveness of specific measures considered at the Committee such as:

- home energy audits and action plans,
- simpler ways to communicate the energy performance of appliances, such as a Traffic light system of product labelling, similar to that used to provide nutritional advice, or a website to compare the performance of specific products, and
- a quality standard for installers of energy efficiency measures such as loft insulation, equivalent to the Corgi standard for gas repairs, to improve consumer confidence in the advice they receive.

23. The Department and DCLG partially agree with the Committee's conclusion. Both Departments are committed routinely to evaluating their programmes.

24. The Department recognises the important role that clear, trusted advice can have in helping individuals make low-carbon choices. The Government has made a step change in recent years in empowering consumers to make choices – having rolled out mandatory A-G labels on appliances, homes and new vehicles; the Energy Saving Trust's "Energy Saving Recommended" labelling for appliances; the Act on CO₂ advice line led by the EST offering free energy efficiency advice; EST's free home energy checks, an online carbon calculator and energy performance certificates. As part of a review of its delivery bodies, the Department is also looking to increase the usage of the Act on CO₂ label to avoid the use of a confusing number of different brands and slogans.

25. The EU Energy Label, employing the A-G format, has proved to be a widely recognised and well-understood label. The label is designed such that the left hand panel of the label has a graduated scale based on the traffic light red-amber-green colours, with G at the red end and A at the green one. The success of the label since its introduction in 1994 is demonstrated by the large majority of products now available on the market that are in or around the upper end of the scale (i.e. A rated).

26. To improve the label and make the differentiation between the best products clear to consumers, the EU has recently adopted proposals to add extra classes above 'A' over time which will demonstrate how much better than the current A rating these products are. As new classes are added the left hand scale will also shift so that the most efficient classes will be shown as green and the least efficient available as red.

27. The number of product types for which the label is mandatory is also being expanded, to cover a wider range of both domestic and non-domestic products, with televisions being required to display these labels from mid 2010. The design of the A-G label is set at EU level, under the EU Framework Directive on Energy Labelling. The Department for Environment, Food and Rural Affairs (DEFRA), which leads its implementation, is therefore not able to mandate a different label.

28. The Energy Saving Trust's Energy Saving Recommended label supports mandatory energy labelling by identifying the most efficient (approximately the best 15% to 20%) domestic products on the UK market at any one time. The criteria for awarding the label are dynamic and are revised to take account of trends over time. Research conducted by the EST has shown that the label is well recognised by consumers.

29. The Heat and Energy Saving consultation sets out an ambitious package that aims for a fundamental shift in the way consumers use and save energy at home and consults on options to support and encourage individuals to be informed and enthused to take up energy saving measures. As part of this, the Department recognises the growing evidence that changing energy-related behaviour offers substantial scope to save energy and hence reduce carbon emissions. A recent study carried out for the Department summarised the most recent evidence, confirming the significant potential for savings from measures addressing consumer behaviour⁴.

30. The Government wishes to maximise the opportunity to deploy behavioural measures quickly, particularly as they can help to make immediate reductions in consumer bills. To encourage the early deployment of real time electricity displays and home energy advice, in advance of the roll out of smart meters, the Government is taking steps to introduce these measures into the Carbon Emissions Reduction Target (CERT) scheme. The Department is exploring other vehicles for simple access to such mechanisms alongside the consideration of the whole house low carbon retrofit delivery mechanism signalled in the heat and energy saving strategy consultation for post 2012.

31. The Government recognises the important role of advice and information in influencing people's decisions about the changes they make to their properties and how these can save energy, for instance when refurbishing a property, installing a new kitchen or renewing central heating. The Government with the EST is considering the current range of advice available to property owners and has commissioned a scoping study to assess the needs of different stakeholders in the residential market. This will range from the individual householder and how well informed they are when employing contractors, to large firms of builders carrying out refurbishment work. The study will consider the needs of all sectors in the residential market and explore the potential role of a Code for Sustainable Refurbishment and whether this is needed.

⁴ www.defra.gov.uk/environment/climatechange/uk/energy/energyservices/documents/decc-save-energy-implications.pdf

32. The Department recognises the value of accreditation of service providers at every stage – advisers, installers and energy saving products themselves. For energy saving advice deployed under CERT, DCLG is developing a new National Occupational Standard. The Department continues to work with relevant parties to explore the scope to accredit other installers. It is worth noting, however, that loft insulation is a very low risk, low skill activity, is easily carried out as a DIY task, and may not lend itself to formal accreditation like cavity wall insulation or working with gas appliances.

33. The Department set out proposals in the recent Heat and Energy Savings Strategy consultation documents for a Home Energy Adviser who would be responsible for preparing a Energy Audit. The audit would identify the energy saving potential of a dwelling and the type of energy efficiency improvements that could be made to it. In addition, the HEA would provide the householder with advice on the type of behavioural changes that could be made to reduce their energy consumption. This proposal is currently out to consultation and a decision on whether to take it forward will be made during the summer.

34. DCLG have commissioned research to evaluate the implementation of the Energy Performance of Buildings Directive. As part of this work, the extent to which Energy Performance Certificates (EPC) have influenced the behaviour of buyers when choosing homes will be considered. The research is due to be completed in September 2009.

PAC Conclusion (5): The Department of Energy and Climate Change wants ‘smart’ meters to be installed in all households by the end of 2020, and so needs to oversee the effective roll-out by suppliers of a major infrastructure programme with significant cost to consumers. The Department should not underestimate the challenges of a large scale project whose value depends on behaviour change. The Department should quantify and set out clearly the expected benefits of smart meters. It should also put in place a comprehensive project management programme for delivering these benefits, identifying and managing the likely risks to their delivery. The Department should consider how the costs of smart meters can be made more transparent, for example, through better billing.

35. The Department agrees with the Committees conclusions in relation to the scale of the challenge that a smart meter roll out to all homes in Great Britain represents. A smart meter roll out will bring about a transformation in the way that consumers and industry understand and engage with energy usage. It will also entail significant change in a variety of processes across the industry. The Government is already considering the programme of work that will be needed to prepare for and manage roll out and agrees that a full project management programme will be required for that work to deliver the benefits sought. This work will need to cover a wide range of issues including market rules, consumer engagement and data protection.

36. On 11 May 2009, the Department issued a consultation document on issues relating to the roll out of smart metering. A revised consultation impact assessment was published alongside this consultation document. The revised impact assessment includes a full assessment of the costs and benefits of a smart meter roll out.

PAC Conclusion (6): People renting from private landlords have limited opportunity to improve the energy efficiency of their homes, and current incentives for landlords to act have been ineffective. The Department for Communities and Local Government is considering an independent review's recommendations that there should be a 'light touch' licensing regime for landlords. The Department should examine how energy efficiency requirements could be included as part of such a licensing regime, or should consider alternative measures to require private landlords to invest in energy efficiency.

37. The Department and DCLG partially agree with the Committee's conclusion. Since 1 October 2008, an EPC has been required whenever a dwelling in the private rented sector is let to a new tenant. Landlords must make an EPC available to prospective tenants at the earliest opportunity and must provide a copy of the EPC to the person who takes up the tenancy.

38. The Government recognises that landlords in the private rented sector may be deterred from installing insulation because cost savings from investing in energy efficiency are difficult to recover in increased rent. In 2004, the Government took action to correct this by introducing the Landlords Energy Saving Allowance (LESA), which provides an allowance of up to £1,500 for landlords who invest in improvements such as cavity wall and loft insulation in the properties they let. The Government is continuing work to raise awareness of this allowance.

39. The independent review of the private rented sector by Julie Rugg and David Rhodes at the Centre for Housing Policy, University of York, suggested that Government consider introducing a registration scheme for landlords. An important part of the proposal is that there would be no entry barriers to membership as all landlords would be required to subscribe to a national register if they wanted to let properties. Landlords would receive a unique registration number confirming membership of the register without which they would be letting the property illegally.

40. Local authorities would have access to the register which would better enable them to use the existing legislation to target poor performing landlords and poor condition of the property. This can include measures to improve cold homes and energy efficiency measures. The powers are set out in the Housing Act 2004, which introduced the Housing, Health and Safety Rating System, a risk-based assessment tool, to assist local authorities in considering the condition of property in their area and identify risks to occupiers. All local authorities are able to offer grant aid or loan assistance to landlords should they choose to encourage improvements. DCLG engaged in dialogue with stakeholders in respect of the Rugg Review's proposals, which will include how to best ensure properties, which are let, meet minimum standards. The Government response to the Rugg Review was published on 13 May for consultation.⁵ It sets out options to ensure the best use of regulatory and incentive structure for the private rented sector to secure decent homes and energy efficiency improvements for private tenants.

⁵ The private rented sector: professionalism and quality - the Government response to the Rugg Review. May 2009 ISBN 978-1-4098-1437-5

PAC Conclusion (7): The Building Control profession has not prioritised the enforcement of the energy efficiency parts of the Building Regulations. The Department for Communities and Local Government has provided training for Building Control Officers and introduced new enforcement powers, and is considering new proposals for the inspection process. The Department should check that all Building Control Officers are fully trained and are using their powers effectively to enforce the energy savings requirements in the Building Regulations.

41. DCLG partially agrees with the Committee's conclusion. While DCLG acknowledges that the energy efficiency requirements of the Building Regulations may not always have had the highest priority compared to the likes of fire safety and the structural integrity of buildings, the Committee's conclusions do not appear to recognise the progress on compliance with the energy efficiency requirements in recent years.

42. DCLG has instigated a range of measures alongside the changes to building regulations in 2006 to improve guidance including mandatory air-tightness testing, additional schemes for competent installers and improved guidance. This included a substantial training and dissemination plan targeted at building control officers charged with enforcing the regulations. Training is key to delivering compliance on the ground and DCLG has been working with the Building Control Alliance and key professional institutions to develop a strategy for dissemination and training in support of the changes to the Building Regulations planned for 2010.

43. In addition, DCLG has consulted on proposals for changes to the building control system.⁶ The changes proposed are intended to both improve compliance with the Building Regulations and further reduce the burdens associated with the system. These proposals include limiting changes to regulation to pre-published periodic review points, more stringent enforcement powers available to local authorities, a risk-based compliance mechanism so that inspectors can focus on projects that are at high risk of non-compliance and to make the regulation much more user-friendly for all those that use them.

44. DCLG will follow up the analysis of the Consultation on the Future of Building Control responses with an Implementation Plan, outlining how the successful proposals will be taken forward including milestones.

PAC Conclusion (8): Little is known about the extent of compliance with the energy saving parts of current Building Regulations, so the adequacy and effectiveness of the Regulations on energy performance in practice is uncertain. The Department for Communities and Local Government should set out a clear plan for testing energy performance routinely on a sample basis to check on compliance, the effectiveness of the Buildings Control regime and, ultimately, the effectiveness of Building Regulations in delivering reduced energy consumption. The Department should demonstrate that the scale and timing of these tests is sufficient to inform each subsequent revision of the Building Regulations.

⁶ www.communities.gov.uk/publications/planningandbuilding/future

45. DCLG partially agrees with the Committees conclusion. DCLG acknowledge the Committees conclusion that compliance is vital to ensure that policy ambitions implemented through building regulations are delivered on the ground. However, there have been several detailed studies on compliance – completed or currently underway – so there is more robust data becoming available about the extent of compliance. Nonetheless, given the role that building regulations will play in supporting zero carbon ambitions, the Government wants to take appropriate steps to support, drive and monitor compliance.

46. To improve compliance, alongside the changes to building regulations in 2006 DCLG instigated a substantial training programme, improved guidance, mandatory air-tightness testing and additional schemes for competent installers. DCLG has also introduced extended time limits for prosecution and consulted on proposed changes to the building control system and will be following this up with a programme of reform to make it work more effectively.

47. DCLG believes things are improving as results of its actions. However, it recognises the need for better evidence to supplement current evidence of non-compliance. This is why DCLG has been working with the Energy Efficiency Partnership for Homes (EEPfH) on a project to get a quantitative indication of compliance. The findings of Phase1 of this project⁷ are promising, with improved levels of air-tightness compared to earlier surveys, no major defects being revealed using thermal imaging and building services generally installed correctly, i.e. condensing boilers and low energy lights. This trend is supported by a larger set of results obtained from the wider air pressure testing industry and boiler sales data.

48. Phase 2 of the project is underway and scheduled to report shortly. In addition, there is a considerable body of evidence on the energy performance of new housing contained in the results from the Stamford Brook Project. This seven year long field trial has demonstrated potential for underperformance against design standards and underlying challenges for the industry. The findings from the project are being discussed with the industry in a series of regional workshops.

49. In the light of the evidence obtained from these studies and the proposed measures for improving compliance and reform of the building control system, DCLG will include the best possible assessment of compliance levels into the estimated impact of the next building regulation amendments scheduled for 2010 and is committed to on-going monitoring, given the drivers for increased performance standards in future years.

PAC Conclusion (9): Over 80% of the expected energy savings by 2020 come from Building Regulations and obligations on suppliers, whose achievement is outside the Departments' direct control. To identify and manage the risks in achieving their overall goals, both Departments should liaise closely with industry to identify the likelihood and impact of specific supply chain risks to programme delivery, regularly review progress against those risks and identify how they can influence the supply chain where necessary.

⁷ <http://www.eeph.org.uk/uploads/documents/partnership/EEPfH-CLG%20Part%20L1A%20Compliance%20Project%20-%20Pilot%20Study%20Report%20v1.41.pdf>

50. The Department and DCLG agree with the importance of working closely with industry to identify, and manage supply chain risks to programme delivery. The Zero Carbon Hub, jointly funded by the DCLG and industry, has been established to improve supply chains and monitor progress towards meeting the Government's target for all new homes to be zero carbon from 2016. The Hub reports to DCLG's 2016 Task Force, a forum for senior levels of Government and industry to meet to overcome barriers in the achievement of zero carbon homes. The Task Force is co-chaired by the Minister for Housing and Planning and the Chair of the Home Builders Federation.

51. When reviewing Building Regulations, DCLG have long-established industry groups in place to help support the review process. These groups act as informal consultation forums to help make sensible and deliverable proposals when considering changes to the regulations. DCLG also has the support of the Building Regulations Advisory Committee (BRAC) Technical Working Parties to scrutinise and provide plenary feedback on proposed changes to the Building Regulations.

52. The Department recognises the key role that energy suppliers play. The supplier obligation is now in its third three-year phase. To date all suppliers have met or exceeded all their obligations. The scheme is administered by Ofgem, who have the powers to fine companies up to 10% of turnover for failure to meet their targets.

53. The Department has undertaken supply chain surveys at the outset of each phase, to ensure that the target is deliverable. The Department has ongoing engagement with energy suppliers and the insulation industry, through an industry-working group, to improve the exchange of information amongst delivery partners and to help generate greater continuity and confidence in the insulation market. The Department is considering the case for establishing similar fora with other sectors within the energy efficiency industry.

54. However, the Department recognises that a supplier obligation does mean that delivery of the overall target as well as deployment of specific measures are outside of the Department's direct control. In exploring these issues, the Heat and Energy Saving consultation of 12 February recognises that a supplier-based obligation may not be the best mechanism to deliver low carbon measures going forward. The consultation therefore proposes other approaches including the establishment of a single central coordinating body. The Department is now considering responses ahead of decisions on the way forward later this year. The ability to give long-term certainty to the supply chain will be a key criterion for evaluating alternative delivery models.

Sixth Report

Ministry of Justice (MOJ)

The procurement of goods and services by HM Prison Service

1. In 2003, the Committee of Public Accounts (the Committee) published a critical report on shortcomings in the Prison Service's procurement system, with a wide-ranging set of recommendations. On revisiting the Prison Service's progress five years later, this Committee is pleased to note that the Prison Service has responded positively and decisively. The Prison Service has implemented a new strategy for procurement, and introduced a centralised professional procurement team, supported by five regional procurement teams and a new information technology system. The Committee is also pleased to note that, as a direct result of implementing its recommendations, the Prison Service has generated cash savings of £120 million to 2007-08.

2. Where the Prison Service has encountered difficulties, it has addressed them promptly. These problems have included technical difficulties phasing in its new computer system. In October 2008, the Ministry of Justice announced plans to centralise procurement across the Department into a single procurement function, which would include the Prison Service and the Probation Service. With a potential budget of £2.5 billion, the new procurement function offers the opportunity to secure substantial savings.

3. On the basis of a Report from the Comptroller and Auditor General, the Committee examined the National Offender Management Service and the Ministry of Justice on the lessons learned when implementing its procurement strategy, and on the potential for further savings.

PAC Conclusion (1): The Prison Service has made cash savings of £120million and has improved the quality of the goods and services it procures. These achievements are as a direct result of implementing the recommendations in this Committee's 41st Report of Session 2002-03, *Modernising procurement in the Prison Service*.

4. The Department acknowledges the Committees recognition of these achievements.

PAC Conclusion (2): Centralising procurement and developing tailored procurement strategies for different types of goods and services would help other Government organisations improve their procurement and generate cash savings. In partnership with the Office of Government Commerce and the National School of Government, the Prison Service should bring its success to the attention of senior management in other public sector bodies, for example, by participating in workshops, and by speaking at training events and conferences.

