HM TREASURY

# TREASURY MINUTES

Government responses on the Fifth, the Eleventh to the Thirteenth and the Fifteenth to the Sixteenth Reports from the Committee of Public Accounts Session: 2012-13

Cm 8534

January 2013

**Treasury Minutes on the Fifth, the Eleventh to the Thirteenth and the Fifteenth to the Sixteenth Reports from the Committee of Public Accounts: Session 2012-13**

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# Fifth Report

## Department for Communities and Local Government / Department for Business, Innovation and Skills

## Regional Growth Fund

### Committee of Public Accounts report summary

The Government established the Regional Growth Fund (the Fund) in June 2010 to support projects with the potential to deliver economic growth and additional, sustainable private-sector jobs, particularly in areas that rely more on the public sector for employment. £1.4 billion was allocated for competing projects and programmes in two bidding rounds during 2011. Ministers decided which projects and programmes to support based on advice from a panel chaired by Lord Heseltine and analysis from officials. The Permanent Secretary for the Department for Communities and Local Government (DCLG) has overall accountability for ensuring delivery of value for money from the Fund. The Secretary of State for Business Innovation and Skills has ministerial accountability. A further £1 billion has been made available for future rounds, for which accountability is likely to be shared between the Accounting Officers of the DCLG and the Department for Business, Innovation and Skills (BIS).

Given the importance and urgency of the Programme the Committee was highly disappointed to find that so few final approvals had been given and so few projects had actually started. The Committee was particularly concerned that with £1.4 billion set aside for the Regional Growth Fund, of the £470 million so far paid out by Government, £364 million has been parked with intermediary bodies via endowments and a further £57 million paid to other intermediaries. Only £60 million has been spent on front-line projects. As a result only 5,200 jobs can be claimed as having been created or safeguarded in projects where the offer of funding has been finalised, against targets of 36,800 over the lifetime of these projects.

Ministers took into account a range of factors when choosing projects which meant value for money in creating jobs was only one of a number of considerations. Some projects were chosen for other reasons, such as their location, or assumptions about wider benefits. But the way these broader judgements were applied was not sufficiently clear or transparent. The Fund's threshold for acceptable value for money was far too low. Nor was it clear that the departments took sufficient account of local expertise in deciding which projects would most benefit particular areas.

Despite decades of experience in delivering similar programmes, BIS and DCLG still do not know what works best in fostering private sector growth. Witnesses had not prepared plans on how they will evaluate whether the Fund actually delivers the jobs and growth predicted.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Communities and Local Government and the Department for Business Innovation and Skills on the Regional Growth Fund on 16 May 2012. The Committee published its report on 4 September 2012.

### Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**It has taken far too long for the Regional Growth Fund to get off the ground. The Government intended to act quickly to support private sector enterprise to create additional sustainable employment particularly in areas that were dependent on the public sector. But it did not deploy sufficient administrative resources to deliver support quickly. Too few staff with the necessary skills were available to process bids and finalise contracts. After two years, only around a third of the expected 236 offers of funding have been finalised.**

***For future bidding rounds, the Fund's Accounting Officers should ensure sufficient staff are available to process bids promptly and set targets to reduce the time taken to process final offers.***

1.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

1.2 The Government disagrees with the Government's conclusion that too few staff with the necessary skills were available. The Accounting Officer ensured that sufficient skilled staff were available to process bids quickly.

1.3 The Government disagrees with the Committee's conclusion that the contracting process has taken two years. Finalising contracts is generally driven by the timetables set by beneficiaries. Round 2 was heavily subscribed showing that it was successful. As a result, the Secretariat's contracting resources were stretched. The Accounting Officer responded quickly to ensure that additional skilled staff were deployed. Resources will continue to be monitored to ensure that successful delivery of the Fund is not hindered.

1.4 The RGF Round 1 selected bidders were announced in April 2011 and Round 2 selected bidders were announced in October 2011. Those milestones were already in place at the time of the Committee's hearing. To date, 174 out of the 239 selected bidders have signed final agreements - this is over half of the selected bidders, with 89% of projects or programmes already started. For the remaining Round 1 and 2 bids, arrangements have been put in place to ensure that they are concluded by the end of 2012.

1.5 Building on experience from Rounds 1 and 2, the Department for Business Innovation and Skills (BIS) introduced time limits for finalising contracts for Regional Growth Fund (RGF) Round 3. Selected applicants were announced on 19 October 2012. They were given a new three month time limit to move from announcement to agreeing the terms in the conditional offer letter (until 19 January 2013) and a further three month time limit (until 19 April 2013) to complete due diligence (equivalent to a term sheet in a commercial transaction). This will help mitigate the risk that beneficiaries will not progress offers.

**PAC CONCLUSION AND RECOMMENDATION 2**

**Most of the money authorised by the Departments, including some £364 million of endowments, has been parked in intermediary bodies, over which the departments have limited control. Some £222 million was paid to set up intermediary programmes, which are run by 'private / public partnerships' where the accountable body is in the public sector. Only £60 million has actually reached front-line projects, comprising £47.5 million paid directly by the departments and £12.5 million paid out by the various intermediary bodies. The Committee was also surprised that the Accounting Officers could not say how or where intermediaries are holding cash or how much of the Fund could be used up on intermediaries' management charges. Information provided subsequently by the departments shows that management fees vary significantly between programmes indicating that the departments do not have a firm grip on this issue.**

***In its response to this report, the Fund's Accounting Officers should clarify the management arrangements for programmes operated by intermediaries and the mechanisms they have put in place to provide assurance that management charges are kept to a minimum and that resources are allocated to projects as speedily as is consistent with good stewardship.***

2.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

2.2 The Government disagrees with the Committee's conclusion that the management arrangements for programmes are unclear and that mechanisms are not in place to provide assurance that management charges are kept to a minimum. Each programme has a specific delivery plan that includes milestones. Monitoring officers benchmark programme delivery against milestones and take necessary measures to bring programmes back on track if they fall behind. The early months of programmes, which involve planning and some capacity building, are unlikely to deliver the level of RGF outlay that they will in later months when individual projects are fully up and running. Projects and programmes will be audited annually by an independent third party.

2.3 The Government has supported some intermediaries by providing administration costs to run their programme. The administrative charges to manage the funds are kept to a minimum. In cases where Ministers have concluded that the provision of administrative support is necessary to ensure the successful delivery of a programme, a schedule listing permissible expenditure is included in the final offer letter.

Administrative costs are examined during due diligence and reduced where necessary. Administrative charges are monitored quarterly, together with the overall governance of the programme by the Programme Delivery Teams (PDT) in the Department for Communities and Local Government (DCLG).

2.4 In 2011-12, thirteen programmes received funding via endowments. This gives the intermediary the flexibility to support the best projects as and when they come forward, which provides better value for money than being locked into an artificial budget profile with rigid quarterly drawdown structures.