5. The Department accepts this recommendation and is happy to share its experiences for the benefit of wider government. An approach has been made to both the Office of Government Commerce and National School of Government to offer to participate in workshops or by speaking at training events and conferences.

6. The Department has also been approached by Thames Valley Police Procurement Organisation, which is seeking to change the way procurement is undertaken. A meeting is being arranged to discuss the approach used by the Prison Service and how it might be used in their organisation.

7. Where possible, contracts awarded by the Department are now being made available to other departments, including the Office of Government Commerce, to enable them to take advantage of the prices and service levels that have been negotiated.

PAC Conclusion (3): Using the Prison Service procurement model throughout the Ministry of Justice should generate further substantial cash savings. We are pleased to note the Ministry's plans to extend the Prison Service model across the whole of its operations, and look forward to its successful implementation in the expectation that the Ministry will also generate substantial cash savings. The Ministry of Justice should set an annual target for finding savings from procurement.

8. The Department accepts this conclusion. A new Procurement Strategy for the Ministry of Justice titled *Procurement Success* has been approved by the Department's Corporate Management Board. The strategy, which is based on the model deployed throughout the Prison Service, introduces a defined acquisition model together with other changes that are forecast to generate savings of £140 million by April 2011. Delivery and implementation of the strategy is under the governance of a formal change programme.

9. A new Procurement Directorate for the Department was created on 1 April 2009 to deliver the strategy. Organisation of the Directorate is concentric on category management, which differs from the traditional way of running a procurement operation. It is based on the premise that each major category of third party spend is defined and managed through vertically integrated arrangements with specific strategies and targets rather than function orientation. The focus of effort therefore shifts towards the overall results achieved in the category and not just the individual business units covered by it.

PAC Conclusion (4): Not all Prison Service personnel have understood or supported the move to centralised procurement. The Prison Service acknowledged that it should have done more from the outset to win over the "hearts and minds" of Prison Service staff to the benefits of centralised procurement. The Ministry of Justice procurement function should learn from this experience and increase staff awareness by publicising the aims, objectives and successes of its procurement strategy to staff, for example through articles on the intranet and in staff magazines, as well as at internal training events.

10. The Department accepts this recommendation and recognises that good communications will be an integral part of the implementation of *Procurement Success*. The aims and objectives of the new procurement strategy have already been explained in communications and are published on the intranet. A more comprehensive guide to the changes savings being achieved will be published and made available to all MoJ staff by the end of April 2009 and updated at regular intervals as the strategy is delivered.

11. A network of procurement liaison contacts is being established within each directorate. This will ensure that messages can be tailored to local needs and also provide an important mechanism for feedback to the programme.

12. A series of feature articles is planned for the MoJ intranet that takes a human-interest angle on procurement. The first of these will highlight the manufacture of furniture by prisoners, which is now to be made available for use across the Department. The Department's procurement intranet pages are being updated and simplified, making it easier for staff to find out how to request the main categories of goods and services that they need.

PAC Conclusion (5): Reducing the threshold for procurement undertaken by the Service's Purchase to Pay teams will not be enough on its own to secure best value from local procurement. In addition to lowering the upper limit for procurement by the Purchase to Pay teams, the Prison Service should periodically obtain details of the items procured most frequently through this route, with a view to extending central contracts.

13. The Department accepts this recommendation and has already reduced the upper limit for procurement by the Purchase to Pay teams to £5,000. This limit will apply across the whole of the Ministry of Justice.

14. The Department has also realigned its procurement organisation to ensure that Purchasing Assistants in the Purchase to Pay teams are responsible for specific categories of spend. This enables Procurement Assistants to become more familiar with central contracts covering their particular category and to redirect potentially off contract spend to central contracts.

15. Line item spend data from the Department's finance and procurement systems is now being analysed at quarterly intervals. Individual category buyers are then able to review what has been purchased and decide if individual items should be added to central contracts or, where the aggregated spend is sufficient, to commence the process of letting a new contract. This will maximise the opportunity for further savings through aggregation of total departmental spend.

PAC Conclusion (6): The Prison Service supplier database included 9,000 dormant supplier accounts. The Prison Service acknowledged the NAO's role in identifying that its supplier database was out of date. The Prison Service should carry out validation checks on the integrity of the data in its supplier database at least annually, in order to confirm that it holds only details of current suppliers, and to check staff authorities to authorise the addition of new suppliers.

16. The Department accepts this recommendation and has already removed these dormant supplier accounts from its database. A review is now undertaken on a quarterly basis and any dormant suppliers are removed.

17. An approval system for setting up new suppliers was implemented following the National Audit Office review. A list of the personnel able to authorise new suppliers has been agreed between the Procurement Directorate and the Shared Service Centre. The list is restricted to staff within the Procurement Directorate and Purchase to Pay teams to ensure that new suppliers are kept to a minimum. Restricting the number of new suppliers provides a further opportunity to ensure that spend is directed to contracted suppliers where discounts have been negotiated.

PAC Conclusion (7): The new inventory control modules currently being introduced will help the Prison Service identify excess or obsolete stock. The Prison Service has yet to fully implement the Committee's recommendations from 2003 relating to stock levels and inventory control, pending deferment of the inventory control modules of its new computer system. The Prison Service should use the information generated by the new inventory management system to identify stock holding levels across the Prison Service and to act to reduce excess or obsolete stock, as appropriate.

18. The Department accepts this recommendation and has already made progress towards the actions required. Implementation of the new inventory control module commenced in June 2008 and apart from one prison, HMP Lewes where a purpose built store is under construction, was completed to programme in December 2008. Implementation of the inventory control model will be undertaken at HMP Lewes as soon as the new storeroom is completed.

19. The new inventory control system monitors the majority of goods stored within prisons. Such items include cleaning and hygiene products, personal protective equipment, prisoner clothing and equipment, staff work wear, stationery and IT products, prison industries raw materials and finished goods. Security locking items held in the service's central locking store are also now included.

20. The management information will, in future, allow better-informed establishment management decisions on the ranges and quantities of items to be held. This includes the ability locally to identify where excess or obsolete stocks are held. Procurement category managers will now be able to access central data better to inform price negotiations and optimise product ranges. Of particular importance is the ability of Prison Industries' internal production planners to access local consumption data of internally supplied items and to align production forecasts to demand.

Eighth Report

Ministry of Defence (MOD)

Chinook Mk 3

1. In 1995, the Ministry of Defence (the Department) ordered 14 Chinook Mk2a helicopters. Six of these were retained as Mk2a and have flown satisfactorily ever since they were delivered. The other eight were modified to an Mk3 standard in order to meet a requirement for Special Forces. The absence of these helicopters has meant that British troops in Afghanistan have had to make do with fewer helicopters, make an increased number of dangerous journeys by road and, due to the specialist nature of the Mk3, rely on heavily modified Mk2 helicopters for use on high risk special operations. The modification of the Mk2 Chinook cockpit to enable their use in low light conditions was a far from perfect solution and compounded safety risks. These delays have potentially put the lives of British service personnel at greater risk.

2. In 2007, under mounting pressure to provide additional helicopter lift to Afghanistan, the Department scrapped the Fix to Field project in favour of a new project called Reversion, designed to accelerate the helicopters' entry into operational service. In assessing the Reversion project, however, the Department failed to consult with Boeing, the manufacturer of the helicopters, with regard to the potential costs or timeframes, and the estimated cost of the project subsequently grew by 70%. The cost of the eight Chinook Mk3 helicopters once they enter service will be in excess of £422 million, or £52.5 million each. Alternatives that may have been available at the time the original order was placed may have been cheaper than the final costs of these Chinooks.

3. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Ministry of Defence on the original procurement difficulties, the Department's decision-making processes and the impact of the procurement on operations.

PAC Conclusion (1): There have been serious shortcomings in the Department's decision-making on the Chinook Mk3 project which have had significant consequences for the timely delivery of the helicopters to troops on the front-line. The Department took nearly five years to decide on the Fix to Field project. British troops in Afghanistan would have had the additional helicopter capability available to them today if procurement decisions had been made more quickly.

4. The Department partially accepts the conclusion and has recognised the shortcomings with the original procurement; these have been well documented and were the subject of a PAC hearing in 2004 following the publication of the National Audit Office *Battlefield Helicopters* report. After delivery of the eight aircraft, the Department analysed twelve options, with four being selected for more detailed appraisal. In June 2004 the Department decided that the Fix to Field (F2F) programme was the best value for money solution to make the Chinook Mk3 aircraft airworthy and able to conduct special operations.

5. The Department has acknowledged that in the early stages of F2F it took longer than originally anticipated to agree a programme of work, but both the Department and Industry believed that it was very important to take time to get this right, given the history of the project. The initial F2F costed proposal was, however, unaffordable and intensive negotiations to reduce this to an affordable level also took more time than envisaged.

6. From mid-2006 the operational need changed as planned increases in troop numbers to Afghanistan resulted in an urgent requirement for additional helicopter lift. Up until this point, the numbers of platforms and available flying hours were in line with the needs of operational commanders. The Department had to decide quickly how best to ensure commanders received additional helicopter lift in Afghanistan. After considering several options including consulting Allies on the likely availability of additional helicopters, a decision in principle was taken in March 2007 to cancel F2F and revert the Chinook Mk3 aircraft to a support helicopter role. As a result of this decision these aircraft will be fielded more than two years earlier than under the F2F programme.

7. The Department acknowledged the impact this decision would have on the long-term delivery of special operations using the Night Enhancement Package (NEP). To mitigate this risk, the Department has placed a contract with Boeing to improve this capability and the first modified helicopter is expected to be delivered before the end of 2011, within the timeframe envisaged for the F2F project.

8. The safety of servicemen and women deployed on operations remains paramount and the Department takes the provision of first class equipment to the Armed Forces very seriously. The Department's priority is to give military commanders in Afghanistan the helicopters they need and this is currently achieved through a mixture of Heavy and Medium Lift helicopters in theatre, alongside ground transport for mobility tasks as the use of helicopters is not always appropriate.

9. In addition to the Chinook Mk3 reversion, several other steps have been taken to increase helicopter lift capability on operations. The Department has been able to increase the total operational flying hours in Afghanistan by 60% over the last two years to December 2008, with operational flying hours on the current Chinook Mk2 helicopter increasing by over 20% in the same period. Six new Merlin helicopters have been acquired from Denmark, which represents an increase of 25% to the existing RAF Merlin fleet. The Department intends to deploy Merlin to Afghanistan as soon as practicable, following completion of their mission in Iraq.

10. Also Sea King helicopters have been fitted with new, state-of-the-art rotor blades to deliver improved performance in hot and high conditions, allowing deployment to Afghanistan. Through these measures and other improvements, commanders on the ground continue to have sufficient helicopters to perform key tasks, but the Department recognises they could always do more with more. The requirement for these eight Chinook Mk3 aircraft remains and the Department is continuing to press hard for their delivery into service.

PAC Conclusion (2): The Department fundamentally changed its approach to delivering the helicopters in a matter of days, without an appropriate level of analysis and without going through its established approvals procedures. The Department was so confident that it understood the risks, costs and timescale issues associated with the Reversion project that it did not consult Boeing, the manufacturer of the Chinook helicopters. This confidence was misplaced and the cost of the project subsequently increased by 70%. Its post hoc justification that the Reversion project subsequently passed its regular approvals process is flawed as, once the decision had been made, it would have compounded the operational shortfalls and introduced more delays to have reversed it

11. The Department disagrees that the change in approach was without an appropriate level of analysis and that established approvals processes weren't followed. The Department's change in approach was in response to the urgent need for additional helicopter lift in Afghanistan due to planned troop increases from mid-2006. Timescales demanded for a decision to be made quickly and the operational imperative for additional Chinooks were well understood since it is the UK's most capable support helicopter in the extreme temperatures and high altitudes experienced in Afghanistan.

12. A rapid assessment of the available options was needed and the Department opted to use evidence and analysis drawn from extensive previous Operational Analysis in support of the Future Rotorcraft Capability project and specific performance modeling against representative missions in Afghanistan. The Department decided not to undertake a formal Investment Appraisal as it would have taken several months to complete and because the way to bring more Chinook into service quickly was already well understood.

13. A decision in principle in March 2007 to cancel the F2F project and revert the Chinook Mk3 was made based on advice the Department provided, generated using the available analysis and evidence. The Department had confidence in the initial estimates, but acknowledged at the time that they were immature as they had been produced rapidly to enable a quick decision to be made to fulfill an urgent operational need.

14. When the decision in principle was made Boeing hadn't been consulted on the basis that timescales were well understood from F2F and because any consultation would have raised concerns about the Department's commitment to F2F before any decision had actually been taken, endangering the project unnecessarily. Boeing was consulted at the earliest opportunity when detailed costs, risks and timescales were required in support of investment decisions.

15. After the decision in principle, the Department ensured the normal approvals process was followed. Fully argued business cases for Initial Gate and Main Gate investment decisions were developed and formally approved by the Department's Approving Authorities in July and December 2007. Had these not been approved, the Department accepts it would have introduced a further delay while alternative solutions were sought.

16. The Department still considers, even with more mature cost estimates, the reversion of these aircraft to a Support Helicopter role remains the best option as it is the lowest risk and fastest strategy to deliver additional Chinook to meet operational requirements. The decision to revert will enable the Department, subject to operational requirements, to increase the Chinook fleet in Afghanistan in 2010 – two years earlier than would have been possible under F2F.

PAC Conclusion (3): The problems with the Mk3 procurement stemmed from the Department's failure to specify in the contract that it required access to the software source code in order to assess the safety risks and establish whether the helicopters would meet UK airworthiness standards. Given that software is key to the operation of most modern defence equipment, this is irresponsible. The Department should specify access to software as a clear requirement within any contract, especially where access to proprietary software is needed to provide airworthiness certification. The Department should also review its airworthiness approvals process to take into account the safety records of other nations in using similar software and equipment.

17. The Department partially accepts this conclusion and has acknowledged that there were significant problems with the acquisition of the Chinook Mk3 helicopter. Under current working practices these problems would not occur. The Department will not place contracts with suppliers until the means for accessing essential source code have been put in place or appropriate alternative safety assurance processes have been identified. If source code licence rights are required by the Department, these will be provided for in the contract or through a separate software licence with the contractor or any relevant third party.

18. Any denial of access will be taken into account as a selection factor when tenders are considered for either competitive or single source procurements and when procuring from overseas, the Department will be mindful of the added restrictions that may be imposed by the export control authorities of foreign governments. By the end of June 2009, the Department will publish guidance specifically for the assurance of software acquired when applying Defence Standard 00-56: Safety Management Requirements for Defence Systems.

19. Joint Service Publication (JSP) 553 Military Airworthiness Regulations, is the publication that describes the principles and policy for the regulation of the Airworthiness of UK Military Aircraft. As a result of a Departmental review, the UK airworthiness approvals process has been updated to take account of the safety records of other nations. The Department's approach is dependent on the aircraft systems being previously certified and the overseas certification body demonstrating their competence. It is recognised that the certification basis used by other bodies may not be wholly suitable for meeting the Department's requirements. Hence the safety case must address any differences in the operating environment and proposed usage, as well as demonstrating that risks have been mitigated to a tolerable and As Low As Reasonably Practicable (ALARP) level.

PAC Conclusion (4): In 2003, the Department introduced the Night Enhancement Package as a shortterm, urgent operational fix. It will not be replaced until 2009 at the earliest, and the Joint Helicopter Command still assess it as a key safety risk. The Department has to make difficult judgements to balance the safety risk of using capabilities like the Night Enhancement Package against the operational downside of not having it at all. However, the Department should examine whether its acceptance of the risks associated with short-term fixes like the Night Enhancement Package is consistent with the priority accorded to identifying funding for long-term solutions, the duty of care it has to personnel and the principles underpinning its approach to airworthiness.

20. The Department agrees with the conclusion and intends to examine the issue of managing safety in the operational environment to ensure that approaches remain consistent. The Department has a responsibility for the safety of all its personnel and routinely has to balance equipment related risks with the operational risks that the Armed Forces are exposed to. For aircraft such decisions are taken by the Aircraft Operating Authority, in this case the Joint Helicopter Command.

21. The Night Enhancement Package (NEP), procured as a short term modification to meet operational requirements in Afghanistan, was never intended for long-term use. A contract has been placed to replace the NEP installation to provide an integrated display system addressing the pilot workload issues associated with the current fit. This is scheduled to deliver the first modified aircraft with an enhanced low visibility capability before the end of 2011, within the timeframes of the F2F project. As the Committee has stated, difficult judgments have to be made and the Department continues to use the NEP as it enables important missions to be undertaken which would otherwise not be attempted in a non-NEP aircraft.

22. Planning, delivery and the consideration of the risks associated with military capability, including equipment safety, are an integral part of Through Life Capability Management (TLCM), the Department's approach to acquisition and in-service management of military capability. Under TLCM, consistent capability planning is managed through Capability Management Groups (CMGs), and their supporting Capability Planning Groups (CPGs).

23. In managing safety, the CMGs undertake a risk assessment that enables the Department to decide whether risks have been mitigated to a tolerable level and are ALARP. The status of the risks is reviewed routinely to take account of the time at risk and, in particular, to ensure the risk of the extended use of short-term solutions remains both tolerable and ALARP.

24. Recognising the challenges of managing safety in the operational environment, the Department's Defence Environment and Safety Board has commissioned a review of safety in operations and this will include aspects of capability.

PAC Conclusion (5): Scarce Chinook helicopters are being used for basic pilot training because the Department has failed to modify flight simulators to reflect the capabilities of helicopters currently flying in Iraq and Afghanistan. To make better use of its Chinook helicopter fleet, the Department should routinely plan for the simulators to be incrementally upgraded to match, as far as possible, the current capability and equipment specifications of the operational Chinook helicopter fleet.

25. The Department partially accepts the conclusion and considers there has been no impact on the balance between live and synthetic training carried out during basic flying training as a result of the simulators not fully replicating the latest aircraft specifications. One area of flying training where there has been an impact is in advanced flying training (such as pre-deployment training and conversion training) and concerns the amount and quality of training that can be undertaken in the simulators. The main reason for this concerns modifications to the deployed aircraft in response to Urgent Operational Requirements (UOR), which owing to the operational imperative are often fielded ahead of changes to the simulators.

26. Under TLM, the Department has introduced new processes to ensure that the provision of military capability is managed coherently from cradle to grave. These new processes help to highlight, as early as possible, any potential areas of weakness across the eight Defence Lines of Development⁸ and allow the Department to take action and plan accordingly. The capability sponsor must ensure that all lines of development are addressed and that adequate resources are available to deliver the desired capability.

27. For the Department's Support Helicopter Simulator the need for specific upgrades to match major changes to the operational fleet is directed by the appropriate board, chaired by the capability sponsor, and the associated working groups, chaired by the Joint Helicopter Command (JHC). If the simulator is deemed to be the most appropriate means of providing the required training, plans will be developed to deliver the upgrade. More detailed simulator issues are addressed between the project team, the service provider (CAE Aviation Training Services) and JHC.

28. Several contracts to upgrade the simulators are underway including upgrade work for Mk3 Reversion, an enhanced low light capability and for modifications that have been made under recent UORs. Over the next 24 months these upgrades will allow the Department to address the majority of the differences between the standards of equipment fitted to operationally deployed Chinooks and the simulators.

29. The balance between live and synthetic flying training is constantly reviewed within the Department's Support Helicopter Simulator and JHC to ensure that maximum use is made of the simulators and that any surplus capacity is minimised whenever possible.

⁸ The Defence Lines of Development are: Training, Equipment, Personnel, Information, Doctrines and Concepts, Organisation, Infrastructure, and Logistics

PAC Conclusion (6): The scale of the shortcomings on the Chinook Mk3 is not representative of all defence acquisitions, but does highlight some specific areas where the Department needs to revise its decision-making processes. Given rapidly changing operational needs, the Department should:

- **have agile decision-making processes (but this is not an excuse to ignore appropriate governance);**
- **work with HM Treasury to establish minimum analytical and data requirements to underpin significant investment decisions;**
- **agree with HM Treasury a formal mechanism for waiving these standards on the very rare occasions where operational or other imperatives mean they cannot be achieved;**
- **analyse what it is doing differently on the Reversion project and reflect these lessons in the evolution of its existing acquisition processes, and**
- **routinely draw on all available sources of knowledge, including industry partners in making investment decisions**

30. The Department largely accepts this conclusion and responds to rapidly changing operational needs through the UOR process. Developed with HM Treasury, this process allows agile decision making and enables delivery of new military capability usually within six to eighteen months of a request from operational theatres. The emphasis is on speed and UORs are funded from the Treasury Reserve. The Department has agreed with HM Treasury that the scrutiny process for UORs is faster than that required for core equipment projects, and has agreed to a more streamlined approvals process for UORs as is appropriate when meeting rapidly changing operational needs.

31. A Department and HM Treasury team meets on a weekly basis – and more frequently if necessary – to scrutinise and approve UORs and to continue to develop processes with the emphasis on delivering equipment as quickly as possible. While the Chinook Mk3 Reversion project was not approved as an UOR, as the solution could not be delivered within the established UOR timescales, it is being pursued under the same principles, where time is of the essence. It was taken through the Department’s routine Investment Approvals Board (IAB) approvals process with the Initial Gate and Main Gate cases being approved in July and December 2007 respectively.

32. The authority to approve all but the largest expenditure projects is delegated to the Department by HM Treasury because the Department has robust, fit for purpose scrutiny procedures in place. Since the approval of the Chinook Mk3 reversion, the Department has improved the non-UOR approvals process to enhance information sharing and ensure robust scrutiny of business cases. A key element has been the introduction of Scrutiny Teams including commercial, financial and requirement scrutineers and approvals process advisors, from outside the project team. Early engagement with the Scrutiny Team ensures that the project team is clear about the minimum analytical and data requirements that must make up the evidence to support the business case.

33. Furthermore, the Department has also recognised that while most projects delivering capability in response to an immediate operational need are UORs, the changing environment in an operational theatre can result in a requirement to speed up the approval of a core equipment project. Where this is the case, the Department considers that there is now sufficient flexibility in the approvals process for it to be condensed in order to meet challenging deadlines. For example, the formation of a Scrutiny Team and the use of a single coordinated Scrutiny Report allows for a more rapid dissemination of information and advice than was previously possible and the circulation times for business cases can, in pressing circumstances, be reduced.

34. The Department engages with industry partners routinely across a wide range of fora. At the project level the primary responsibility for industry engagement rests with the project teams, several of which, including Chinook, have individuals or sub-units co-located with key industry partners. The information on project deliverables, costs, timings and risk, which form the core element of business case approval, are based on assessments using analysis and evidence that is mostly provided through close working relationships between the project team and its industry partners.

35. In the case of the Reversion of the Chinook Mk3 aircraft, whilst industry were not consulted when the decision in-principle was taken in March 2007 owing to the sensitivity of the decision, Boeing were fully consulted thereafter including providing firm price proposals which were used to inform the formal investment decision.

PAC Conclusion (7): The Department admitted that, particularly when buying existing equipment 'off-the-shelf', it tends to specify too many modifications, when what is needed is equipment that is safe, effective and can be made available for operations quickly. To better inform future decisions on whether to specify modifications to off-the shelf equipments, the Department should analyse all such recent acquisitions to determine how often technical problems have arisen or costs increased, and whether these outweigh the expected and/or delivered operational benefits.

36. The Department disagrees that an analysis of recent 'off the shelf' equipment acquisitions is required. The Department agrees that when buying equipment 'off the shelf' it should be safe, effective and available for operations quickly. That said, the Department has a duty to ensure that the 'off the shelf' equipment can be operated safely and effectively in a range of environments and against a range of threats.

37. These important factors have to be judged by the Department since the UK perception of threats is not always the same as the perception other nations have and because the way the UK uses military equipment to counter these threats also differs. Therefore, there will very often be a need for some modification of 'off the shelf' equipment and the Department will re-emphasise to staff the need to ensure that these modifications are kept to a minimum.

PAC Conclusion (8): The Department, working closely with Boeing, has achieved 20% increases in Chinook helicopter flying hours by changing the way the helicopters are maintained. This approach is being used with some success elsewhere in the Department and illustrates the scope to get better value from existing defence assets. The Department should establish knowledge sharing groups, involving those maintaining other equipment fleets and key industry partners, to make sure that successes in one area are shared and applied consistently. To foster this spirit of collaboration, the Department should monitor the rate of year-on-year improvement in helicopter availability to help quantify the effects of innovations as they are introduced.

38. The Department agrees with the conclusion and is already closely involved in knowledge sharing groups to ensure successes are shared and applied consistently. These knowledge sharing forums include industry groups; groups within the National Defence Industries Council; bi-lateral arrangements with major suppliers; and peer groups involving experts from 15 of the Department's top suppliers. Sharing good practice is further supported by the Department's Equipment and Support Continuous Improvement Team. This team investigates and promotes the application of support initiatives that will offer improved efficiency and output across the Department.

39. All project teams are actively encouraged to learn from each other and explore avenues for improvement using through-life support and reliability and maintainability, and will continue to develop knowledge sharing practices both internally, and with our industry partners to ensure best practice is applied consistently. The Department also participates in joint Departmental / Industry fora to discuss reliability and maintainability issues including the Joint Through Life Support Steering Group and the Committee for Defence Equipment Reliability and Maintainability which covers air, land and maritime areas.

40. The dramatic increase in Chinook flying hours is attributed to a variety of changes across the many different elements that contribute to the whole support chain, including changes to the front-line structure and processes. The principal improvements came from working closely with industry which was enabled through the introduction of an availability-based contract with Boeing that has galvanised a number of disparate support elements to deliver a more coordinated and effective output, including introducing lean processes in the Depth Maintenance support areas.

41. The Department has been able to increase the number of operational flying hours delivered in Afghanistan by 60% in the two years up to December 2008. The Department continues to focus on maximising the utility of its helicopter fleets and is applying the innovative support arrangements similar to that adopted for Chinook more widely across other fleets. Both the Merlin and Sea King helicopter fleets already have similar availability-based support contracts providing incentives to industry to deliver improvements in output at a reduced cost to Defence.

42. The Defence Internal Audit team reviewed the benefits of one such support arrangement, the Integrated Merlin Operational Support (IMOS) contract, in July 08. The review validated the claim that IMOS has reduced the Department's costs by £12 million per year; similar support solutions are being considered for the Apache and the Future Lynx helicopter fleets. The Department routinely draws on the successful elements of existing support models and seeks to capitalise on the expertise of key industry parties.

43. Monthly reviews are held to monitor and quantify the effects of innovations introduced to improve helicopter output and to monitor output performance, serviceability related statistics and metrics. Supported by all relevant internal and external agencies, these reviews aim to understand shortcomings and identify remedial action where required. They also provide further opportunities to share best practice across the helicopter community.

Ninth Report

Ministry of Justice (MOJ)

Protecting the public: the work of the Parole Board

1. The decision whether an offender is suitable for release from custody on parole must be made in the interest of the public and of the offender. The Parole Board (the Board), a Non-Departmental Public Body (NDPB) sponsored by the Ministry of Justice (the Department), is responsible for making these decisions. The Board's administrative performance is undermined by a lack of capacity to hear cases and a variety of other difficulties, such as obtaining complete and timely data for its hearings, some of which are outside its immediate control.

2. The Board's workload of cases to assess has more than doubled in a five-year period. The balance has also shifted from more straightforward paper-based hearings to more resource intensive oral hearings, where the offender attends and is questioned. Both the rise in workload and the change in its nature have placed additional pressure upon the Board's resources. This increase in workload stems from the rising prison population and new sentencing regimes.

3. Assessing the risk of harm posed by offenders is central to a strong parole process. However, for the most serious offenders, the Board often does not receive the key information required to make their assessment. The Prison and Probation services have been unable to provide the timely and complete information necessary for the efficient and effective running of the parole process in a significant number of cases.

4. The Court of Appeal has judged that the Board's position as a NDPB sponsored by the National Offender Management Service (NOMS) within the Department is not sufficiently independent. The Department has moved sponsorship of the Board to another part of its organisation as a temporary solution. The Board's preferred option would be for it to become part of HM Courts Service, which would increase its independence and enable the Board to secure more time from judges to chair oral hearings.

5. On the basis of a report from the Comptroller & Auditor General, the Committee took evidence from the Parole Board, the Ministry of Justice and the National Offender Management Service.

PAC Conclusion (1): Assessing the risk posed by offenders, especially those on life sentences or an indeterminate sentence for public protection, is a difficult task for Board members, and is made more difficult if key documents are not available or late. The Board is demanding that dossiers are received complete and on time, and if key documents are not available it will defer hearings. This approach is not a tenable solution. All relevant parts of the criminal justice system must provide the reports required for the parole process on time and in full.

6. The Department accepts the Committee's conclusion in this area and steps are already under way to address the problem. On 1 April a new parole process was introduced for indeterminate sentence prisoners. The performance of all agencies at all key stages of the parole process will be monitored. The performance targets are supported by a single IT system (the Public Protection Unit Database).

7. There is a Parole Process Performance and Monitoring Board overseeing the performance of all agencies (NOMS and the Parole Board are represented) and targets have been introduced for probation areas and prisons to ensure that dossiers are referred to the Parole Board on time and complete. Progress has also been made in agreeing the type and standard of evidence required in parole dossiers to ensure that unnecessary delays do not arise later in the parole process.

PAC Conclusion (2): The Board has not explained why release rates for both determinate and indeterminate sentenced offenders fell by one-third in 2006-07 and 2007-08. We were told that a speech by the then Home Secretary in 2006, in which he reflected public concern about certain high profile cases where offenders on parole committed very serious offences, led to Board members placing greater emphasis on public protection when making their decisions. The fall in release rates can be ascribed to this greater emphasis on public protection.

8. As the Committee concluded, the fall in the release rates for determinate and indeterminate prisoners by one third coincided with the period immediately following a speech by the then Home Secretary at the Parole Board's Annual Lecture in 2006. The speech highlighted the public concerns over a number of high profile cases where serious further offences had been committed by offenders on parole and re-emphasised to the Board the importance of its key role in assessing the risk that an offender presents to the public. Since the period on which the PAC Report focuses, the release rate has remained pretty constant, suggesting that a balance has been achieved.

9. The Parole Board's focus has and always will be the protection of the public. It was pointed out in the evidence given to the PAC that the criminal justice system has become more risk averse over the past three years, including those writing reports for inclusion in the parole dossier. The Board considered a range of research proposals, including an analysis of the likely costs and potential benefits of those proposals. A whole-system approach to research is required.

10. The Board takes the view that historical analysis is unlikely to produce definitive answers. The Board has introduced systematic monitoring of the quality of decisions and has a database of all indeterminate sentence prisoners released by the Board. These will enable the Board to investigate patterns in parole decisions in future.

PAC Conclusion (3): Since 2003, the percentage of determinate sentenced offenders recalled for having committed a further offence while on parole has remained constant at 6-7%. No system can be foolproof, but on the other hand, every offence committed while an offender is on licence is unacceptable. To help the Board work towards a reduction in the rates of re-offending, the Board's Review Committee should supplement its scrutiny of serious further offence cases by examining, on a sample basis, the reasons given for the decision to release in all cases where prisoners on licence re-offend.

11. The Department accepts the Committee's conclusion and recommendation. The Parole Board has established a Quality Unit to take forward the agenda on quality decision-making across the work of the Board. The Unit implemented a 'Monitoring, Evaluation and Feedback Project' on 2 March 2009 to provide a more systematic process for the assessment of the quality of release decisions and the reasons given for those decisions.

12. The Project includes samples where the Panel has made decisions to release and not to release and is not restricted to cases where the offender goes on to re-offend on parole licence. The information from these assessments will inform individual members' practice; the development of policy and guidance; and point to areas of further research in order to improve the overall decision making of the Board.

PAC Conclusion (4): More than two-thirds of oral hearings did not take place as planned and 20% were held more than 12 months late. These delays are completely unacceptable but until recently the Board did not monitor its performance in this area. As part of the wider changes being proposed to the management and oversight of the parole process, the Board should set a target for holding oral hearings in the planned month, and manage its achievement accordingly.

13. The Department and the Board accept the Committee's conclusion and recommendation. As referred to above, a new parole process was introduced on 1 April 2009. This delivers agreed end to end targets allowing for performance to be monitored for each element of the process, offering clear lines of accountability and holding agencies to account for their performance. A Parole Process Performance and Monitoring Board has been established to monitor this process. That Board will be chaired by the new Sponsors of the Parole Board (the Access to Justice Group within the Department).

14. In addition, the volume of cases that the Board receives has been growing – largely as a result of legislative change, which has seen an increase in the number of IPP cases which require resource intensive oral hearings. This, combined with a shortage of judicial resource available to the Parole Board, has served to highlight the challenges facing the Board.

15. A number of solutions are being developed to address these problems:

- the new parole process has been implemented from 1 April;
- the Department has amended the Parole Board Rules to allow the Board increased flexibility in the allocation of the resources available to them. For example, non-judicial chairs will be able to chair IPP oral hearings, which will maximise the number of cases heard. Independent Parole Board members are being trained in May to chair IPP oral hearings and will sit from the beginning of June 2009;
- the Department is currently recruiting members including additional judicial members;
- the budget for the Parole Board has been increased by 18% for 2009/10; and
- the Department has established a taskforce, to co-ordinate the work being undertaken by NOMS, the Parole Board and A2J in aligning capacity with caseload. The taskforce will report to the Parole Process Performance and Monitoring Board.

PAC Conclusion (5): The Board's administration of cases and its recording of data are being hampered because it holds details of cases on three separate databases and combined them manually. The Board should work with its new sponsor in the Ministry of Justice to implement a new database as soon as possible.

16. The Department and the Board accept this recommendation and are working closely together to achieve a new casework system as soon as possible. The Board's current arrangements were designed for a much lighter caseload level. It is proposed to replace the existing internally developed systems with an IT system designed for the whole Generic Parole Process. A preferred option is currently being explored with a view to installation by the end of March 2010.

PAC Conclusion (6): Money is being wasted because hearings cannot be held on time and offenders are held in prison when they should have been released, at a time when the prison population is at an all-time high. The cost to the Board of hearings that were adjourned or deferred was nearly £1 million in the nine months to 30 September 2007. The cost to HM Prison Service of keeping offenders in jail who were subsequently released at rescheduled hearings or were transferred from closed to open conditions was estimated to be nearly £2million in the same period.