2.5 In Rounds 1 and 2, the total amount awarded through the endowment process was £452 million of which £70 million, representing 40% of forecast draw down for the financial year April 2012 to March 2013, has now reached front line projects, typically in Small and Medium-sized Enterprises (SMEs). This draw down is on target for this financial year. Endowment programmes are an important mechanism for empowering local decision making. For the avoidance of doubt the small number of RGF awards that were structured as endowments complied with the rules set out in Managing Public Money. In particular, the Treasury considered the value for money case for each endowment and concluded that an endowment would offer better value for money than alternative structures, rather than being a mechanism to avoid under spending.

## PAC CONCLUSION AND RECOMMENDATION 3

**Only a small number of the jobs expected have actually been delivered. Witnesses were unable to tell the Committee how many jobs had been created or safeguarded as a result of money spent to date. The departments subsequently reported that 2,442 new jobs had been created and 2,762 existing jobs had been safeguarded, so far, in the 88 projects where offers had been finalised, against a target of 36,779 jobs being created or safeguarded over the economic life of these projects. On 12 June 2012, the department told the Committee that in addition there are 73 projects where the offer letter has not been finalised (and therefore where the Job Target has not been agreed) but where the beneficiary has stated that they are already directly safeguarding employment as a result of being allocated RGF funding. The aggregate amount of employment being directly safeguarded by these 73 projects at that time was 17,133.**

***The Department for Communities and Local Government and the Department for Business Innovation and Skills should report publicly on the amount of money spent and the number of jobs actually created and the number safeguarded by businesses in receipt of funds.***

3.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

3.2 The Government disagrees with the Committee's conclusion on jobs. From Quarterly Monitoring Reports (QMR) in relation to the 162 projects and programmes, job creation is on track with around 10,000 directly monitorable jobs created so far. These 10,000 jobs relate to £77 million of RGF funds awarded directly to projects and via programmes to final beneficiaries (£70 million).

3.3 BIS expects to create or protect approximately 300,000 gross jobs as a result of Rounds 1 and 2, with the majority being delivered in the first five years. Approximately 30,000 gross jobs were associated with withdrawn projects and programmes. It is anticipated that an additional 240,000 gross jobs will be created or protected in the future as a result of Round 3.

3.4 The Government will be publishing an annual monitoring report on progress with the fund, including examples of the projects that the RGF has supported and the jobs that have been created and safeguarded to date. The first report will be in Spring 2013. The current figures are:

- 239 offers made; of which
- 174 offers finalised;
- 17 conditional offers agreed;
- 37 withdrawn; and
- 180 projects started.

3.5 The total number of jobs unlocked (created or protected) was 198,000 in September 2012 and had reached 240,000 by end November 2012. This figure refers to the proportion of jobs (from the 300,000) that bidders promised, where bidders have agreed the final offer and are now able to access RGF funds.

3.6 BIS has reported publically since May 2012, using a variety of external communications to report progress. There have been regular Written Ministerial Statements to the House of Commons and House of Lords as well as annual reports to Parliament on support provided in accordance with the Industrial Development Act 1982 and the Banking Act 2009[1].

## PAC CONCLUSION AND RECOMMENDATION 4

**The Treasury's decision to allow the departments to use endowments to avoid surrendering unspent funds at the end of the year risks value for money. The Committee was concerned that the use of endowments was not planned and that this approach was simply a device to avoid funding being taken back by the Treasury at the end of the financial year. The Committee was surprised that the Treasury supported this mechanism when its own guidance says endowments should only be used in exceptional circumstances.**

***The Treasury should define more clearly the circumstances under which endowments can be used so that value for money is not put at risk and such endowment***

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2013.

4.2 Guidance on the use of endowments is contained in *Managing Public Money* (*MPM*) Annex 5.1. *MPM* confirms that, exceptionally, funding by endowment may be made to enable the recipient to set up a fund from which to draw down over several years and which would allow a clean break from the need for further support. Endowments should only be made where there is a robust value for money case for doing so. As with any form of advance payment, endowments should not be made to circumvent public spending controls, or to avoid under spending.

4.3 *MPM* is currently being refreshed. It will make clearer that endowments should not be used to avoid under spends at the end of the year. The Treasury will also include a requirement for departments to notify Parliament by Written Ministerial Statement of any endowments above the Parliamentary notification threshold.

## PAC CONCLUSION AND RECOMMENDATION 5

**The Fund set far too low a threshold for acceptable value for money in the selection of projects and programmes. The value for money threshold only required the projects' economic benefits to outweigh the public cost. This low hurdle allowed significant leeway to select projects that offered, at best, marginal benefits for the taxpayer. While 75% of the projects had a cost per job of £60,000 or less, many cost significantly more – in some cases over £200,000 per net additional job. The departments confirmed that some projects were chosen for reasons other than value for money in cost per job terms, such as their location, or assumptions about wider benefits. The Committee does not consider that the way these broader judgements were applied was sufficiently clear or transparent.**

***For future bidding rounds the Fund's Accounting Officers should set the threshold for acceptable value for money higher and record clearly where economic appraisals suggest poor or marginal value for money for the taxpayer.***

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[1] The latest Written Ministerial Statement:
http://www.parliament.uk/documents/commons-vote-office/October_2012/19-10-12/1-BIS-RegionalGrowthFund.pdf Oct WMS
The latest report under the Industrial Development Act 1982:
http://www.official-documents.gov.uk/document/hc1213/hc02/0210/0210.pdf industrial devt act report to March 2012
The latest report under the Banking Act 2009:
http://www.hm-treasury.gov.uk/d/bankingact2009_october2011_march2012.pdf

5.1 The Government disagrees with the Committee's recommendation.

5.2 The Government considers that introducing an artificial value for money threshold at appraisal stage, as proposed by the Committee, would increase the risk that good projects and programmes capable of delivering on the objectives of the fund in a cost-effective manner would be sifted out ahead of due-diligence and contracting.

5.3 As part of the RGF process, the contracting stage including negotiations as part of due diligence provides the opportunity to improve value for money for any project / programme selected, including lowering the cost per job. The Committee should also note that the NAO recognised that cost alone was not the only factor to be considered and that wider economic benefits play a significant part in each decision: this is made clear on the RGF website. Each appraisal clearly shows a number of factors required to support the decision-making process including benefit cost ratio and net cost per job.

5.4 The Accounting Officer has indicated in all three rounds that he would seek a Ministerial Direction on any projects / programmes chosen by the Ministerial Panel where the benefit cost ratio was less than one. However it is inaccurate to describe this as a hurdle that, if passed, would automatically lead to RGF grant being offered. There has never been a requirement to use this mechanism.