17. The Department and the Board recognise the implications that delayed hearings can have both on offenders and on resources. The Parole Board is working hard with its criminal justice partners to ensure that full information is provided at oral hearings so that the number of cases adjourned or deferred is kept to a minimum. The Board introduced the Intensive Case Management process to ensure that all dossiers contained adequate evidence to enable an oral hearing to proceed. This reduces the risk of hearings being deferred on the day. The Board regularly reviews reasons for adjournments and deferrals to identify common problems and take remedial action.

18. A considerable amount of work is also underway to address the challenges that the Board faces in terms of the increased volume of cases and the limited resource currently available to the Board.

PAC Conclusion (7): One of the key factors underlying the Parole Board's difficulties is that all agencies involved have been attempting to cope with a significant increase in oral hearings. A big factor in this increase has been the introduction of the indeterminate sentence for public protection, brought in by the Criminal Justice Act 2003. This has been used far more by sentencers than the Ministry of Justice had optimistically predicted, resulting in more cases coming before the Board for oral hearings. The full range of the implications of criminal justice legislative change should be considered at the planning stage for new Bills, including modelling the potential impact on all criminal justice agencies.

19. The Department accepts this recommendation. A number of actions, already mentioned, are underway to address the increased workload that the Board is facing in the year ahead.

20. Formal and regular meetings have now been established between all the agencies involved in the parole process to look at improving the accuracy of workload forecasts. This work will specifically look to ensure that all relevant changes in the criminal justice system are reflected in the forecasts.

PAC Conclusion (8): Although HM Prison Service and the probation service have been under considerable pressure, with rising numbers of prisoners and of offenders under the supervision of the probation service, both services need to give higher priority to the parole system if it is to work efficiently and effectively. In particular:

- **HM prison Service should introduce a more systematic method for triggering the process of compiling the reports required for Board hearings for indeterminate offenders, which at present relies heavily upon the skills and experience of the individual in prisons responsible for compiling the dossiers, and achievement of overall targets to reduce household energy consumption, and**
- **the probation service must remedy its lack of a target for producing reports for the Board, and should collect data on whether reports were provided on time.**

21. On 1 April a new parole process was introduced for indeterminate sentence prisoners, which includes the introduction of a Probation Service target for the timely completion of reports. Furthermore, training modules designed for establishment-based staff responsible for parole have been finalised and a central parole helpdesk has been established to provide support and guidance to prison staff. Staff in Public Protection Casework Section from the NOMS have been re-organised into "prison facing" teams so that performance related issues in specific establishments and probation areas can be quickly identified. A new parole and lifer practitioners' forum is being set up to identify practitioner problems and examples of best practice.

PAC Conclusion (9): The Board's independence was challenged in a Court of Appeal ruling in February 2008, which stated that sponsorship by the National Offender Management Service of the Ministry of Justice meant that the Board was not sufficiently independent. In April 2008, the Secretary of State announced that the sponsorship of the Board would be transferred to the Access to Justice Directorate within the Ministry. The Board's preferred option is that it should become a court and become part of HM Courts Service.

22. As the Committee recognises, in response to the Court of Appeal ruling, sponsorship of the Board has already moved within the Department from NOMS to the Access to Justice Group. This has served to address the most immediate concerns of the Court of Appeal about the independence of the Board and has also allowed for the establishment of a sponsor who can adopt a neutral position from which to constructively challenge all of the agencies involved in the parole process.

23. With regard to the Committee's comment on the future of the Parole Board and whether it should become part of HM Courts Service, this is something that the Department will be consulting on in the summer. A consultation paper will be published before summer recess exploring some of the options for the future status of the Parole Board and where it is best placed within the criminal justice system, given its evolution from an advisory body when it was established, to the decision making body that it is today. Only after a full public consultation will a decision be made about the future of the Parole Board.

PAC Conclusion 10): The national Audit Office identified that 22 of the 180 Board members were not fulfilling their minimum time commitment to the Board. The Board has reduced the number of non-judicial members who do not meet their minimum commitment but acknowledges that obtaining enough judges' time to fulfill the requirements of the Parole Board rules as they stand remains difficult. A transfer of the Board to HM Courts Service would help ensure that judges meet their obligations to the Board.

24. The Department accepts that at the time on which the NAO reported there was an issue with regard to members not fulfilling their minimum time commitment. In response, the workload of members is now monitored on a monthly basis and the relevant members are contacted as necessary. Over the six-month period from September 2008 to February 2009 independent members undertook, on average, 131% of their expected workload. They also offered additional days that could not be used due to the lack of judges to chair the hearings. Only six members completed less than the minimum workload. Two of these were long-term sick and another has since resigned.

25. The Department also recognises that securing sufficient judicial time to fulfill the requirements of the Parole Board rules is difficult. In response to this issue the Parole Board (Amendment) Rules 2009 were laid before the House on 2 March 2009 and were implemented on 1 April. The new rules allow the Board increased flexibility in the allocation of the resources available to them – particularly in respect of the requirements for judicial chairs of oral hearings.

26. The Department is also working with colleagues in HM Courts Service on the question of the availability of judicial resource, as this is a matter that is of equal importance to the efficient and effective operation of the criminal courts. Whether the difficulties around judicial resources would benefit from a transfer of the Board's functions to HM Courts Service is one of the issues that we will be consulting on in the summer.

PAC Conclusion (11): The Committee found unacceptable that there has been no requirement for all three panel members to sign off on the reasons for their decisions on each cases, rather, the final word has been left to the chair alone. The Board has accepted the new template recommended by the National Audit Office which will require all three members to sign off reasons for panel decisions.

27. As indicated in the Committee's recommendation, the Department and the Parole Board accept this recommendation and have taken steps to address it. The Board designed its own reasons framework, which was introduced in January 2009 for use in all determinate and indeterminate parole cases. Members are now required to provide evidence that they have 'signed off' the final draft of reasons through means of email.

PAC Conclusion (12): The average age of the Board's non-judicial members was 50, a figure that is increasing. All but four members described themselves as being 'white' and 86% of those members who provided information have a degree. It is important that the Board increases the level of ethnic minority representation of its membership, reduces its average age and adjusts the social composition of members. It should set targets for each of these areas in conjunction with the Ministry of Justice.

28. The Department and the Board accept the Committee's concerns about the diversity of the Board's memberships and are making efforts to address this. These appointments are subject to the rules applied by the Office of the Commissioner for Public Appointments and must be on merit. It is not permissible to set targets for Public Appointments. However, the Parole Board and the Department are working to increase the profile of the Board and encourage applications from as diverse a population as possible, for example through the project run in conjunction with Operation Black Vote in 2009.

29. In further recognition of the need to improve the Board's diversity, when the Department appointed recruitment consultants to administer the 2009 recruitment campaign, one of the key criteria used when assessing the tenders of consultants was evidence of a track record of attracting a diverse range of applicants. The result of these efforts will be known at the conclusion of the recruitment campaign in the Summer.

30. In the longer term, the consultation exercise referred to earlier will consider the options for the structure of the Board's membership in light of any change to the governance arrangements that may occur following consultation.

31. More broadly, the Department is developing guidance on the principles by which all of its Arm's Length Bodies (ALBs) should be governed. Included in this work is the development of a strategy to improve the diversity of all appointments to ALBs.

Tenth Report

Department for Communities and Local Government (DCLG)

New Dimension – enhancing the Fire and Rescue Services' capacity to respond to terrorist and other large-scale incidents

1. The New Dimension programme (“the programme”) was established by the Office of the Deputy Prime Minister (now the Department for Communities and Local Government – “the Department”) following the terrorist attacks in the United States of America on 11 September 2001. Its aim was to enable Fire and Rescue Services to respond effectively to terrorist and other large-scale incidents such as flooding.
2. The programme has procured specialist vehicles and equipment, funded training for firefighters and provided other support. It has cost around £330 million, with the procurement of vehicles and equipment now almost complete. The programme has enhanced the Fire Service’s capacity to respond to terrorist and other large-scale emergency events, as demonstrated by its use in major incidents such as the Buncefield oil depot fire in December 2005 and the flooding in the summer of 2007.
3. The programme funded the training of around 10,000 firefighters in all new equipment types, mostly at the Fire Service College. The adequacy of current and future skills will be affected, however, by the extent to which trained firefighters have been moved to alternative duties, and whether training quality is benchmarked rigorously. Maintaining skills may be expensive and more demanding if potential large-scale incident threats increase. New Dimension equipment has been used successfully at three large-scale incidents, but has yet to be tested to its limits.
4. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department, including the Chief Fire and Rescue Adviser, on the programmes delivery, the adequacy of firefighter skills and the use of the equipment in practice.

PAC Conclusion (1): The New Dimension Programme has enhanced national capacity within the Fire Service to respond to major incidents. The equipment has already been deployed effectively in large scale incidents such as the Buncefield oil depot fire in December 2005, the floods of 2007, and the warehouse collapse in Warwickshire on November 2007, although it has yet to be tested to its expected limit in real or practical exercises. The Department should re-evaluate periodically the assumptions behind the roll-out of the New Dimension equipment in the light of changing risks for national incidents and threats, and determine how any gaps in capability emerging can best be addressed.

5. The Department welcomes the recognition by the Committee that the New Dimension Programme has enhanced national capacity to respond to major incidents and that the capabilities provided have already proven effective in operational response. The Department also accepts the recommendation that in the light of any changing national risks, the assumptions behind New Dimension rollout will need to be re-evaluated.

6. The New Dimension capabilities are intended to meet the requirements of the Cabinet Office-led programme considering the top risks faced by the UK, which allows all Departments, the regional tier, and local responders, to plan on the same basis for dealing with disasters. The Department is confident from modelling already undertaken that the New Dimension capabilities are fit for purpose to respond to the risks we face in the way intended. The risks are reviewed regularly – a list of such top risks was published by Cabinet Office in summer 2008 as the National Risk Register – and over time, are likely to require a change in the capability of the Fire and Rescue Service (FRS), as for other responders and central Government itself.

7. For New Dimension, the Department will review in conjunction with the Chief Fire Officers Association (CFOA) such changes when carrying out major refreshes (updates). Minor and incremental changes are considered and dealt with by CFOA using funding provided by the Department. The CFOA-led National Resilience Assurance Body provides assurance that the FRS are able to respond effectively to major national incidents.

PAC Conclusion (2): Poor programme and project management led to delays, avoidable costs and weaknesses in contracting. Future large-scale procurements undertaken by the Department should embed from the outset sound programme management techniques such as clear objectives and a detailed implementation plan containing project sequencing and critical path analysis. Project managers should be trained in the principles of contract tendering and negotiation, quality assurance and monitoring, and apply such techniques to individual projects within the programme.

8. The Department accepts this recommendation and recognises that there were early weaknesses in the programme management of New Dimension. The Department has done much to address this since 2005 and now has improved systems in place. For example: the lessons learnt on New Dimension were picked up by the Department's then emerging FiReControl project which put in place specialist resource covering programme management, and commercial and quality assurance competencies.

9. The Department's finance and procurement functions are now closely involved in the running of the Fire and Resilience Programme Board (which considers not only New Dimension but the Firelink and FiReControl projects as well). There are regular meetings on budget issues between the policy and project functions. Additionally a new Head of Procurement has been appointed with an increased portfolio of practical experience, which he is bringing to the function. The Department is addressing the acknowledged areas of weakness working with business units including Fire and Resilience Directorate.

10. Specific action plans will be implemented over the next twelve months. One of the midpoint 'Stocktake' comments in respect of the Department's Procurement Capability Review (PCR) was that "Corporate Procurement Division (CPD) has greater levels of visibility and engagement with major programmes." The Department's Corporate Procurement Division now quality assures the tender process and procurement requisitioning documentation, which helps to ensure additional costs and delays are minimised. This progress will continue as CPD moves towards its next PCR review at the end of 2009.

11. In terms of training, since May 2008, 336 programme manager's and other key senior staff from Grade 7 to Grade 3 level have attended the Department's bespoke two day training course in project and programme management (PPM) skills. Additionally, a further 326 staff at Executive Officer to Grade 7 level have attended a bespoke one day PPM course, providing an introduction to some of the core principles of project and programme management. The Department is continuing to provide these one and two day PPM courses, with the next tranche expected June 2009, to maintain and increase the number of staff trained in PPM skills.

PAC Conclusion (3): Weak financial controls enabled a £867,200 fraud to be perpetrated in the early years of the programme, and even after control was tightened, financial information available to inform and support programme managers was not adequate. The Department should support future major procurement programmes with staff who have appropriate experience in financial control, accurate financial reporting and the use of timely and relevant financial analysis in programme and project decision-making. Detailed whole life cost budgets should be prepared at the outset to enable value for money to be achieved in individual projects.

12. The Department accepts that there were some weaknesses early on and has worked hard to address them in the period since the fraud case referred to occurred. There have been many improvements made in this area, for example, in addition to the measures outlined in paragraph 8 above, controls are now in place covering the establishment of new users and payees on the financial accounting services system, and these together with a suite of pre and post payment checks, significantly reduce the risk of such a fraud happening again.

13. The Department also has a robust system in place for evaluating business cases. Specifically, the Investment Board (a sub-committee of the main board which provides strategic leadership for the Department) which is chaired by the Director General for Finance and has senior representatives from across the Department as well as an external member, subjects business cases to a rigorous examination before deciding whether they can proceed.

14. On the provision of financial analysis for programme and project decision-making, there are currently 118 fully and 189 part qualified accountants employed in various capacities in the Department, including the Director General of Finance at board level, and the Director of Finance. The Department deploys these qualified staff as necessary on key project and programme work. Additionally the Department has an Analytical Service Directorate (ASD), headed by our Chief Economist and there are also 45 economists employed, providing specific analytical support across the Department.

PAC Conclusion (4): Consultants brought in by the Department at a cost of around £12 million helped turn the project round, but weak oversight led to costs in excess of those contracted for and the expected skills transfer to Departmental staff took longer than expected. When purchasing such services in the future, the Department's contracts should include mechanisms such as performance indicators and key milestones to enable regular objective monitoring of performance. Contract terms should be enforced or renegotiated if circumstances change.

15. The Department accepts this conclusion and the ensuing recommendation that future consultancy contracts include performance indicators and specific work packages with clear deliverables and forecast timescales. This is an area where the Fire and Resilience Programme (encompassing Firelink and FireControl as well as New Dimension) has learned from past experience and now procures consultancy services with greater specificity about deliverables and timelines.

16. In line with the Office of Government Commerce (OGC) PCR recommendation to consider the introduction of a Category Management approach, Consultancy was identified as one of the key early areas of spend for review. Category Management is a sector based procurement approach that finds ongoing efficiencies through a wide range of commercial and demand management initiatives. Department Category Managers are now working actively with OGC within the scope of the 'Consultancy Value Programme' to incorporate best practice approaches to contracting, contract and supplier management. The implementation of these changes is captured in a category strategy for consultancy the implementation of which is part of a cross-functional approach led by CPD in conjunction with senior stakeholders.

PAC Conclusion (5): Capacity to respond effectively to major incidents is dependent on maintaining adequate numbers of firefighters trained to deploy the New Dimension equipment, but the Department has no robust basis of obtaining assurance at a national level on the skills available. Alongside actions taken at a local level to assess firefighters' skills and Fire and Rescue Services' operational performance, the Department's National operational Assurance team, made up of experienced firefighters, should conduct periodically an audit of skill levels for all equipment types across all Fire and Rescue Services.

17. The Department recognises that maintaining firefighter skills on New Dimension equipment is essential to ensure that these capabilities can continue to be delivered in the future. During the initial rollout stage of New Dimension, the Department fully funded all training for those operating the equipment along with providing awareness training for all firefighters across the country. The Department has also invested around £10 million in providing new training facilities at both the Fire Service College and in some FRSs and is currently providing funding of approximately £6 million per annum to ensure that New Dimension skills are maintained.

18. Ultimately however, firefighter skill levels are the responsibility of individual Fire and Rescue Authorities (FRAs). The Integrated Personal Development Systems (IPDS) provides a structured framework for assessing the ongoing competence of FRS operational staff and it is for FRAs themselves to ensure that this is done on a regular basis. Furthermore, the FRS stakeholder-led Vocational Standards Group is responsible for ensuring that the Fire and Rescue Sector National Occupational Standards against which staff are assessed remains up to date.

19. Nevertheless, the Department accepts the subsequent Committee recommendation concerning the need to conduct an audit of New Dimension skill-levels given New Dimension capabilities are to provide a national response. As part of the long-term arrangements for New Dimension, a new sector-led assurance process for operational performance led by the Local Government Association and CFOA will provide assurance that the FRS is able to meet Government requirements.

20. Part of this requirement is the establishment of an assurance audit programme starting July 2009, following a successful pilot, where one element of the Assurance Body's focus will be on the review of training (in the first instance this will be on mass decontamination). This will include whether current training levels are sufficient to maintain operational competence, the recording of training and the systems in place to record and identify all training. In addition this work will identify and develop a suite of performance indicators across each of the New Dimension capabilities, including training, which will be used to effectively manage local and centralised training programmes, and to provide assurance on each of the capabilities.

PAC Conclusion (6): Confusion exists within Fire and Rescue Services about where authority to deploy New Dimension equipment locally and nationally rests.

The Chief Fire and Rescue Adviser and his team have recently issued new guidance on roles and responsibilities and the National Operational Assurance team should test understanding of the new guidance within Fire and Rescue Services. The team should also evaluate operation of the guidance in practice at large scale command and control exercises. The Chief Fire and Rescue Adviser should be advised of any further changes or clarification which might be necessary.

21. The Department disagrees about the confusion over the arrangements for deploying New Dimension equipment. The equipment itself has already been successfully deployed on over 1900 occasions, including to incidents on a very large scale such as the Buncefield oil depot fire in December 2005 and the widespread regionalised flooding in 2007, through to augmenting the FRS response to local incidents, wherever this new specialised equipment can assist.

22. Additionally, as the Committee states, the Department's Chief Fire and Rescue Adviser has recently issued revised guidance in the form of 'Fire and Rescue Manual, Volume 2, Fire Service Operations, Incident Command'. The 3rd edition of this manual, provides clear guidance for FRS resilience and sets out the roles and responsibilities for FRS National Co-ordination Centre and the Department's Emergency Room.

23. It is the respective FRA Gold Commanders who have responsibility for resolving incidents involving the FRS in their areas. However, in support of this and as per the Fire and Rescue Service National Framework 2008-11, the Chief Fire and Rescue Adviser has recently promulgated further draft guidance in the form of the National Co-ordination and Advisory Framework (NCAF). This guidance document provides a structure that offers national support to the affected FRS(s) during incidents that have national significance or require national co-ordination.

24. On a statutory basis, the Fire and Rescue Services (Emergencies)(England) Order 2007 sets out the duty of FRSs in respect of deployment of USAR and CBRN assets – if requested by other FRSs, to the extent it is reasonable. This strikes the right balance between an affected FRS having the expectation that assistance will be forthcoming from other FRSs, whilst allowing a potential assisting FRS to refuse to assist if it finds itself unable to do so, for instance if it is in the midst of a serious emergency. All FRSs in England have signed up to the National Mutual Aid Protocol, agreeing the terms by which they assist each other when serious emergencies occur.

25. The Department does however accept the Committee's recommendation that operational understanding of the guidance issued by the Department surrounding responding to major national incidents should be evaluated and amended where required. The work of the National Resilience Assurance Body in establishing a future exercise programme and the dissemination of lessons learnt arising from these exercises is detailed below. The Department will continue to liaise closely with the National Resilience Assurance Body in this area and, where appropriate, lessons learnt will be factored in to the guidance accordingly.

PAC Conclusion (7): Mobilisation of New Dimension and other equipment nationally is dependent on the completeness and accuracy of equipment availability data held at the national Co-ordination Centre, but currently such data is not comprehensive. The National Co-ordination Centre should hold complete and accurate data on all New Dimension and other equipment, as well as on its availability for deployment across the country. Data checks should be undertaken periodically to make sure such information remains up-to-date, accurate and complete.

26. The Department accepts that initially there was some degree of under-reporting and some issues relating to the accuracy of mobilization data held at FRS National Co-ordination (FRSNCC). The experience of the Department is that the FRSNCC does now hold comprehensive data on New Dimension equipment and the Department therefore rejects the statement that currently data is not comprehensive. The FRSNCC keeps track of all New Dimension resources and ensures the co-ordination of their deployment between FRSs in England and Wales. The FRSNCC receives data on New Dimension equipment availability and deployments from FRSs.

27. However in considering the Committee's recommendation, the Department acknowledges that there may be opportunity for a broader NCC function in coordinating some non-New Dimension equipment such as boats for wide-spread flooding. Holding data on all non New Dimension equipment would be impractical or overly burdensome. The coordination of other FRS equipment is being considered as one outcome option of the Pitt Review.

28. Once the FiReControl Regional Control Centres (RCCs) become operational, they will have a similar tracking role to the current FRSNCC, although on a digital automated service, for all FRS equipment. The Department recently decided that a separate NCC function should remain post RCC, located within an RCC, with a second RCC providing a back-up to enhance resilience. This will ensure the effective deployment of New Dimension resources during major incidents.

PAC Conclusion (8): Fire and Rescue Services have a statutory responsibility to plan for their response to catastrophic incidents. However, many plans are inadequate, especially for regional and national scale incidents, and there are too few large-scale practice exercises to test response and inform plan making. Lessons learned from equipment deployment at real events and practice exercises are not disseminated systematically across all Fire and Rescue Services.

The Department should put in place a strategy for national and regional scale multi-agency exercises. It should disseminate regional capability information to local fora through the Government Office network, and facilitate the sharing of best practice in incident planning and the lessons learned from actual events and exercises by individual Fire and Rescue Services through mechanisms such as an online portal.

29. The Department accepts the Committee's recommendation that there is a need for a future exercise strategy but would disagree that there are not enough exercises involving New Dimension capabilities at present. The Department must be mindful of the planning and resource requirements for large exercises, which will therefore inevitably be limited in number. In its work to ensure New Dimension capability remains fit for purpose, the CFOA-led National Resilience Assurance Body does include consideration of exercises.

30. The FRS has been involved in a number of FRS and major multi-agency exercises to test its response to regional or national emergencies including 'Young Neptune', 'Orpheus', the three 'Urban Search and Rescue' simultaneous exercises held recently and is currently planning with the Health Protection Agency to take part in exercise 'Saxon Shore'.

31. Although an exercise recording system exists and is managed through the Assurance Body secretariat, until recently, lessons identified and learned have not been systematically recorded. This is currently being addressed through the work of the CFOA-led National Training Working Group (under the strategic direction of the National Resilience Board) who are developing an exercise programme. Additionally, major incidents such as Buncefield and the summer floods of 2007 attended by the FRS, have been closely scrutinised and detailed reports have been published detailing lessons learned together with recommendations.

32. The process of sharing best practice in incident planning and of lessons learned from actual incidents and exercises will be enhanced by the development of a centrally funded National Resilience Extranet (NRE) expected to come on line in autumn 2009. This initiative is being led jointly by Cabinet Office and the Department, working with British Telecom and Ultra-Electronics Datel and, on payment of a modest annual subscription, the NRE will provide a secure means of communicating with and between key stakeholders, including the FRS and other category 1 and 2 responders, at national, regional and local levels.

33. In terms of planning for major incidents, regional machinery is in place, through the Government Office Regional Resilience Teams, and the Regional Resilience Forums, which bring together all Category One Responders (as defined by the Civil Contingencies Act) including the FRS at the regional level. This regional resilience tier has been a key driver, working alongside the Local Resilience Forums, for responders' preparation against risks such as a flu pandemic and wide-scale flooding. A variety of local exercises are undertaken by the FRS, and exercising is seen as an important part in their fulfilling their duty to plan with other responders for local risks under the Civil Contingencies Act.

34. The Department continues to assist with the integrated planning process by providing useful tools, such as the Fire Service Emergency Cover (FSEC) toolkit. Work on enhancing major incident modelling in FSEC is well advanced, and should be available to FRAs in late 2009. The major incident module will allow a quantitative estimation of the risk of about ten different risk categories (including flooding, severe weather, rail/road accidents, hazardous chemical incidents) based on risk data. In addition, some FRSs have explored the possibility of FSEC models, which cover more than one FRS, which would allow the complete integration of planning for all major risks.

35. The Department continues to work on updating and augmenting the toolkit, to ensure that risk assessment is up to date and provide FRSs with a management decision tool which allows integration of planning for all major risks.

Eleventh Report

Ministry of Defence (MOD)

The United Kingdom's Future Nuclear Deterrent Capability

1. The United Kingdom first deployed a submarine-launched nuclear deterrent in 1968. Since then, successive governments have been committed to a policy of continuous at sea deterrence, meaning that at least one nuclear-armed submarine is on patrol at any one time. In its 2006 White Paper⁹, the Government announced its intention to maintain the United Kingdom's nuclear deterrent capability and set out its plans to build a new class of submarines to replace the current Vanguard fleet and to participate in the United States' Trident D5 ballistic missile life extension programme.

2. The Ministry of Defence's (the Department's) ability to sustain its nuclear deterrent capability in the future is greatly supported by its collaboration with the United States. The new class of submarine is likely to remain in service beyond the extended life of the existing Trident D5 missile, which will be renewed in 2042, and needs therefore to be compatible with any successor missile developed by the United States. The Department has received a series of assurances from the United States that any new missile will be compatible with the United Kingdom's new submarine class. Nevertheless, the concern remains that the Department has no direct control over the development of the new missile.

3. The future deterrent programme is still at the concept phase. The Department has yet to make many decisions about the principal parameters of the submarine design, the type of nuclear reactor, and the design and size of the missile compartment. The Department expects to make these decisions by September 2009. To respond to an already challenging timeline, the Department plans to overlap the submarine's design and construction phases.

4. On the basis of a Report from the Comptroller and Auditor General, the Committee took evidence from the Accounting Officer and supporting witnesses on: making important decisions, managing dependence on the United States and managing the programme effectively.

PAC Conclusion (1): The Department's existing cost estimates do not provide an accurate baseline against which to measure progress. The forthcoming revised cost estimates should distinguish between future deterrent costs and the general overheads of the submarine industrial base, and provide clarity as to how the Department intends to deal with VAT, inflation and contingency.

⁹ The Future of the United Kingdom's Nuclear Deterrent (Cm 6994).

5. The Department accepts that at the time of the PAC hearing (November 2008) the cost estimates were not sufficiently developed to provide an accurate baseline. This was to be expected nearly one year prior to the Initial Gate investment decision. Since then work has continued on developing the cost models and the Department is on course to have a robust (and independently assured) cost model to support Initial Gate in Autumn 2009. The cost model will distinguish between the direct costs of the future deterrent and the general overheads. As overhead costs are typically apportioned across multiple projects, the deterrent cost models consider the overhead costs across the whole of the submarine industrial base in order to assess the costs, which should correctly be attributed to future deterrent.

6. In accordance with the Department's approvals process, the initial gate business case will state how VAT, inflation and contingency will be handled. The Department has currently assumed zero rating will apply to the submarine platform in the same way it currently applies to the Astute programme, whereas other elements of the programme (such as infrastructure at Faslane, Coulport and Devonport, Command and Control Infrastructure, and nuclear warheads) may possibly incur VAT. The actual tax treatment cannot be determined until nearer the time the contracts are placed and the precise manner in which we will procure the programme elements has been determined.

7. The costing model will provide detailed inflation indices to be used for each category of expenditure (for example: labour, materials and construction), thereby allowing a full analysis of the effects of inflation on the programme. Uncertainty and risk will be incorporated into cost estimates in the usual way. The Department will, via the Future Deterrent Management Board, maintain oversight of costs across the programme and take action where required to control costs, for example by making design trade-offs where necessary.

PAC Conclusion (2): In September 2009 the Department has to make key decisions about the submarine design which will have implications for the procurement and support costs of the programme for decades to come. Given the importance of these decisions, the Department should commission independent validation of the assumptions underpinning its cost models and assess the reasonableness of its estimates using historic trend analysis.

8. The Department decided some time ago that the cost model should be subjected to independent scrutiny and in October 2007, following a competition, the Department commissioned Deloitte to provide ongoing independent validation and challenge of the design of the cost model and of the cost inputs and assumptions that underpin that cost model. Deloitte's work will culminate with a formal assessment of the cost model, which will be incorporated into the Initial Gate Business Case. Deloitte will also apply past experience and lessons learned from other major acquisition projects in providing their opinion on the reasonableness of the cost estimates.

9. This work is supported by assurance activity conducted by the Department's cost assurance team. This team, which is independent of the Future Submarine delivery team, will also conduct an independent cost estimate to provide a benchmark. Other benchmarking activity includes cost estimates provided by the US Government and UK industry. A historic trend analysis is also being conducted by the Department to assure the reasonableness of its estimates. The outcome of this activity will be presented at the Initial Gate decision point.

PAC Conclusion (3): Suppliers to the submarine industry constitute a highly specialised industry sector, with a number of monopoly suppliers. Given the imperfect market environment, value for money will be hard to achieve. The Department should specify exactly how it will ensure it obtains value for money from its suppliers and set out performance indicators for the programme, against which it will report to Parliament.

10. The Department agrees that achieving value for money will be challenging given the number of monopoly suppliers in the sector. The overall approach will need to be one of partnering with a clear understanding of where risk can and cannot be transferred and clear demonstration of value for money. At the strategic level, the Department has established a steering group with representatives from HM Treasury and the Shareholder Executive to support the commercial work and the driving of value for money from monopoly suppliers.

11. Internally, the programme will be subject to the usual approvals process, with funding only being released once value for money has been demonstrated. Central to this is the Future Deterrent Value Book, a comprehensive document that clearly identifies 15 key tenets of value¹⁰. The Value Book will set out the strategy for delivering through life value for money through the management of the programme and its commercial / procurement activities. The key areas of value are clearly documented and updated regularly to demonstrate progress and delivery of value. These are:

- Should Cost Modelling & Benchmarking: the Department will seek to set its budget lines based on much more rigorous cost modelling which has been informed by robust benchmarking and should-cost modelling;
- Commercial Constructs: the Department will work with Industry to introduce commercial constructs best suited for the complex nature of the programme and the industrial landscape;
- Incentivisation: the Department will develop appropriate incentivisation mechanisms to help deliver our key requirements for each phase;
- Project Controls & Performance Management: the Department will implement and maintain strong control over the programme using an Earned Value Management (EVM) system, complemented with robust Governance and Assurance processes; and
- Contractual Terms and Conditions: the Department will ensure that Value for Money principles are better reflected in all contracts and that there is provision for the on-going evidencing of VfM through-life.

12. The Department has committed to providing an annual cost report to Parliament, which will contain a cost comparison between the programme and the initial estimates contained in the White Paper, and will draw on the analysis within the Value Book. The first report will be presented to Parliament by the end of the year.

¹⁰ Should Cost Modelling, Benchmarking, Risk, Commercial Data, Post Costing & Robust Audit, Rationalisation, Asset Rationalisation, Portfolio Analysis, Core Programme, Terms & Conditions, Cost Allocations, Commercial Constructs, Long Term Partnering Agreements, Incentivisation, Through Life Capability Management

PAC Conclusion (4): The United Kingdom's new submarine will incorporate an American-supplied missile compartment. As the current Vanguard fleet will go out of service in the 2020s, the United Kingdom's programme is running ahead of the United States' programme. The United Kingdom will therefore have to make key design decisions on a replacement submarine before the United States. Given the unavoidable dependence on the American programme, the Department should analyse the lessons from other projects where the Department has been dependent on the United States for critical elements of technology. The Department should use this analysis to inform the development of its proposed communications plan.

13. The Department agrees that the UK will have to take decisions on submarine design in advance of the US and that relevant lessons from other projects involving critical elements of technology supplied by the US should be incorporated in the programme. Discussions have been held with the Joint Combat Aircraft team to identify whether relevant lessons exist and the Strategic Weapons team, which has close liaison with US staff, is located within the same cluster as the Deterrent team facilitating knowledge transfer. Key project staff regularly attend learning from experience events within the Department.

14. Clear communication with the US will be critical to managing this risk, however the UK has a long history of effective cooperation with the US on deterrent matters, underpinned by key treaties (the 1958 UK/US Mutual Defence Agreement, and the 1963 Polaris Sales Agreement as modified in 1982 for Trident).

PAC Conclusion (5): Given the lack of time contingency for the submarine construction programme, some overlap between the design and production phases of the programme is likely to be necessary. The Senior Responsible Owner needs to set out how he will trade between the risks and opportunities involved in managing overlaps, and agree an explicit change management mechanism with other departmental teams and commercial partners at the outset of the project to deal with emerging difficulties in a timely manner.

15. The Department agrees that there must be an explicit change management mechanism. Overlapping design and production phases is not something, which is unique to the future submarine programme – it is a characteristic of most complex engineering programmes in defence or elsewhere. Whilst non-overlapping programmes reduce certain risks by requiring that designs are fully mature before manufacture commences, longer timescales also increase the risk of obsolescence. Modern engineering design and manufacture tools (including the use of three dimensional modelling and simulation) and programme management methods enable the risk of overlapping project phases to be effectively managed.

16. The Department has taken account of overlapping phases in developing its procurement, commercial and approval strategies and these will ensure that effective governance is exercised at key programme decision points.

17. In accordance with programme management best practice, the Department will have a clear change management process within the design team to ensure that changes to specifications are managed carefully. This process, which will be managed jointly with the Department's commercial partners, will operate across the engineering disciplines/functions and will ensure that the cost, time and performance impact of all significant changes is understood before the change is approved by the appropriate authority.

PAC Conclusion (6): The programme's Senior Responsible Owner role still does not conform to Office of Government Commerce guidance. The Department should review what prevents it moving to an arrangement, which conforms more closely to Office of Government Commerce guidance and set out ways to redress the current shortfall as part of its Initial Gate submission.