## PAC CONCLUSION AND RECOMMENDATION 6

**It is unacceptable that the Department for Communities and Local Government and the Department for Business, Innovation and Skills do not yet have a clear plan for evaluating the Fund's impact. Despite decades of experience with similar initiatives, the departments involved do not know how they will evaluate the Fund. There is a risk that the Fund's total costs and the wider benefits claimed will not be measured accurately if they do not promptly define what data they need to collect. Plans should have been in place before money was released so that a comparative baseline could be established.**

***The Department for Communities and Local Government and the Department for Business, Innovation and Skills should accelerate work on the Fund's plans to evaluate impact and set out how it intends to do so in detail in a letter to us by the end of the year.***

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** November 2013.

6.2 All RGF awards are monitored quarterly against specific key performance indicators (KPIs) that reflect the objectives of the Fund. This robust monitoring data will be the foundation of the future evaluation of the impact of RGF.

6.3 In parallel BIS and DCLG are working with expert third parties such as the London School of Economics (LSE) to develop an economic evaluation model that will take the monitoring as an input. Work to establish appropriate controls will need to be completed before the evaluation model can be finalised. We expect that this work stream will be complete by November 2013, well in advance of the interim evaluation that is scheduled for 2015.

6.4 The RGF Secretariat will publish an annual monitoring report in Spring 2013, demonstrating what projects have actually delivered against what they were expected to deliver, as set out in their final offers.

## PAC CONCLUSION AND RECOMMENDATION 7

**It is not clear how the Fund is aligned to other programmes promoting growth, which rely on local expertise to select the right projects for the local area. It is not clear how a decision-making system based on central, national panels can make the best decisions for particular localities. Nor is it clear how the money from the Fund is aligned with other growth programmes, such as the Growing Places Fund, which rely on local decision-making.**

***The Department for Communities and Local Government and the Department for Business, Innovation and Skills should improve consultation with local bodies, such as Local Enterprise Partnerships, for future rounds of the Fund and clarify arrangements for oversight and coordination of local growth initiatives.***

7.1 The Government agrees with the Committee’s recommendation.

**Recommendation implemented.**

7.2 The Government disagrees with the Committee’s conclusion that RGF is not aligned with other programmes promoting growth. RGF is already aligned with other cross-Government priorities including the Industrial Strategy and Growth policy and maintains contact with all interested parties through regular meetings.

7.3 Over the course of the different rounds, the role of Local Enterprise Partnerships (LEPs) has increased as they have become more established, from endorsing the projects and programmes within their region to applying to the fund to run programmes where they can support their companies.

7.4 The Secretaries of State for BIS and DCLG wrote to all LEP Chairs in February 2012 encouraging them to get involved in RGF Round 3 bids in their area. Half of all 414 bids were endorsed by LEPs and 25 bids were submitted directly from LEPs. In Round 3 a total of 29 LEP bids were selected to a value of £378 million.

7.5 The City Deals process seeks to harmonise arrangements for oversight and co-ordination with Local Growth Initiatives, including RGF, Growing Places Fund and wider LEP priorities

# Eleventh Report

## Cabinet Office

## Improving the efficiency of central government office property

### Committee of Public Accounts report summary

Central Government office estate comprises over 5 million metres squared of space and costs around £1.8 billion a year to run. Rationalisation of the estate therefore offers the public sector the chance to secure significant efficiency savings. From 2004 to 2010, central Government departments have made savings of around £100 million each year on the cost of offices, largely by moving from traditional cellular offices to open-plan spaces and by improving use of space through approaches such as hot desking. However, despite the improvements in recent years, Government's use of space is still relatively inefficient compared to the private sector. Delivering further savings is likely to get progressively more challenging, but if government can be more ambitious in its approach, then the Committee estimates that they could achieve over £800 million a year in further savings by 2020.

The Government Property Unit was established in 2010 to accelerate efficiency savings from the estate, but it has not provided the leadership necessary to deliver an effective cross-government approach. It did not win the support of departments, and in particular the Treasury, for its initial plan to centralise control of the office estate. Since then, despite much talk, it has yet to establish a vision for the estate that all departments can agree upon. Until property is seen by departments as a cost rather than an asset, the vast potential savings will not be realised.

The Unit has instead fallen back on the role of coordinating departments' efforts to exit buildings as leases expire. This reliance on the pattern of lease breaks risks missing the opportunity to more fundamentally change the way government uses its offices, and also risks leaving departments without the modern and flexible space that future ways of working may require. Instead of creating a framework for the better use of property across Government, the Unit has focused on a small number of high profile mergers.

Departments operate in financial silos which do not encourage them to work together and share space in a way that would benefit the Exchequer as a whole. The current approach to departmental budgeting means that the costs and risks of space-sharing can fall prohibitively to a single department unless cost sharing arrangements can be agreed. Relatively few such deals have happened. The Unit needs to make it in the interests of departments to work together and, to do so, it needs the support of the Treasury, which so far has been far too passive in waiting for others to propose a solution.

In this report the Committee also highlights three further areas where the Unit needs to show far greater leadership to realise the potential for further savings. First, the bulk of public sector estate belongs to local government and the Unit needs to ensure that central and local government work more collaboratively. Second, the Unit needs to centralise property ownership and start to negotiate terms with major landlords on a more standardised basis, rather than relying on departments to negotiate separately building by building. Finally, consolidating the estate will inevitably lead to the mothballing of buildings. The Committee acknowledges the current market conditions are making it difficult to re-let surplus space, but it is clearly a waste for buildings to stand empty, so the government needs to accelerate its plans for sales. There is no point in the Government simply holding property in the hope of a future rise in property prices.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Cabinet Office and the Department for Business, Innovation and Skills on improving the efficiency of the central Government office estate on 13 June 2012. The Committee published its report on 31 August 2012.

## Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**The Committee welcomes the progress made in recent years to reduce the cost of the government office estate. However, the Government Property Unit (the Unit) will need greater clout to mandate actions across Whitehall, if it is to build on this success and make the government's use of office space as efficient as it could be. The Unit's early plans to centralise control of office property failed to gain support of departments and the Treasury.**

**Since then, the Unit's approach to savings has relied on departments exiting buildings as lease arrangements naturally expire. The most effective intervention has been the national moratorium on new or extended leases, illustrating why the management of government property is a classic case where 'tight' central control would be more effective for the taxpayer than the 'loose' approach of leaving it to departments to act individually.**

**The following recommendations are intended to help government realise the full potential for further savings.**

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

**PAC CONCLUSION AND RECOMMENDATION 2**

**Departments continue to operate in silos without sufficient financial incentives to share space and accelerate savings. Departments are accountable for their own property costs and remain so as buildings fall vacant. Sharing space and disposing of excess property offer the potential for savings to the taxpayer, though the burden of financing such moves can fall disproportionately and prohibitively on a single department unless cost sharing deals between departments are agreed. Progress in accelerating savings in this way remains slow.**

***The Treasury should incentivise departments to deliver savings in the interests of the Exchequer as a whole. New arrangements must be put in place as part of the next Spending Review. Until property is seen by departments as a cost rather than an asset, the vast potential savings will not be realised.***

2.1 The Government disagrees with the Committee's recommendation.

2.2 Since May 2010, where the business case for a property move has demonstrated a compelling overall financial benefit to the Exchequer, it has been possible in every case to resolve matters without additional financial incentives, through Cabinet Office engaging with the Treasury and relevant departments to agree sharing of costs, risks and benefits for accelerated or complex move chains on a case-by-case basis.