PAC Conclusion (7): The Senior Responsible Owner does not have direct line management responsibility for some Programme Board members and must therefore work in part by influence and consensus. The Department is confident that it can align incentives and reward good behaviour when individual Programme Board members have conflicting priorities. However, it did not explain persuasively how it would achieve this goal and should clearly set out how this can be done.

18. The Department believes that the current governance structures are robust enough to ensure the effective delivery of this programme. The Senior Responsible Owner (SRO) is well resourced to fulfil his duties, is able to discharge all of the responsibilities of an SRO described by the OGC and all key stakeholders are represented on the Future Strategic Deterrent Management Board. Establishing an SRO who had line management responsibility for all those involved in the programme (which include representatives from other departments) would not be practical given the range of stakeholders involved in this programme. However, the SRO does have direct access to the Permanent Secretary to escalate issues should that be necessary.

19. The Deterrent programme was subject to an OGC-led independent Gateway Review in July 2007. The Review made no recommendations on the SRO arrangements then in place, and noted that the arrangements being considered for the future, which included the occupant of the Director General Equipment (now renamed as Director Equipment Resources) acting as SRO were 'credible' and within the 'latitude' available for reconfiguring the SRO role. Nonetheless, the Department recognises that there is an issue of balance around the current arrangements, which may change as the programme progresses, and will continue to keep these arrangements under review to ensure that they remain appropriate in line with current and emerging OGC guidance.

20. In addition, the authority of the Deterrent SRO is likely to be reinforced by work currently underway under the direction of the Second Permanent Secretary aimed at clarifying and supporting the responsibilities and authority of SROs within the Department, in line with OGC guidance and best practice.

Thirteenth Report

Department for Work and Pensions (DWP)

Handling Customer Complaints

1. Complaints are a valuable source of information for organisations about how customers experience their services. They can be used to provide early warning of poor service, systemic error, communications issues or problems with specific processes. Service levels may need to improve or customer expectations may need to be better managed. Jobcentre Plus and the Pensions, Disability and Carers Service (the Agencies) are executive agencies of the Department for Work and Pensions (the Department).

2. In 2007-08, they provided services to over 22 million customers. In that year, around 70,000 complaints were recorded by the Agencies. Although this is small in comparison with the business undertaken, and over 80% of customers surveyed reported they were satisfied with the services received, nevertheless maintaining adequate complaints processes and acting on the information they provide is an important issue.

3. The Department has significantly improved its complaints handling since a report by the Comptroller and Auditor General in 2005. The total number of complaints has reduced from around 103,000 in 2003-04 to around 70,000 in 2007-08. A three-tiered process has been introduced, and Agencies aim to resolve most complaints at frontline staff or manager level, so as to minimise the number reaching Chief Executive level. Additionally, dissatisfied customers have two independent resolution routes if internal processes fail: the Independent Case Examiner and the Parliamentary and Health Service Ombudsman. Whilst only about 200 cases reach the Ombudsman, the proportion upheld at that stage is around two thirds, suggesting that there is scope for the Department to improve its handling of the most difficult cases.

4. On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department, Jobcentre Plus and the Pension, Disability and Carers Service on recording and acting on complaints, and on the adequacy and costs of the complaints process.

PAC Conclusion (1): In 2007-08, the Department recorded some 70,000 complaints, which is small in comparison to the 22 million customers its Agencies serve. The number of complaints has fallen from over 100,000 in 2003-04, which reflects improvements in customer service, as well as changes in internal processes to encourage more complaints to be resolved quickly at the frontline.

5. The Department welcomes the Committee's recognition that the overall level of complaints it receives is small compared with the number of customers it serves and the number of contacts every working day with those customers. The Department also welcomes the Committee's support for the work it has already undertaken to improve the handling of customer complaints and its policy of resolving complaints quickly and at the frontline wherever possible.

PAC Conclusion (2): The number of customers who say they have complained is about five times the number of complaints recorded by the Department. Many of these unrecorded complaints may relate to low-level issues resolved immediately at working level, but the Department should benchmark its systems for recording complaints with private sector and other public sector organisations. A rigorous benchmarking exercise would enable the Department to determine whether further improvements in recording complaints could be made cost-effectively. Improved systems might capture further useful data on customer dissatisfaction, which could inform future staff training programmes, communications and system design.

6. The Department accepts the PAC conclusion. The Department has begun a programme of benchmarking activities in order to better understand where improvements in recording complaints could be made cost-effectively. For example, representatives from the Department's Agencies and the corporate Customer Insight function recently visited Scottish Power and are scheduled to meet with HM Revenue and Customs (HMRC) next month. Further field visits are being arranged within the public and private sectors. In addition, the Department has taken up membership of the Institute of Customer Service (ICS). The Institute is widely recognised as a leader in promoting customer service improvement. The Department will use its membership to encourage continuous improvement.

7. The Department has already begun implementing improvements to its complaints handling and recording processes. A standard model for recording, monitoring, and learning from complaints made to the Department's Agencies is being developed. Once implemented, this will provide a framework for effective complaints resolution across all of the Agencies. The model will be reviewed regularly and it will be possible to include further changes, based on shared learning from within the Department, other organisations or industry best practice.

8. In addition, the Department has introduced a more straightforward set of standard complaints categories, which apply across all its businesses. These will provide better management information and allow senior attention to be focused on areas where improvements are needed.

PAC Conclusion (3): Over half of customers who complain remain dissatisfied with the response received as well as the time taken to respond, and around 1 in 10 customers say they would have liked to complain but did not do so because they thought it unlikely to make any difference. In undertaking its planned research into why these outcomes arise, the Department should seek to establish the extent to which customers' dissatisfaction arises from poor service or from unhappiness with the outcome of the application of benefits legislation. It should also consider whether barriers exist which prevent some people, such as those most disadvantaged or inarticulate, from complaining.

9. The Department accepts the PAC conclusion. An internal research project looking at a random sample of complaints was carried out for the department by the Office of the Independent Complaint Examiner (ICE) at the end of 2008. The research found that whilst many complainants were dissatisfied with the response they had received, this was largely due to them being unhappy with the outcome of an administrative or legislative decision (e.g. an appeal decision), rather than how the complaint was handled. It has been agreed that ICE will carry out similar research periodically to monitor progress and assess improvements.

10. Jobcentre Plus has recently carried out internal research to establish levels of satisfaction with Jobcentre Plus customer service standards amongst individual customers receiving benefits. The findings from this research are being used to inform the specification for a new piece of research which will follow-up customers who have complained to Jobcentre Plus or the Pensions, Disability and Carers Service, and explore their experience of the complaints process and any perceived barriers.

11. The NAO identified that some customers may face additional barriers to making a complaint. Previously Jobcentre Plus research suggested that, based on a small sample, ethnic minority customers might face particular barriers. The DWP Customer Insight function is due to meet with the Ethnic Minority Working Group (an external group consisting of ethnic minority customer representatives) in April 2009 to discuss any perceived barriers which ethnic minority customers may face in making a complaint or accessing the Departmental complaints process.

PAC Conclusion (4): Alongside staff attitude, a common cause of complaint is the cost of telephone calls to the Agencies, particularly from mobile phones. Telephone access is often essential to make contact with the Agencies, for example, to arrange an initial appointment. Phones are available in Jobcentre Plus's offices but the Department should explore whether there are other locations which would, in particular, help disadvantaged people to make contact. It should also explore with the Department for Business, Enterprise and Regulatory Reform whether the regulatory framework could be used to bring more pressure to bear on mobile phone companies to offer freephone call services.

12. The Department accepts the PAC conclusion. The Department recognises that the cost of making calls by mobile phones can be high, and has been considering the best way of addressing this issue.

13. The Department is meeting each of the main mobile phone operators to explain the impact of the cost of making mobile phone calls to 0800 numbers has on its customers and to ask them to exempt the Department's 0800 numbers from charges. The Department will review the outcome of these initial meetings.

14. BT Mobile has recently announced that it will make all calls to 0800 numbers free from its mobile network. This will hopefully have a positive influence on the charging policy of other Mobile phone operators.

15. The Department has a range of measures in place to make contacting us easier and to help people avoid the costs of calls from mobiles. There are phones in Jobcentres for people to use and a callback facility is available if that is more appropriate. There are messages on our leaflets, websites and on our phone lines, which warn people of the costs of calling from mobile phones. There are also a range of services available on-line.

16. Although staff attitude is cited in a number of complaints and the Department aims to reduce that number, it is pleasing that Jobcentre Plus receives considerably more compliments than complaints about staff attitude. The Customer Insight function is currently developing a Customer Charter, which is based on customer feedback. The charter will help staff understand how important their treatment of customers is to overall customer satisfaction.

PAC Conclusion (5): Over 200 cases a year reach the Ombudsman, of which two thirds are upheld. The Department should review the reasons behind the Ombudsman's findings on the quality of its responses to customers (including timeliness, staff attitude and staff knowledge and use the analysis to inform the quality framework which it is currently developing.

17. The Department accepts the PAC conclusion. The Ombudsman's reports, together with those from the Department's own Independent Case Examiner (ICE), have been used to inform the content of the standard complaints model. The introduction of the model will not only provide a clear signal to staff of the value placed on effective complaints resolution, but will also allow for the establishment of baseline performance data across the Department's Agencies and for the introduction of standardised quality assurance processes. Once fully implemented, the model will help drive improvements in complaint handling in areas such as timeliness, staff attitude and staff knowledge.

18. Details of any systemic recommendations that are raised by the Ombudsman or ICE are routinely shared across the Department's Agencies.

PAC Conclusion (6): There is currently no common system for recording complaints across the Department's Agencies or for sharing good practice developed at a local level. The Department's Senior Stewardship Group provides a forum for discussion at senior levels, but similar groups could be beneficial at manager and working level so that best practice can be disseminated quickly.

19. The Department accepts the PAC conclusion. The implementation of the standard model will ensure that the Department's Agencies record and monitor complaints consistently.

20. Work is continuing with stakeholders across the Department to explore the feasibility of introducing a Departmental complaints recording solution. A business case is currently being developed and resources have been devolved accordingly to ensure that priority is afforded to taking the work forward.

21. The Department's internal governance arrangements for complaints resolution are currently being reviewed. The remit of the Department's Senior Stewardship Group is being extended to look at both the complaints handling process and how to respond to, and learn from, the common causes of complaint. The group will also be used for the dissemination of good practice, via a supporting Working Group and Customer Forum.

22. To support the sharing of best practice throughout the Department and its Agencies, the Customer Insight function is arranging a series of Focus Groups with front-line staff. The purpose of these events will be to discuss the new standard model for recording and monitoring complaints, and to identify areas of weakness and best practice in complaints resolution.

PAC Conclusion (7): The Department does not have systems for monitoring the cost of complaint handling and hence for identifying how savings could be made. The National Audit Office estimated that complaints handling costs the Department between £4.7 million and £6.2 million a year. The Department should analyse the approximate costs of each stage of its complaints handling processes and use this data to inform targets to reduce costs by resolving more complaints at an earlier stage of the process.

23. The Department accepts the PAC conclusion. The Department recognises that the ability to monitor the costs of complaint handling accurately is crucial if it is to have a sound base-line against which to measure improvement. Work is underway to establish the cost of handling complaints at each stage (tier) of the process. The Department recognises that there are limitations to this work and that it will be difficult to capture costs precisely because many complaints are resolved at the point of contact as part of normal business.

24. The new complaints model and complaints categories will help to highlight gaps in the Department's complaints process, and areas of customer dissatisfaction with the service received.

Fourteenth Report

HM Revenue and Customs (HMRC)

HM Revenue and Customs: Tax Credits and Income Tax

1. HM Revenue & Customs (the Department) has paid £85 billion in tax credits since the scheme was introduced in 2003. Tax credits are awarded on an annual basis. The Department makes a provisional award based on information it holds on the claimant's income and circumstances. It can adjust the award if claimants report a change in circumstances during the year. After the year-end, the Department asks claimants to confirm their circumstances to allow it to calculate their actual entitlement. Differences between the provisional award and actual entitlement give rise to overpayments or underpayments.

2. Policy changes announced in the 2005 Pre-Budget Report have helped the Department to reduce recoverable overpayments from £1.9 billion in 2005-06 to £1 billion in 2006-07. The Comptroller and Auditor General qualified his opinion on the HMRC Trust Statement because of the level of error and fraud. In July 2008, the Department set a target to reduce claimant error and fraud to not more than 5% of the value of finalised awards by the end of 2010-11.

3. On the basis of a Report from the Comptroller and Auditor General, the Committee took evidence from the Department on its administration of Tax Credits, including the level of overpayments; its service to claimants; and claimant error and fraud. The Committee also examined the Department on its collection of Income Tax through PAYE and Self Assessment.

PAC Conclusion (1): Overpayments of tax credits continue to affect too many people—1.3 million families in 2006-07—including some of the most vulnerable in society. Many hundreds of thousands of other people worry that they will be overpaid and find themselves in debt. The Department has reduced annual overpayments to be recovered from £1.9 billion to £1 billion following policy changes in the 2005 Pre Budget Report. This level of overpayment is still higher than was originally envisaged when the scheme was introduced.

4. The Department notes the Committee's conclusions. End-year adjustments leading to over and underpayments are an integral part of a flexible system that responds to families' circumstances as they change and they were always anticipated as part of the original scheme design. The Department did not have a forecast of the total number of families having an overpayment when the scheme was introduced. It had an estimate of the number of families whose award would have to be reassessed because of an income rise¹¹ at the end of the year. However, this would not have been a complete picture because there are other reasons why a family might not have an overpayment such as not reporting a change of circumstances.

¹¹ HMT and Inland Revenue *The Child and Working Tax Credits. The Modernisation of Britain's Tax and Benefit. Number Ten April 2002* published at Budget 2002 (paragraph 4.47). See also Note from Witness to Q103 to the Oral Evidence taken before the Committee of Public Accounts on Wednesday 10 October 2007

5. The Government believes that this in-built flexibility of tax credits is particularly important in these difficult times where families may be living on lower incomes. This support is benefiting an even larger number of households than normal, with around 355,000 households who were living on a lower income in March receiving on average £35 more per week in tax credits, 55,000 more than at the same time last year.

6. The value of overpayments has fallen very significantly since 2004. It is less than half the level in the first year of tax credits and now just 5% of gross spending. This is directly attributable to HMRC's successful implementation of a package of measures announced at the 2005 Pre-Budget Report to increase certainty for claimants, while maintaining a responsive system.

PAC Conclusion (2): The Department has made less progress in tackling underpayments to claimants. In 2006-07, underpayments totalled £525 million and affected some 800,000 families, only marginally below the levels in previous years. To ensure that more claimants receive their entitlement to tax credits when they need them, the Department should analyse the reasons for underpayment and identify ways to reduce them.

7. The Department notes the Committee's conclusions. An "underpayment" is not an incorrect payment. It is a top-up paid at the end of the year, when families confirm their income and other circumstances in the usual way, and it turns out that they are due more money for the year as a whole. The Department pays out this necessary top-up as a single lump sum payment.

8. The 2005 Pre-Budget Report included measures that will result in claimants deferring some of their tax credit entitlement until the end of the year, to help claimants who give an inaccurate income estimate or report changes late. As a result, over time, the Government expects the level of in-year underpayments in the system to increase, increasing the numbers of claimants getting an end-year top-up payment. Encouraging people to build up a small underpayment is part of the system in both Australia and New Zealand.

PAC Conclusion (3): The Department considers that the root cause of problems with tax credits is the obligation placed on claimants to report changes in circumstances as they occur, but these procedures are complex and create difficulties for many claimants. The Department has not helped claimants sufficiently to understand their obligations and has been slow to change its processes. By April 2009, the Department plans to introduce new measures to support claimants. To assess whether these measures have improved claimants' experience of tax credits and reduced over and underpayments, the Department should evaluate their effectiveness at the end of 2009-10

9. The Department agrees with the Committee that more help should be given to claimants to help them navigate through the system. The Tax Credits Transformation Programme continues to improve the service HMRC provides to the diverse range of people receiving tax credits. It aims to tailor support more closely to individuals' needs and to make the process of claiming, receiving and renewing tax credits easier for claimants and to reduce the scope for error.

10. Since April 2008 a series of service improvements have been tested and rolled out to provide extra support. The Department will continue to test and roll out further tailored service improvements in 2009-10. It agrees with the Committee that these measures will need to be evaluated and will start the process after the end of 2009-10 when the Department has more data on the outcomes of the new services.

PAC Conclusion (4): At the end of March 2008 the Department was seeking to recover £4.3 billion of tax credit overpayments. Claimants have disputed £900 million of these overpayments, while the recovery of a further £1.8 billion is considered doubtful by the Department. To avoid hardship, the Department allows some people more time to pay. The Department needs to understand better the circumstances of people who are overpaid if it is to improve customer support and to clear the backlog of debt. The Department should also give more training to its staff to ensure that all repayment cases are handled correctly and sensitively, based on accurate information

11. The Department agrees with this conclusion. The Department changed its policy on recovering overpayments in January 2008 to replace the so called “reasonable belief” test with a clearer test which sets out claimants’ and the Department’s responsibilities. In introducing this change the Department ensured Tax Credits Office staff who were required to operate the revised policy received the appropriate training.

12. A claimant’s responsibilities are to ensure that the Department has accurate and up to date information and that claimants should check that their personal details and income details recorded on the award notice are correct. Claimants receive a checklist (TC602SN) with every award notice that identifies their responsibilities. Claimants do not have to try and understand how their payment is calculated. The Department is sensitive to those cases where a family has suffered a domestic crisis (for example where a close member of the family has been seriously injured in an accident) and can remit an overpayment or delay recovery.

13. The Department’s approach to recovering overpayments is designed to avoid hardship. HMRC restricts recovery of an overpayment from ongoing awards. A 12 monthly installment arrangement is available for those no longer receiving an award, with longer pay back periods where appropriate.

14. In order to reduce hardship further, from August 2009, if the Department is recovering a debt from an ongoing tax credit award and the claimant also has an outstanding debt from a previous award the Department will suspend recovery of one debt until the other is cleared.

PAC Conclusion (5): In 2005-06, 82% of families entitled to receive child tax credits and only 61% of those entitled to receive working tax credits actually claimed them. The Department should establish the reasons why people fail to claim tax credits and develop more effective methods for reaching these people. It should also establish targets for the take-up of both child and working tax credits, and establish clear action plans for increasing take-up in those claimant groups and regions where take-up is lower

15. The Department agrees with the Committee that targets should be set for take up. Take up for child tax credit is at a high level with around 90% of the money being claimed. The Department accepts that more should be done to boost take up for those on Working Tax Credit (WTC) without children and has been prioritising its efforts in this area. The Department will build on its existing work to increase take-up, by continuing to expand its partnership marketing activity, which is now reaching around 750,000 employees at over 50 organisations, and its work with Job Centre Plus to help those going in and out of work. The Department will also begin a new programme of activity in the coming year:

- launching a new research-driven marketing aimed at people who are not yet taking full advantage of their entitlements which will target specific groups of working people without children who stand to gain the most from WTC;
- rolling out more widely a pilot that has involved working with 6 Local Authorities to promote WTC; and
- conducting a pilot using data from the Pay As You Earn records to identify potentially eligible claimants who may be missing out on their entitlement and contact them pro-actively.

16. The Department has already set targets for both CTC and WTC take up. The Departmental Strategic Objective is to sustain the level of take up for child tax credit and increase the number of families claiming working tax credits. In addition, the Chancellor announced in his recent Budget that HMRC has been set an ambitious target to increase the number of families without children receiving WTC by a further 100,000 by April 2011.

PAC Conclusion (6): The Department plans to reduce claimant error and fraud to not more than 5% of the value of finalised awards by 2011. It is strengthening its measures for deterrence and prevention through better risk profiling, improving the deployment of compliance resources and making better use of other data to allow it to corroborate information from claimants. In 2007-08, the Department's compliance teams identified or prevented £337 million of incorrect payments from their checks on 157,000 of the highest risk claims, less than 3% of the claimant population. In the light of the levels of error and fraud currently being detected by its compliance teams, the Department should reassess the number of checks performed on high-risk claims and consider whether they should be increased.

17. The Department agrees with the Committee that it needs to keep the number of compliance checks it undertakes under review. In order to reach the 5% target by the end of 2010-11 the Department will have to concentrate its efforts on those who are most likely to make an incorrect claim. For example, the Department is now identifying claimants who are more vulnerable to making a mistake and guiding them personally through their claim as part of its assisted claim scheme. The Department's assessment is that, with new ways of working, current levels of resourcing will enable it to achieve the stretching 5% target by the end of 2010-11, but will keep the resourcing under review.

PAC Conclusion (7): The Department's current definition of fraud risks overstating the level of genuine error and understating those cases where claimants are setting out to exploit the scheme. The Department classifies cases as fraud only where it has evidence that the claimant deliberately set out to misrepresent their circumstances, and estimates that these amount to 10% of the losses due to error and fraud. The Department's response to fraud should take full account of those groups who set out to exploit the scheme even though it may not have clear evidence of an intention to defraud.

18. The Department agrees with the Committee that the absence of evidence does not discount the probability that the person had the intention to misrepresent their circumstances. The Department believes that the vast majority of error and fraud is genuine error and its efforts should be concentrated accordingly. It agrees with the Committee that the response to fraud should take into account all those who set out to exploit the scheme and will adapt its approach according to the behaviour of the customer. It will continue with its risk-based approach to compliance, identifying the highest risk cases for further examination.

PAC Conclusion (8): the Department has deferred its plan to move the administration of Pay As You Earn onto its National Insurance Recording System because it significantly underestimated the volume of processing required. The Department must be satisfied that the new system will work, but the deferral of the plan will delay the benefits of the transfer. To avoid similar delays in the future, the Department should identify the reasons why the volume of processing on this transfer was not established during project planning so that the necessary lessons can be learned.

19. The Department accepts this recommendation. The Department knew that the initial volumetrics would need to be revisited as the system was developed. That work showed that the overall numbers had increased, but vitally they had a disproportionate effect on three areas: the extent that staff will use the systems and number of screens they will access; the amount of data that will be stored; and the amount of data that will need to be recorded for management information purposes.

20. These led to a more significant change to the IT than had been envisaged and so to a longer lead time for delivery of the IT. The Department's IT partners advised that they could not guarantee delivery in time for the October implementation. If the implementation had gone live in October, it would have risked a significant system failure, possibly bringing the system down.

21. The Department has taken forward recommendations from internal and external assurance reviews to ensure IT infrastructure changes cope with the volumes of processing forecast for new systems. The new PAYE system is scheduled for implementation this summer.

PAC Conclusion (9): At the end of March 2008 there were 16.2 million PAYE cases awaiting clerical checking. Many taxpayers will be unaware of outstanding queries against their tax record and the possibility of either additional demands for tax or refunds. The backlog of cases will get worse due to the delayed transfer of processing to the National Insurance Recording System. The Department should establish a strategy and a timetable to deal with, and eliminate, this backlog.

22. The Department accepts, and has partly implemented, the Committee's recommendations. The volume of cases to be reviewed has continued to grow due to changes in employment patterns and our customer base. Clerically reviewing cases is a normal part of the annual programme of PAYE processing work. In over 77% of the cases clerically reviewed there will be no material tax effect on the taxpayer.

23. Following the decision to defer the implementation date for transferring processing to the National Insurance Recording System the Department has established a project to explore the scope for reviewing and reconciling these cases automatically. At the time the project was set up in October 2008 there were approximately 30 million cases awaiting clerical review. However, following project interventions, volumes had reduced to just below 20 million at 31 March 2009.

24. The project strategy is to utilise two new automated initiatives to reduce backlogs by a further three million cases between now and the transfer of PAYE Processing in the summer. The two initiatives, which have been validated by our Internal Audit Office, include using sophisticated matching techniques to improve the reconciliation of customer records and a new macro, which automatically replicates clerical actions. Taken together, these interventions have cleared over six million cases at a fraction of the cost of clerical reviews. When introduced the new PAYE service will significantly reduce the number of cases arising in the future that require clerical review.

PAC Conclusion (10): The Department's latest estimate that 34% of 2002-03 Self Assessment returns were inaccurate, placing £2.9 billion to £3.7 billion of tax at risk, fails to give an up to date view of the Department's success in targeting and dealing with high risk cases. To assess the effectiveness of its compliance work on Self Assessment returns, the Department should seek to produce estimates of tax at risk more quickly. To achieve this, it should expedite compliance enquiries as promptly as possible. It should also investigate whether a provisional estimate of inaccuracy, based on the results of completed enquiries and a projection of non-compliance from ongoing enquiries, could provide a useful indicator of taxpayer compliance.

25. The Department agrees with the Committee's recommendation that the results should be produced more quickly. Since spring 2007 the timeliness of the Self Assessment tax at risk estimates has been improved by almost a year, and the Department is now working on a programme of further improvements that should by 2011 reduce the time taken to produce the results by a further year. These improvements include earlier take-up of the enquiries.

26. The production of tax at risk estimates currently includes projecting results for enquiries, which are still open at the time of analysis, and an element of the programme of improvements to timeliness is reviewing when these projections are made. However, the majority of the most complex and longest-running enquiries must be completed to obtain reliable results, as these few cases contribute a large proportion of the tax at risk.

Fifteenth Report

Independent Police Complaints Commission (IPCC)

Independent Police Complaints Commission

1. Since April 2004, the Independent Police Complaints Commission (IPCC) has been responsible for the police complaints system in England and Wales. The IPCC investigates complaints about police officers and staff, recommending what action should be taken by the police force concerned. Where necessary, it forwards information to the Crown Prosecution Service for a decision on possible prosecution. The IPCC gets involved either as a result of a direct complaint from the public or in response to a referral from the police. In cases involving death or serious injury the police are required by statute to refer so that the IPCC can consider whether to investigate.

2. In 2007-08, nearly 29,000 complaints were made against the police, the vast majority of which were dealt with locally by the relevant police force and did not involve the IPCC. Complaints of a more serious nature requiring IPCC involvement led to it opening 100 independent investigations in 2007-08, compared to 31 in 2004-05. The IPCC also received 4,141 appeals about local police investigations which was a four-fold increase on the number in 2004-05. As a result of its increasing workload, the IPCC has found itself working at above full capacity.

3. On the basis of a report from the Comptroller and Auditor General, the Committee examined how well the IPCC is managing its resources, the adequacy of the IPCC's quality assurance arrangements and how far the IPCC has sought to assess the impact of its work.

PAC Conclusion (1): In the four and a half years since it was established the IPCC has helped to improve access to, and raise public confidence in, the police complaints system. However the IPCC must tighten up its procedures to protect its reputation and to provide a strong platform for taking its work forward. Particular areas for improvement include: quality assurance; obtaining feedback from complainants, police officers and appellants; engaging with key stakeholder groups; and demonstrating the impact of its recommendations.

4. The IPCC agree with the Committee's conclusion and believe that the increase in public confidence can be demonstrated by the increase in the number of complaints recorded rising from 15,800 in 2003-04 to nearly 29,000 in 2007-08. It appears that people now believe that any complaint they make will be taken seriously and investigated thoroughly.

5. The IPCC accept that work is required in all of the key areas highlighted by the Committee in order to provide the strong platform required for taking its work forward. Work has already been undertaken in all of the areas and specific comment is provided under the conclusions/recommendations below.

PAC Conclusion (2): Since it was established in 2004, the IPCC's workload had increased significantly, which has led to it operating at above full capacity. The performance of IPCC regions has been variable, with the London and the South East region in particular underperforming compared to other regions. To make better use of resources, the IPCC has recently re-organised its work to allocate appeals nationally rather than regionally. Allocating work on a national basis enables demands to be prioritised more easily. Building on these changes, the IPCC should consider whether further work or posts can be re-located out of London and the South East to reduce costs, as well as to improve performance.

6. The IPCC agree with the Committee's conclusion. Workload has increased significantly since 2004-05, which has led to the organisation operating at above full capacity. 100 independent investigations were opened in 2007-08 compared to 31 in 2004-05 and 4,100 appeals were handled in 2007-08 compared to just over 1,000 in 2004-05.

7. The IPCC accept that in the past its performance in the regions has been variable, particularly in relation to the processing of investigation appeals. These are now allocated nationally which allows all cases to be dealt with on a time basis ensuring that the same targets and completion rates are afforded to anyone making an appeal anywhere in the country. The backlog of appeals that was present in the London and South East region has now been cleared and the average number of days taken for processing an investigation appeal is now 49 working days. This falls short of the IPCC's target timescale for processing an investigation appeal, which is 35 working days. It is the IPCC's aim to reach and maintain this target over the next six months.

8. National posts which were previously located in the Central London office have recently been filled outside of London. These include positions in Casework, Policy and Performance and the Telephone Complaints Centre. The IPCC is addressing options for its future estates as part of its wider Change Programme. Part of this will consider whether further work or posts from both the national and regional offices can be re-located out of London and the South East.

9. The Home Office took a lease for the IPCC's Central London Office until 2013 and options for future location are currently being explored. In the meantime, the IPCC have minimised their costs by sub-letting part of the building to another Home Office NDPB. The IPCC is likely to require a base somewhere within the London and South East region in order to meet operational requirements i.e. ensuring that investigators can get to the scene of an incident quickly.

10. The Change Programme is also considering options for remote working and a pilot project commenced in March 2009 which will assist the IPCC in deciding whether remote working is feasible and if so, for which jobs it would be suitable.

PAC Conclusion (3): In May 2008, responsibility for the decision on how a complaint should be handled by the IPCC was transferred from Commissioners, who are the guardians of the IPCC's independence, to Regional Directors, who are part of the operational management within the IPCC. This change increases the risk that the availability of scarce resources will have an undue influence over decisions about how a complaint should be investigated. To ensure proper accountability, Commissioner oversight of mode of investigation decisions should be restored.

11. The IPCC note the Committee's conclusions and concerns with regards the risk that resources will have an undue influence over mode of investigation decisions but do not consider these to be strongly founded. Although resources do play a part in the decision as to how an investigation should be conducted, they are just one criterion amongst a whole range, which are considered to assist in the prioritisation of the more serious cases against the less serious ones.

12. Changes to the IPCC's organisational structure are currently being made as part of the wider Change Programme and these will be fully implemented by Autumn 2009. Following these changes and before the end of 2009, the Management Board and the Commission will give further consideration as to who is best placed to take responsibility for mode of investigation decisions.

PAC Conclusion (4): The IPCC's quality control arrangements are not functioning properly and there is therefore only limited assurance available about the quality of the IPCC's work. A robust quality assurance framework needs to be introduced that helps to safeguard and maintain the integrity of the IPCC's work and the quality of its investigations.

13. The IPCC agree with the Committee's conclusion that its quality assurance processes need improvement and a new system is currently being implemented. A new Standards and Quality Director has recently been appointed and one of his priority tasks will be to implement robust quality assurance processes in all areas of the IPCC's work.

14. The newly reformed Audit Committee will focus on this area with strong oversight being provided by one of the recently appointed Non-Executive Commissioners. The first meeting of the new Committee will take place in June 2009.

PAC Conclusion (5): There is no specialised external scrutiny of the IPCC's investigations or appeals work. The IPCC should introduce arrangements for the external scrutiny of a sample of its cases to provide independent assurance about how it handles its investigations and appeals. The IPCC should identify bodies that might appropriately undertake such work, for example, another police complaints body or one of the practice assurance organisations that exist in a number of professions such as accountancy and the law.

15. The IPCC agree with the Committee's recommendation and whilst Parliament has ultimate oversight of the organisation, there is a need to ensure transparency and independent scrutiny to improve accountability and public confidence.

16. At a conference of police oversight bodies, organised and hosted by the IPCC in March 2009, agreements were signed with the Police Ombudsman of Northern Ireland (PONI) and *the* Garda Síochána Ombudsman Commission (GSOC).

17. These agreements give provision for the Chief Executives to make requests for the independent review or scrutiny of an investigation it is undertaking or undertook. They also allow for 'special requests' to be made to each other where, in their view, a 'critical incident' affecting the public confidence in their respective organisation requires an independent review.

PAC Conclusion (6): The IPCC has not routinely sought the views of complainants or police officers about their experiences of IPCC investigations, nor has it sought feedback from appellants about the appeals process. Obtaining feedback from complainants, police officers and appellants should be automatic and embedded in the processes for investigations and appeals. Such feedback could be obtained for little extra cost. It is also likely to be more cost effective to ask for this information at the end of each investigation or appeal, than to commission separate surveys.

18. The IPCC agree with the Committee's conclusion and consider feedback from those with direct experience of the investigations or appeals process to be crucial to reviewing and improving the service that the IPCC offer going forward. The IPCC had done some preliminary work and intended to commence feedback surveys in April 2008, but the decision was taken to postpone this in order to benefit from the research exercise undertaken by the National Audit Office (NAO).

19. The IPCC assisted with the NAO/King's College exercise and built on learning arising from it. Following a successful pilot towards the end of 2008, national surveying of appellants across England and Wales commenced in early 2009. Surveying of both complainants and police officers linked to independent and managed investigations also began in February 2009. The analysis of the first round of these two surveys is currently ongoing and the findings will be available shortly.

20. These feedback surveys have now been built into standard casework practice so that such data can be routinely collected and reported upon. It is the IPCC's intention that the results of these surveys will be reported publicly as well as being used to make improvements internally.

PAC Conclusion (7): The IPCC's Advisory Board was established as a 'critical friend' to the IPCC, providing key stakeholders with a forum to provide feedback to IPCC Commissioners and senior managers on how the IPCC and the wider complaints system are performing. Of the 15 member organisations, however, all but two represent government, police or staff interests. More needs to be done to establish better contacts with complainant groups. The IPCC should re-examine the composition of its Advisory Board with a view to making it more representative of all relevant interest groups.

21. The IPCC agree with the Committee's conclusion. The Advisory Board was of particular importance to the IPCC in the early years of its existence as members both provided advice and acted as a useful sounding board for debate during the development of the new complaints system. More recently, statutory and police membership has increased to reflect extensions in the IPCC's jurisdiction to HMRC and UKBA. At the same time non-statutory representation has decreased as a result of personnel changes and in the case of the Police Action Lawyers Group, resignation.

22. The Commission recently considered the future of the Advisory Board and decided that given the effective bilateral liaison arrangements which were now in place with the majority of members and as the organisation matures, it was no longer required.