2.3 Furthermore, providing subsidies to incentivise good practice would undermine accounting officers' duty to deliver good value for money for the public sector as a whole as set out in *Managing Public Money*. However, the Cabinet Office will issue further commercial guidance to encourage departments to adopt a cooperative approach to management of their departmental estates, reminding those making property decisions of their overriding obligation to act in the interests of the Exchequer.

2.4 Treasury and Cabinet Office will use the next spending review to ensure that departmental settlements reflect the financial challenges of rationalising the Government estate, whilst securing best value for the Exchequer as a whole. This will be a critical principle of delivery in the next spending review.

## PAC CONCLUSION AND RECOMMENDATION 3

**Government is relying on an opportunistic approach to reducing the office estate, limiting the potential for rapid savings. Having failed in its plan to tackle departmental incentives through centralising office property or to create a framework for better use of property across Government, the Unit has focussed on a small number of high profile mergers. Other than this the Unit has fallen back on the more readily achievable savings from exiting leaseholds as opportunities arise. There are greater challenges ahead, as departments attempt to further consolidate space and adopt the new ways of working offered by new technologies. However, the Unit has yet to establish a clear strategy for what the future office estate will look like and the Government has no clear savings ambition beyond 2012-13.**

***The Government Property Unit should agree a strategy for the office estate including targets for savings across government beyond 2012-13 that reflect what can be achieved with best practice in the use of space.***

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2013.

3.2 The Government is committed to creating an efficient, fit-for-purpose and sustainable government office estate that delivers value for money for the taxpayer.

3.3 Having delivered nearly £200 million in savings in 2011-12 (more than double the £90 million in savings achieved the year before), from exploiting exits from leaseholds, buildings funded through private finance initiative and freeholds, the Government recognises the need to adopt a more pro-active stance to promote the best use of space in government offices. The Cabinet Office has already begun an evaluation of the existing property strategy, pursuing ways of further accelerating savings and driving better performance. Over the course of the next six months, the Cabinet Office, working with departments, will develop a pan-government estate strategy, with clear strategic objectives, savings targets and performance metrics.

## PAC CONCLUSION AND RECOMMENDATION 4 and 6

**4: Centralised control of property assets, with the department paying the resource costs of what they use, is the best way to get efficiency out of Government property and should therefore be established.**

**6: Government is not taking advantage of its buying power to negotiate with major landlords, which could be a missed opportunity to achieve better terms and make savings. Around 40% of the central government office estate is leasehold property. Departments have negotiated these contracts individually rather than seeking standard terms or joining together to exploit group buying-power.**

***The Government Property Unit should centralise property ownership and set out how it will maximise government's buying-power to get better value for money, including standardising lease terms with major landlords.***

4.1 The Government disagrees with the Committee's recommendation to centralise property ownership. However the Government agrees with the Committee's recommendation to maximise the government's buying-power to get better value for money for the taxpayer.

**Target implementation date:** March 2013 to update the Committee on whether centralised ownership is required and early 2013 to publish guidance on standardised commercial terms.

4.2 The Government's current view is that it can achieve the required level of savings without centralised ownership; however, if that is not possible the Government will urgently revisit the subject. The Cabinet Office will update the Committee by the end of this financial year (March 2013) as to whether a change of ownership is required.

4.3 Meanwhile, the Government recognises that appropriate central controls have merit and the Cabinet Office will carry out an assessment of the effectiveness of those controls in time to inform the next Spending Review. In the mean time, to maximise the central government's buying power, the Cabinet Office will continue to perform a strong central function through exercising existing centralised property controls and driving improved estate performance.

4.4 At the same time, to enhance further collective buying power, the Cabinet Office is working with departments on additional guidance relating to: the standardisation of commercial terms to be applied when acquiring new leases and renewing existing leases; rent review coordination; reaching favourable dilapidations settlements; and how to build stronger relationships with landlords to ensure a better understanding of government's value for money, commercial and sustainability objectives. The Cabinet Office is planning to publish the guidance on its website in early 2013.

## PAC CONCLUSION AND RECOMMENDATION 5

**The potential for further savings on office property will not be realised unless local government and the wider public sector are also involved. The Unit has made good progress in brokering sharing arrangements between central government organisations in regional centres such as Bristol. Alongside this, the Department for Communities and Local Government (DCLG) is piloting local property sharing arrangements.**

***The Unit should build on its initial engagement with local authorities and incorporate lessons from the DCLG pilots to maximise opportunities for other public sector bodies, such as local authorities and the NHS, to share space with central government.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

5.2 The Cabinet Office is already working with the DCLG on sharing best practice and approaches to rationalisation of the civil estate. For example: in Hampshire, the Cabinet Office supported the development of Capital Asset Pathfinder and is following through with joint reviews of local areas in the '*One Public Sector*' programme for estate rationalisation, including the civil estate.

5.3 Additionally, the Cabinet Office, the Home and Communities Agency (HCA) and the Bristol City Council began work in July 2012 on a joint property strategy for the city of Bristol. This is seen as a pathfinder project, which will pilot a strategic approach to managing public sector property and land in a single location. The aim is to test the viability of co-location of central government with local authorities, as well as the approach to selling off packaged surplus properties and land held for sale by different agencies. The intent is that any savings made will be returned to the Exchequer, and to the Council to be used on creating jobs, offering training opportunities to the public and investing in growth in the most deprived areas of the wider Bristol area.

5.4 Similar work is expected to be carried out in Preston. The Cabinet Office is currently exploring the potential options with Preston City Council, the Local Government Association, the HCA and DCLG.

5.5 The Government intends to learn the lessons from these pilots and to pursue collaboration opportunities with the wider public sector further, where considerable benefits can be shown, including value for money for the taxpayer.

## PAC CONCLUSION 7

**Government has made slow progress making vacant office space available for productive use. In the current economic environment, government's demand for office space is likely to fall faster than properties can be disposed of. As a result, potentially empty space on the estate will increase. Unused property can be 'mothballed' but this is unproductive and risks urban blight. The Committee welcomes the Government's January announcement that it would make 300 vacant properties available to small businesses, but progress has been lamentably slow. Six months on only 24 pilots have been identified.**

## PAC CONCLUSION AND RECOMMENDATION 7

**The Committee accepts that the current market conditions are making it difficult to re-let surplus space, but there is no point in the Government simply holding property in the hope of a future rise in property prices. Excuses about security implications and additional running costs of providing facilities to such occupants are unconvincing.**

***The Government Property Unit should accelerate plans to fill vacant space and in particular deliver on its commitment to make more properties available to small businesses.***

7.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2013.

7.2 The Government's top priority remains to reduce its estate costs. The Government's general policy is not to hold on to property in the hope of a future rise in property prices. Where properties are surplus to requirement, departments are required to terminate leases, sub-let spaces to external tenants or sell off the buildings. This policy has so far been successful: in the 20 months since May 2010, over £640 million has been raised in one-off disposal proceeds from freehold properties and surplus land; and nearly 1.4 million square metres is currently let to the private sector, generating an income of £57 million per annum.

7.3 The Government is, however, aware that in the future the amount of vacant space is likely to increase due to further reductions in civil service numbers, rationalisation of departmental estates and implementation of flexible working and space efficiency standards. The Cabinet Office is therefore committed to work with other government departments to reach an agreement by mid-2013 on a robust methodology for dealing proactively with future vacant space.

7.4 As a first step the Cabinet Office is creating a portal, open to developers, community groups and the general public, for more efficient marketing of central government's surplus space. It is envisaged that the portal will become operational in January 2013.

7.5 Inevitably, there will always be some property which departments cannot easily or cost effectively exit, for example, where there are restrictions in lease covenants or where there are not any interested private sector parties to buy the space or to take on the lease. In these instances, the Government will continue to assess the suitability of such spaces for alternative uses, including housing start ups and free schools.

# Twelfth Report

## HM Treasury, Cabinet Office, HM Revenue and Customs, and the Department for Business, Innovation and Skills

## Off payroll arrangements in the public sector

### Committee of Public Accounts report summary

The public sector must itself maintain the highest standards of propriety in its employment practices if it is to show leadership in the fight against tax avoidance. It must avoid the practice of using off-payroll arrangements for staff that should be on the payroll - a practice which generates suspicions of complicity in tax avoidance and which fails to meet the standards expected of public officials. Those whose income is derived from monies raised through taxation have a particular obligation to make sure that they do not use tax avoidance schemes.

In May 2012, the Treasury published its report on the use of off-payroll arrangements in central government, which showed that over 2,400 staff, each earning more than £58,200 a year, were being paid ‘off-payroll’. The Committee considered that the report’s recommendations should go some way to reducing the prevalence of the practice.

However, the Treasury Review was limited in scope to central government and did not cover other public services, like Local Government, the NHS and the BBC. The Committee still does not fully know how endemic the use of personal service companies is in other parts of the public sector. The Local Government Association does not consider the practice to be widespread in local authorities but does not have accurate data. The BBC told the Committee that short term engagements are commonplace in the broadcast industry, and that it paid about 25,000 people off-payroll in a year. However, it acknowledged that the contracts of presenters employed through personal service companies can often share the characteristics of typical PAYE contracts.

The Treasury Review followed media stories about the appointment of the Chief Executive of the Student Loans Company, and his payment through a personal service company. There was a catalogue of errors across government in this case involving the Department for Business, Innovation and Skills, the Student Loans Company, HM Revenue and Customs, the Treasury and the Cabinet Office, with none of the bodies involved properly challenging the terms of the appointment and the associated tax arrangements.

Whilst the Committee welcomes the speed with which the Government acted, doubts about their proposals remain. The Treasury Review states that off-payroll arrangements can be used in ‘exceptional circumstances’ but the Review does not clarify what these exceptional circumstances are. In addition, the Treasury Review recommended that departments seek assurance that those staff who remain off-payroll are paying the appropriate amount of tax, but did not specify how departments could or should do this.

Ultimately, whether those paid off-payroll are paying the right amount of tax is dependent on HM Revenue and Customs properly enforcing the tax rules that ensure employees, regardless of whether or not there is a personal service company, pay tax as employees. However, HM Revenue and Customs has progressively reduced its enforcement of the legislation designed to eliminate the avoidance of tax and National Insurance Contributions through the use of intermediaries, such as personal service companies, putting at risk any deterrent effect the rules might have on tax avoidance. In 2010-11, only 23 investigations took place; down from over 1,000 in 2003-04.

On the basis of a Report by HM Treasury, the Committee took evidence from the BBC, Local Government Association, HM Treasury, Cabinet Office, HM Revenue and Customs and the Department for Business, Innovation and Skills on the use of personal service companies in the public sector on 16 July 2012. The Committee published its report on 5 October 2012.

## Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**Too many public sector staff have been paid using off-payroll arrangements for too long. The use of off-payroll arrangements for permanent employees generates suspicions of tax avoidance, places value for money at risk, and fails to meet the standards expected of public officials. The Committee welcomes the fact that the Treasury moved quickly to carry out a review, following revelations about the Chief Executive of the Student Loans Company. It was shocking to find that over 2,400 central government appointees are paid off-payroll, though it is encouraging to hear that, since the Review, at least some of these off-payroll arrangements have come to an end.**

***The Committees recommendations are designed to further reduce the scope for any abuse of the off payroll arrangements in the public sector.***

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

**PAC CONCLUSION AND RECOMMENDATION 2**

**The appointment of the Chief Executive of the Student Loans Company through a personal service company should not have gone unchallenged by any part of government. The Student Loans Company and the Department for Business, Innovation and Skills paid too little attention to the need for its officials to uphold the highest standards in public life, and produced a flawed case for paying the Chief Executive off-payroll. However, also of concern is the fact that HM Treasury, Cabinet Office and HM Revenue and Customs all failed to properly challenge the appointment, giving the appearance of endorsing the use of off-payroll tax arrangements.**

***The Treasury and Cabinet Office should ensure that controls over the appointments of senior officials include an assessment of the full cost of the appointment to the Exchequer and the propriety of the tax arrangements.***

2.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

2.2 It is important that the public sector is able to demonstrate the highest standards of integrity. *Managing Public Money* – the guidance against which public spending is audited – is already clear that departments should take into account the overall impact on the Exchequer of public spending decisions.

2.3 The Government has acknowledged that there was a failure to effectively challenge the off-payroll engagement of the Chief Executive of the Student Loans Company, and it was for this reason that the *Review of Tax Arrangements of Public Sector Appointees* was commissioned. The recommendations of the Review mean that, in future, the most senior staff should be on the payroll, unless there are exceptional temporary circumstances, and departments will be able to seek assurance regarding the tax arrangements of their high-paid contractors.

2.4 The Chief Secretary to the Treasury's approval is required for all central government appointments with a proposed salary of over £142,500. In these cases, the Cabinet Office and Treasury will ensure that the full cost of the appointment to the Exchequer is taken into account when providing advice. For other appointments, the recommendations of the Review will be applied by departments.