23. The IPCC intend to establish a 'Community Consultation Panel', the prime aim of which will be to act in an advisory capacity, supporting the independence of the Commission. The Panel will be made up of members who can offer perspectives of the communities that they represent. There will be no members from police/governmental organisations. Plans for this are at an early stage but it is expected that the first meeting will take place in late Summer 2009.

PAC Conclusion (8): The IPCC has no mechanism in place for monitoring whether its recommendations have been implemented by the police. The IPCC acknowledge that there are inconsistencies in the way it records a police force's acceptance or rejection of recommendations and that improvements need to be made. However, it remains unclear as to who has responsibility for monitoring the implementation of IPCC recommendations. Clarification of this matter is needed from the Home Office.

24. The IPCC agree with the Committee's conclusion that suitable arrangements need to be put in place to ensure the effective monitoring of whether recommendations have been implemented. At a local level, the IPCC are aware of whether a police force has accepted or rejected a recommendation. Commissioners talk to the force for whom they are responsible before the recommendation is made to check that it is likely to solve the problem which has been identified. Dialogue is then maintained to ensure an understanding of whether the recommendation has been implemented and of any outcome or learning identified as a result.

25. The IPCC's weakness has been in the way in which this information has been recorded. Work has now been undertaken to ensure that the recording mechanism for whether a police force has accepted or rejected a recommendation is consistent across the whole organisation.

26. From its outset the IPCC has been keen to ensure that the police learn lessons from complaints so that the public can have confidence that incidents will not recur and policing is improved. Since 2007 Learning the Lessons bulletins have been issued summarising what went wrong and making recommendations for changes for the future or identifying good practice which should be adopted by others. These bulletins have been well received and the IPCC is working with policing bodies and the Home Office to ensure that the impact of such learning can be demonstrated.

27. Discussions are already underway with HM Inspectorate of Constabulary (HMIC) and police authorities regarding how an appropriate system could be introduced. The IPCC note the Committee's recommendation for clarification of this issue from the Home Office and will work closely with its Sponsor Department to progress the matter.

PAC Conclusion (9): The IPCC has a number of performance measures to identify how well it is handling its workload but does not have any measures which monitor the wider impacts that its work is having on the police. The IPCC should introduce performance measures that would help to establish its overall impact in improving the performance of the police.

28. The IPCC agree with the Committee's conclusion. Over the past twelve months the IPCC have developed a comprehensive performance framework for the police complaints system. Throughout 2008, the IPCC worked with stakeholders to develop proposals for the performance framework including a set of performance indicators that will inform the IPCC as to whether defined outcomes such as greater access and improved confidence in the police complaints system and evidence of lessons learned being fed back in to operational policing are being achieved. This framework will be the linchpin of performance management across the system, providing a consistent evidence base to support forces to monitor and improve their performance and the IPCC to exercise its guardianship role.

29. Following consultation and pilot work, implementation of the framework has now commenced. A phased implementation is planned and it is anticipated that all forces and the IPCC will be reporting publicly within the framework by the end of 2009-10.

Sixteenth Report

Department for International Development

Operating in Insecure Environments

1. The Department for International Development (DFID – the Department) has more than doubled its bilateral expenditure in insecure environments in the last five years, to more than £1 billion a year, and plans further increases. Achieving an impact in these environments is essential to achieving the UK government’s goal of reaching the Millennium Development Goals. Of the 34 countries furthest from reaching the MDGs, 22 are in, or emerging from, conflict. Fragile States contain 14% of the world’s population but 30% of people living on less than \$1 a day. Around one third of all child and maternal deaths in developing countries occur in fragile states.

2. The Department has increased its spending and staff presence in these countries because there is great need. Conditions in insecure environments are much more difficult, however, than those in the more secure countries where the Department has most experience of working, and these conditions pose extra risks to its staff and to the securing of value for money. The challenges are greater than those inherent in the broader category of ‘fragile states’.

3. The Department’s successful projects have improved the lives of poor people in a range of insecure environments, including humanitarian projects to address urgent life-saving needs and longer term development projects such as building provision in education or infrastructure.

4. On the basis of the report from the Comptroller and Auditor General, the Committee took evidence from DFID on what it is achieving in insecure environments, how it works with others, and how it manages its own resources in insecure environments.

PAC Conclusion (1): DFID has more than doubled its spending in insecure countries over the last 5 years to over £1 billion a year in order to help meet the needs of the poor, but evidence on the effectiveness of aid in insecure countries is weak. These countries are central to DFID’s general objective of achieving the Millennium Development Goals, so more research on, and innovation in, the areas that are working will be crucial to its success. The research base is thin, mainly because few donors have attempted development work there in the past.

DFID should review its own experiences and those of others, paying special attention to known risk factors, including weak government capacity and legitimacy, poor communications, insufficient oversight by development partners and threats to sustainability. It should reflect the review findings in its allocation to countries of aid resources, as well as aid choices and practices within insecure countries.

5. The Department agrees with the Committees conclusion. The Department recognises that evidence on aid effectiveness in insecure countries has been weak in the past and that there is still less evidence on the effectiveness of aid in these countries than in more secure countries. However, steps have already been taken to strengthen the evidence base and in recent years much evidence has been gathered and used to inform aid delivery in these environments. Over the past five years, the Department has been engaged with the OECD Development Assistance Committee's (DAC) working groups on Conflict and Fragile States.

6. Evidence gathered through these groups was used to develop the DAC Principles for Good International Engagement in Fragile States, which informs the approach of OECD aid donors and to which the Department is committed. Monitoring of the implementation of the Principles in 7 countries in 2009 will enable us to continue to improve practice based on actual experience.

7. Increased spending in insecure countries has been undertaken through the Departments comprehensive business and financial planning processes. These processes are all set out in clear mandatory rules and supporting guidance. The Department has also built up a body of expertise and capability to operate in insecure environments through training and through the recruitment of a specialist cadre of conflict and governance advisors. Despite challenges, we've seen significant successes including in Sierra Leone, Rwanda and Mozambique, which have staged good recoveries and enjoyed high growth rates.

8. In terms of research, the Department has been learning lessons from on-going research programmes as well as developing new areas. The Department is currently designing a new long-term research programme on conflict, state fragility and social cohesion to gather more information on effective ways of delivering aid in insecure environments. The Department has also undertaken a series of Country Programme Evaluations (CPE) in insecure and conflict-affected environments over the last 18 months. Drawing lessons across these studies will also inform the Department's future engagement in such environments.

9. The Department does accept it can make more use of this growing evidence base to inform its decisions and practice in these environments. A new series of DFID Briefing Notes, to be published in June, set out good practice on implementation of the DAC Principles drawing on experience from the Departments country programmes and other international agencies. The papers provide a single framework for supporting state-building and peace-building, and cover the full range of the Principles – from the need to base programming in contextual analysis (principle 1) to the need to avoid pockets of exclusion (principle 10). The papers draw together learning and experience to provide practical guidance for the Department.

PAC Conclusion (2): Within the broad category of 'fragile states' that DFID uses to frame much of its policy analysis, insecurity has hampered project performance only in those classified as the most insecure countries. DFID should ensure its performance analysis is sufficiently fine-grained to pick up emerging patterns of performance within broad policy areas, and establish the underlying causes so that it can take appropriate remedial action. Maintaining a clear and consistent definition of 'insecure environments' will be a critical element of this analysis as there are important distinctions between insecure environments and fragile states that directly affect DFID's performance.

10. The Department agrees with the Committee that it is important to establish the underlying causes of good or bad performance and will continue to do this for individual projects.

11. The Department currently analyses the performance of the project portfolio on the basis of country, region and thematic area. Since 2007 this has included analysis of project performance in countries within a group of “fragile states”, defined by a robust methodology agreed with other relevant Government Departments. The Department will consider how to define a sub-category of fragile states to enable more fine-grained analysis of project performance and informed by current work to identify robust indicators of conflict and fragility.

12. The Department agrees with the Committee that there are important and wide distinctions between different types of fragile and insecure states, which cover a range from strong but illegitimate through to weak, post conflict and failed states. It is important that the Departments response to poor project performance reflects the distinct circumstances and requirements of each particular case.

PAC Conclusion (3): Risks to value for money are heightened in the most insecure countries, to the extent that traditional approaches to development may not be effective. Working with traditional partners, such as governments, can be hampered if these countries lack capacity or have inappropriate policies. Projects to improve governance or build the economy have proved less successful here than in secure countries. Difficulties in obtaining good information about conditions within insecure areas, and in managing risks, also highlight the importance of effective joint working.

DFID should look to make full use of the capacity that is available in insecure environments, including that in civil society and non-governmental organisations. It should also spell out the significance of insecurity for aid choices and delivery practices in its guidance to its staff, and in the relative level of ambition it sets for particular projects and programmes.

13. The Department agrees with the Committee that in the most insecure countries risks to value for money can be heightened and that it is important to tailor its approach to aid delivery appropriately. The Department’s primary aim in fragile states and insecure environments is to support peace building and the development of capable, accountable and responsive states. Where it is not possible to work directly with Governments, the Department does work through multilaterals and Non-Government Organisations (NGO) to deliver services, humanitarian assistance and to help deliver the elements necessary for peace building and state building.

14. The Department will publish, in June 2009, a new series of Briefing Notes on working effectively in these environments. The briefing papers will include guidance on: analysing the context in order to inform DFID programming choices; identifying, building and using the existing capacity within the insecure environment to inform partner choice and improving joint working; and risk management. The risk management paper includes details of how the Nepal programme has used risk analysis to inform its partner choice and has therefore used a combination of state and non-state delivery to improve performance.

15. In addition, the Department plans to make Strategic Conflict Assessments a core element for country planning processes in highly insecure environments to help identify and plan risk management.

PAC Conclusion (4): DFID has detected little fraud in its aid operations, but detection depends on the adequacy of monitoring, which is hindered by insecurity. Insecurity increases the risk of fraud and DFID should pay special attention to this fact in insecure environments, and identify circumstances where direct assessment of aid usage may be problematic. It could usefully draw on the success of other organisations in using local people to monitor programmes. It should then reassess the cost-effectiveness of programmes, taking account of costs of combating fraud or aid abuse, and make explicit judgments whether to accept the risks that it cannot manage.

16. The Department agrees that effective monitoring is crucial to ensuring both the intended development impact and the financial accountability of UK aid flows. Safeguarding UK taxpayers' funds is a priority for the Department. The Department has a policy of zero tolerance where fraud and corruption are identified, and robustly pursues these and other threats to UK funds. The Department is developing innovative methods for monitoring activity in insecure environments and has increased its capacity to detect and deter fraud in its own operations and more widely in the aid chain, as well as supporting its partners towards the same objective.

17. The benefits of projects are judged against the costs of implementation and the extent to which risks can be managed effectively. Standard procedures have been revised to incorporate a more rigorous and comprehensive economic appraisal.

18. The Department is proactively sharing relevant information with other bilateral and multilateral agencies to reduce its combined exposure to fraud and corruption – for example, pooling its monitoring data where the Department funds programmes jointly, which helps to identify duplicate funding and other fraud, and undertaking joint investigations with other donors where malpractice is suspected. The Department actively learns from its own experience and that of other agencies in managing development activities and in preventing and detecting fraud. For example: in Afghanistan, the Department has been using consultants from neighbouring countries to undertake project monitoring in harder to reach areas.

PAC Conclusion (5): Some of DFID's usual multilateral partners have few staff and weak capability in the insecure countries where DFID is increasing its spending. To improve the range of options for DFID programming, the Department's analysis should include local, national, and international civil society organisations that already have the expertise and capacity to work in challenging insecure environments.

DFID should also use its increasing financial contributions to multilateral partners as a way to try to ensure that they increase their presence in insecure countries, where their status can be particularly valuable in its stance of making increased DFID support to key multilateral organisations conditional on improving their capacity in insecure countries. It should include detailed scrutiny of the Bank's capability and performance in insecure countries in the Mid-Term Review of bank funding scheduled for Autumn 2009.

19. The Department strongly agrees that multilaterals need to strengthen their capacity in insecure environments and particularly in countries emerging from conflict. The Department is using its increasing financial contributions to secure agreements with other members and shareholders that multilaterals increase their presence in insecure countries. As part of the Prime Minister's initiative on international reform, the Department and Government are working actively with the UN – including UNDP – to address capacity gaps, and are working to strengthen UN – World Bank collaboration in these situations. The Department has been working to ensure that the UN Secretary General's forthcoming report on Peace building in the Immediate Aftermath of Conflict sets out clear actions for addressing the capacity gap.

20. The Department disagrees with the recommendation that it should make its support to multilaterals conditional only on improving capacity and performance in insecure countries. The Department provides funding to multilaterals based on a range of factors, including their contribution to the MDGs as well as commitments to improve performance as part of a broader reform agenda. That said, we are seeking greater effectiveness from our multilateral partners in this area. For example: at the IDA 15 replenishment commitments were secured from the World Bank on a wide range of issues, including to increase staff capacity, the funding available and the timeframe for its operations in post conflict situations. Progress will be reviewed at the Mid-Term Review.

21. The Department agrees with the Committee that civil society organisations have important roles to play fragile states and insecure environments. In many challenging insecure environments the Department works closely with civil society organisations (CSO) that are able to demonstrate effectiveness. The Department provides funding directly to CSOs through its bilateral programme and also through the Civil Society Challenge Fund, Partnership Programme Agreements, the Governance and Transparency Fund and the Conflict, Humanitarian and Security Fund. Recent consultations have further highlighted the importance of deepening engagement with civil society at the local and national level particularly where partner governments lack the will to meet the basic needs and expectations of citizens.

PAC Conclusion (6): DFID has made progress in filling staffing gaps in insecure countries, but still finds it difficult to fill key posts in some unpopular countries. Before committing to aid programmes in insecure countries, DFID should ensure that it can appoint enough people with the right skills to manage those programmes well. DFID should build on the incentives it has already introduced and make sure it has practicable provisions in its staffing policies so that it can post staff to insecure countries in case voluntary methods prove insufficient.

22. The Department agrees with the Committee's conclusion and welcomes its acknowledgment of the emphasis that the Department places on ensuring the safety of its staff and the major progress that has been made in increasing its staffing levels in difficult locations. The Department is currently reviewing future demands for staff in insecure locations, as well as alternative deployment models (for example shorter tour options). The study will set out proposals for new strategies and approaches, which should ensure that fewer staffing gaps will arise in future.

23. The Department remains committed to the principle of voluntarism when asking staff to serve in difficult locations. However, to increase the pool of staff prepared to work in difficult environments, the Department's recent external recruitment campaigns are explicit in looking to appoint people who are willing and able to work in challenging and insecure locations.

PAC Conclusion (7): DFID does not collect or use security cost data to inform judgements about the value for money of its activities in insecure countries. DFID should collect and analyse the security costs of country teams and individual projects in insecure environments, and use this information to seek to share costs and approaches with partners. It should also use this information in its business plans for insecure environments and in its judgements on resource allocation.

24. The Department agrees that security costs should be understood and integrated into value for money analysis for country strategies and individual projects. The Department's legacy finance system enabled security costs to be analysed for individual country offices. The new management information system currently being implemented across the Department will enable more systematic and consistent collection, analysis and comparison of security costs within and between countries.

25. In February 2009 the Department revised procedures to incorporate more rigorous and comprehensive economic appraisal for all projects including in insecure environments. Supporting guidance was also issued. This reinforces the importance of all project costs, including security related costs, being included in the economic appraisal which will inform approval decisions.

26. The Department notes that security expenditure is largely dependent on the tailored response to a local security threat and the situation in any particular country and will therefore differ across countries. The Department is, however, determined to continue to work closely with the FCO and other agencies to improve value for money where possible.

PAC Conclusion (8): DFID is aware that insensitive allocation of aid can fuel conflict in insecure countries, but has not applied its assessment tools sufficiently to give assurance that this risk is well-managed. DFID has developed Strategic Conflict Assessments as an aid to its planning of country programmes, and 'conflict audits' of existing programmes to review their effects on conflict. The former have not made direct links to the implications for programmes, and few of the latter have been conducted for insecure countries. To improve aid cost-effectiveness, while protecting the interests of poor people and aid workers, DFID should ensure that these reviews cover all insecure countries, and link its country programme choices and risk management practices explicitly address the review findings.

27. The Department agrees that stronger linkages could be made between conflict assessments, risk management and programming choices and has already taken steps to do this. The Department has developed and applied Strategic Conflict Assessments (SCA), conflict audits and other political economy tools, which have improved our analysis of conflict. The SCA is a recommended component of all Government Conflict Prevention Pool strategies and the Department plans to make them a core part of the country planning process in highly insecure countries. The Department's country planning processes were strengthened in 2008 to ensure a closer link between analysis and programming choices.

28. The Department has increased its capability to operate in insecure environments, both through training offered to a range of programme staff and through the recruitment of a specialist cadre of conflict and governance advisors.

29. The Department will publish new Briefing Notes in June for staff working in situations of conflict and fragility, including papers on:

- do no harm which examines how aid may increase conflict and good practice on conflict sensitivity; and
- risk management which examines practical issues around risk management including using scenario planning to identify and mitigate risks, and a new approach which combines staff security and conflict sensitive development.



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