**PAC CONCLUSION 3**

**It remains unclear how prevalent the use of inappropriate off-payroll arrangements is beyond central Government. The Treasury Review only looked at central government and its arm's length bodies, so did not include local government, public corporations, publicly owned banks or the NHS below board level. In addition, the review only included those who earned more than £58,200 in 2011-12. The Committee welcomes the Treasury's assurance that the recommendations would be implemented across the NHS.**

**PAC RECOMMENDATION 3**

***The Treasury, working with other departments, should establish how widespread the practice is in all parts of the public sector, including entities not covered by Managing Public Money such as local government, and use its powers to ensure that public servants are not employed through arrangements which could lead to tax avoidance.***

3.1 The Government disagrees with the Committee's recommendation that the Treasury should lead a similar exercise for organisations not covered by *Managing Public Money.* The Government has taken steps to encourage local government to take this work forward.

3.2 The *Review of Tax Arrangements* covered the organisations covered by *Managing Public Money*, where it is has a constitutional role with regard to pay, and the Government has also taken steps to encourage other sectors to take forward a similar exercise. Specifically, the Secretary of State for Communities and Local Government has written to the Local Government Association to encourage the sector to adopt the principles set out by Government. The Department for Communities and Local Government (DCLG) has published guidance which makes clear that local authorities should actively review their approach to the remuneration of senior appointments, particularly where arrangements exist which could be perceived as seeking to minimise tax payments.

3.3 However, the Government does not believe that it would be appropriate, or practical, for the Treasury to become directly involved in contractual arrangements in organisations such as local government, where pay and appointments are for independent employers and are outside of central Government control.

**PAC CONCLUSION AND RECOMMENDATION 4**

**The BBC has identified 25,000 off-payroll contracts, including 13,000 contracts for 'talent', but cannot provide any assurance that these individuals are paying the correct amount of tax. The BBC told the Committee that the use of freelance workers is a key part of their business model. However, the BBC accepted that many of its contracts with presenters who are paid through personal service companies could share the same features as typical PAYE employment contracts. Although the BBC told the Committee it provides information on its off-payroll arrangements to HM Revenue and Customs, it has no means of ensuring that its freelancers are paying the right amount of tax. The BBC told the Committee that it would be carrying out a detailed review of its off-payroll arrangements.**

***The BBC's review should specifically consider whether the contracts resemble typical employment contracts, their duration and the number of repeat contracts, and the salaries involved. The review should set out how it will gain assurance that its staff pay the right level of income tax and national insurance on their income.***

4.1 The BBC will respond separately to the Committee's recommendation.

**PAC CONCLUSION AND RECOMMENDATION 5**

**There is insufficient clarity on how government will implement the Treasury Review's recommendations. The Treasury has not defined what constitutes the 'exceptional circumstances' under which an Accounting Officer may still approve the use of personal service companies. There is a risk that Treasury guidance may be interpreted inconsistently across the public sector and the mistakes of the Student Loans Company case could be repeated. The Treasury has also not set out how departments should seek assurance that those using personal service companies are paying the right amount of income tax and national insurance on income they receive from the public purse.**

***The Treasury should clearly define what it means by 'exceptional circumstances', require Accounting Officers to seek Treasury approval of any such exceptions, and require departments to pass on information they gather about the tax arrangements of their off-payroll staff to HM Revenue and Customs to inform investigations and compliance work.***

5.1 The Government agrees with the Committee's recommendation, but disagrees that the Treasury should define 'exceptional circumstances' or require Accounting Officers to seek Treasury approval.

**Recommendation implemented.**

5.2 Since July, the Treasury has provided detailed guidance to departments regarding the implementation of the Review, including the assurance process that they should carry out in relation to their off payroll engagements. Details are publicly available in a Procurement Policy Note published on 24 August 2012.[2] The Review also stated that "*departments should inform HMRC of any individuals whose tax arrangements they have been unable to verify for whatever reason*". This will support HMRC's compliance work and remains Government policy.

5.3 The Government does not, however, agree with the Committee that the Treasury should define what it means by "exceptional circumstances", because it is difficult to envisage all of these circumstances in advance. The Review was clear that no such exceptions should apply for longer than six months. The Government believes that individual Accounting Officers are in the best position to judge cases in their individual departments. The Treasury also committed, as part of the Review, to monitor departmental implementation after one year, and to ask departments to report on their actions to Parliament as part of the annual report and accounts process. This will take place in 2013 and any exceptions will need to be publicly justified as part of this process.

## PAC CONCLUSION AND RECOMMENDATION 6

**The deterrent effect of anti-avoidance legislation has been placed at risk by the reduction in the number of investigations by HM Revenue and Customs. 'IR35' legislation is designed to eliminate the avoidance of tax and National Insurance Contributions through the use of intermediaries, such as personal service companies. The number of IR35 investigations has decreased significantly from over 1,000 in 2003-04 to just 23 in 2010-11, undermining the IR35 system as an effective deterrent to tax avoiders. The Committee welcomes HM Revenue and Customs' intention to increase this to at least 230 a year and to carry out a risk-based review of the 2,400 cases found in the Treasury's Review and the 25,000 cases identified by the BBC.**

***HM Revenue and Customs should report the outcome of its review to us in three months' time, and should set an optimum number of IR35 investigations that maintains an effective deterrent, including any arising from information passed to it by public bodies.***

6.1 The Government disagrees with the Committee's recommendation.

6.2 HMRC recently made a number of changes to the way it approaches IR35 compliance. Since Budget 2011, HMRC has been working with the IR35 Forum, which brings together a number of representative bodies and IR35 experts, to improve the way IR35 is administered. These improvements include: strengthening specialist teams; changing the way enquiries are approached; issuing improved guidance; and providing a contract review service. These improvements are already yielding results. HMRC is on track to exceed its commitment to increase the number of enquiries ten-fold this year. Early indications are that the new approach is working well. HMRC is planning to evaluate this new approach during summer 2013 and will share these results with the Committee.

6.3 Risk analysis has been applied to the cases identified by the *Review of Tax Arrangements* as well as to the wider potential IR35 population. This was undertaken to identify high-risk cases presenting a significant risk of non-compliance. However, the risk assessment process cannot reveal whether there has been a loss of tax and National Insurance to the Exchequer, as a full investigation into individual's company must be completed before it is possible to definitively determine the tax and National Insurance position. For this reason the results of risk-profiling cannot be viewed as definitive indicators of any loss of tax and National Insurance. To report the outcome of the review process would therefore not provide a definitive level of Exchequer loss and as such would not provide meaningful data to the Committee.

6.4 The number of IR35 cases taken up for investigation each year depends on a number of factors, including the extent and nature of non-compliance, and the extent to which the non-compliance can be deterred effectively. In addition to direct investigations, HMRC seeks to deter non-compliance in other ways,

[2] http://www.cabinetoffice.gov.uk/resource-library/procurement-policy-note-0712-tax-arrangements-public-appointees

for example: publicising the consequences of successful challenges. By monitoring the effect of the compliance activities, of which investigations are a key aspect, HMRC will respond flexibly in terms of the number of investigations necessary to effectively deter non-compliance in this area. HMRC needs to respond flexibly to the level of risk, so it is impossible to set out an optimum number of cases.

## PAC CONCLUSION AND RECOMMENDATION 7

**The public sector's dependence on interim staff reflects a lack of specialist and professional skills within government. It has been recognised for some time that the civil service lacks programme and project management and IT skills, and the frequent use of interims in these areas presents a risk to value for money. The Committee has twice recommended in recent years that Government should plan its long terms skills needs, identify core skills gaps and develop the capabilities to meet the skill requirements.**

***The Cabinet Office should demonstrate how the Civil Service Reform Plan will address the issues the key skills gaps that remain prevalent in Government.***

7.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** From April 2013.

7.2 A focus of the Civil Service Reform Plan is on building capability by strengthening skills, deploying talent and improving organisational performance across the Civil Service. The Government agrees with the Committee that Cabinet Office should set out how it will address building capabilities including in digital and programme and project management skills. That is why one of the actions in the Reform Plan is to publish a five year Capabilities Plan, which will identify the skills and capabilities the Civil Service needs over this period, including in the specific areas identified by the Committee, and set out how any gaps will be filled so that the Civil Service can deliver the Government's priorities effectively. The Capabilities Plan will be reviewed annually. To support it, six Government departments are early adopters of a new Civil Service Competency Framework which will be rolled-out across all other departments from April 2013.

# Thirteenth Report

## Department for Communities and Local Government

## Financial viability of the social housing sector: introducing the Affordable Home Programme

### Committee of Public Accounts report summary


In December 2010, the government announced the Affordable Homes Programme (the Programme), under which there is £1.8 billion capital funding in government grants to social housing providers. The Department for Communities and Local Government (the Department) has overall responsibility for the Programme, which is delivered by the Homes and Communities Agency (the Agency) through contracts with housing providers.

The department expects the Programme to support the provision of approximately 80,000 homes in the four years from April 2011 to March 2015. The agency secured commitments from providers to build 24,000 more homes than its initial target of 56,000. Through negotiation the agency reduced the average grant per home to £20,000; a third of that under the previous programme. At the time of our hearing in July 2012, construction had started on 13,800 homes. It is not yet clear whether the Programme will deliver better value for money in the long term. The reduction in the grant paid to providers for each home will be funded in part by housing providers being able to charge higher rents to tenants, leading to an estimated £1.4 billion increase in housing benefit payments over 30 years. The Programme therefore shifts cost from one department to another.

The department needs to do more work to understand the impact of the Programme on tenants and its interaction with wider welfare reforms. On the one hand more of the new housing, both for rent and for sale, may be taken up by people on higher incomes so that the programme fails to meet the most pressing housing need. At the same time, the poorest tenants may be unable to afford the higher rents. Those who receive higher benefits may in turn find it even harder to find employment that pays enough and so there will be more people who are more likely to be locked into benefit dependency. The Committee was also concerned that the allocation of funding does not fully target people and areas of greatest need.

Delivery of the new homes is heavily skewed towards the end of the Programme, with many due to be built in the final year on sites which are not yet confirmed, or have not received planning permission. This leaves very little room for slippage. The Agency will need to maintain a tight grip on progress and act promptly to address any delay if the Programme is to deliver all that is promised.

The Programme has taken advantage of housing providers' current ability to borrow and so finance a greater proportion of the cost of building social housing themselves. This has been based on balance sheets strengthened by the rise in property values. However, this is a one-off opportunity and it is far from clear whether providers will have the financial capacity to take part in another round of the Programme after 2015.

The department will need to give the sector more certainty about its future plans as soon as possible. The Committee welcomes the prospect of 80,000 new homes, but with 4.5 million people waiting to be allocated an affordable home in England, it will not solve the shortage of social housing alone, and wider action is needed.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Communities and Local Government and the Homes and Communities Agency on the financial viability of the social housing sector and the Affordable Homes Programme on 9 July 2012. The Committee published its report on 12 October 2012.

## Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**The Department has not done enough to understand the full impact of higher rent levels on tenants. Housing providers can charge higher rents than before (on average 65% of market rents in London and up to 80% elsewhere). This will affect tenants' ability to afford the new housing and may exclude some of the poorest from accessing this new housing. Where higher rents are paid through increased housing benefit, tenants may find themselves caught in an even stronger benefit trap where it has become even harder to find sufficiently well paid employment to make working worthwhile, countering the Government's objective of ensuring that the benefit system makes work pay.**

**However, the department does not hold information on the rent levels being charged for individual properties and it has not considered the impact on tenants or prospective tenants of these rent levels or the interaction with wider Housing Benefit reforms.**

***The department should consult tenants and providers to understand the impact of the higher rent levels on tenants, and commission research into the financial and other characteristics of those tenants living in 'affordable rent' homes and build the results into future programmes.***

1.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

1.2 The Government took account of the impact on tenants, and the interaction with welfare reform when it designed the Affordable Rent model, which allows the Government to provide 170,000 additional affordable homes between 2011 and 2015. This will allow more households to benefit from a sub-market rent than under the old model. For a household that would otherwise have been in the private rented sector 80% or, in London, 65% of market rent is more affordable than the alternative would have been. High rent levels in the private rented sector are a disincentive to work. Affordable Rent allows more homes to be delivered at lower rents than in the private rented sector, so that more households can access a sub-market rent and keep more of their wages.

1.3 The Housing Benefit system will ensure that the poorest tenants will be able to afford the rents, as was made clear in the 2011-15 Affordable Homes Programme Framework published by the Department and the Homes and Communities Agency, in February 2011. Where tenants are eligible for Housing Benefit, it will continue to be paid in full in the same way as for social rented properties at present. The Framework also made clear that, when submitting offers for funding, providers should take account of Local Housing Allowance levels when determining rents, as well as taking account of wider welfare reforms, such as the benefit cap and social sector size criteria. Universal Credit has been designed to reduce the number of workless households by always ensuring that work pays.

1.4 As with all new policies, the department will carry out work to monitor the impacts and effectiveness of the Affordable Rent programme including, as recommended by the Committee, the characteristics of, and impact on, households who are living in Affordable Rent homes. The work will monitor delivery against plans and examine how delivery has matched areas of need. It will also assess average rents under the Affordable Rent programme and monitor the number of new homes provided. Primary and secondary data will be used to analyse the impact of the programme on households housed, including how they compare with the profile of social rent households.

1.5 The department will work with a limited number of landlords involved in the programme, local authorities and other key players to provide insight into the effectiveness of the policy implementation, delivery and the extent to which the model is sustainable for future development. The department will also re-visit its assessment of the net benefit of Affordable Rent to Government, relying on a range of primary and secondary data to inform the estimation of costs and benefits.

## PAC CONCLUSION AND RECOMMENDATION 2

**The allocation of funds under the Programme did not fully focus on the areas of greatest need. The Agency allocated funds across regions, and the level of grant per home was the main factor behind its decisions on which housing providers' bids were successful. It was not clear to the Committee whether and how funds were targeted at specific areas of greatest housing need. The Committee was also concerned that people in the greatest need may not benefit—higher rent levels may mean that new social housing ends up with the 'richest of the poor' and the Committee is aware of areas where larger properties in London have gone to couples instead of families.**

***The department and the agency should ensure that decisions to allocate resources in future social housing programmes prioritise areas of greatest need and target families in greatest need.***

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

2.2 The Affordable Rent programme allowed the Government to maximise the delivery of affordable homes for the limited grant funding that was available. The £5 billion of public investment over the period from 2011 to 2015 will lever in £15 billion of private investment, leading to the development of 170,000 new homes. Far more of the families in the greatest need will benefit from these new homes than would have been the case if grant had continued at previous levels. Against this background the joint department / Homes and Communities Agency (Agency) framework document, which invited bids for the Affordable Homes programme, identified the following criteria for schemes:

- meeting housing need at a local level;
- providing a more flexible offer for social housing tenants;
- ensuring that public funds are properly and effectively spent; and
- maximising the delivery of new affordable housing.

2.3 The framework makes clear that funding propositions should meet local priorities, which are supported by the local authority. These local priorities include particular sites, which are a priority for development, and will identify the range of needs groups, which new supply is intended to assist. Allocation and nomination processes for Affordable Rent homes are expected to mirror the existing frameworks for social rented housing. Providers are under the same statutory and regulatory obligations when allocating Affordable Rent homes as they are when allocating properties for social rent. Future decisions on the funding of affordable housing will take into account the needs of both taxpayers and tenants.

## PAC CONCLUSION AND RECOMMENDATION 3

**It is unclear whether the shift of public resources from capital grants to increased housing benefits will provide better value for the taxpayer. The Programme will be delivered with an average Government grant per home of around £20,000, compared to £60,000 under previous housing programmes. In part, this will be funded by a one off use of capital surpluses held by housing associations. In part, it will be funded by providers charging higher rents to tenants, two thirds of whom are supported by housing benefit, with a consequential increase in the housing benefit bill of an estimated £1.4 billion.**

***To inform decisions on future housing programmes, the department should review whether and how the current mix of revenue and capital funding provides best value for money for the taxpayer and tenants over time and take the results into account in future programmes.***

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

3.2 The Affordable Rent model allows the Government to maximise the number of affordable homes that can be provided for the limited and finite resources that are available while the Government's number one priority is tackling the budget deficit. The £5 billion of public investment over the period from 2011 to 2015 will lever in £15 billion of private investment, leading to the development of 170,000 new homes.

3.3 The department's review of the trade-off between capital and revenue funding was published in the Impact Assessment for the introduction of the Affordable Rent programme. This demonstrated that the Affordable Rent approach delivers greater economic and social benefits than the alternatives because it maximises the delivery of new social housing for the limited and fixed capital budget available. The extra costs to the Government through increases in Housing Benefit are over a 30 year period and need to be set against the benefits of the lower capital payment per unit. On this basis the Affordable Rent model was the preferred option.

3.4 Decisions on the future funding of affordable housing will consider the balance between capital and revenue funding and take into account the need to offer value for money to taxpayers and tenants.

**PAC CONCLUSION AND RECOMMENDATION 4**

**The Programme has a risky delivery profile with little room for slippage. Half of the new homes expected to be built are planned for the final year of the Programme, and half do not yet have confirmed sites or planning permission. If providers fail to make agreed progress, the Agency will need to reallocate funding to others.**

***The agency should monitor providers' progress closely, and, in particular, when funds are re-allocated, ensure that replacement schemes still meet the specific housing needs previously identified.***

4.1 The Government agrees with the Committee's recommendation that it monitors providers' progress closely, but disagrees that that there should be a requirement for replacement schemes to meet the specific housing need identified for the scheme that is being replaced.

**Recommendation implemented.**

4.2 The Government is confident that it is on track to meet its target of delivering 170,000 new affordable homes between 2011 and 2015. More than 63,000 of these homes have been completed in the first 18 months of the programme and last year the agency exceeded its target by more than 13,000 homes. The 80,000 homes for Affordable Rent are just part of the overall programme. The agency has worked with providers to accelerate delivery of the programme within the Spending Review period, including confirming in July 2012 that half the subsidy would be paid when work commences on site for the remainder of the programme period. Forecast delivery has now seen 6,500 planned completions accelerated from the final year into earlier years, helping to mitigate the risk identified of having half of the programme due to deliver in the final year. The agency has also put an extensive monitoring programme in place to support delivery of the programme.

4.3 The Greater London Authority has been responsible for the delivery of affordable homes in London since April 2012.

4.4 Where a replacement scheme is necessary, it will be required to meet the criteria set out in the framework document. However, it would not be practical to require that it meets the same specific housing need as the scheme that is being replaced. Affordable Rent housing will meet a range of needs, including general needs housing; affordable home ownership; supported housing; and housing in rural areas. Where a scheme cannot deliver as anticipated, and has to be removed from the programme, the agency will first seek to find a replacement, which meets similar needs in the area. However, it may not always be possible to identify a replacement, which meets the same needs in the same area and can be delivered to the Programme's timescales. Where this is the case, the agency may need to agree a scheme that meets different needs or is in a different area.

**PAC CONCLUSION AND RECOMMENDATION 5**

**The Programme has taken advantage of the sector's current financial capacity but this may be a one-off opportunity. With the rise in the value of property in the preceding 10 years, housing providers have strengthened their balance sheets and were able to use their surpluses and borrowing, as well as other sources, to provide around £10 billion of funding alongside government's contribution. Whether or not this approach is repeatable will depend on the future financial health of the sector and its ability to continue to borrow on the scale required, which will in turn depend on factors such as interest rates and the strength of the housing market.**

**To enable the sector to play its part in meeting the substantial unmet demand for social housing in the future, it needs clarity on the government's plans and the role it will be expected to play.**

***The agency should analyse the financial position of providers to assess whether the model can be repeated, providing more certainty to the sector on its intentions for social housing beyond 2015.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

5.2 The Homes and Communities Agency, as social housing regulator, has a statutory duty to monitor the financial position of registered providers, which it does through a programme of structured engagement and regular publication of information such as the Global Accounts. The financial position of housing providers was an important factor in the development of the Affordable Homes Programme. The advice of the regulator on a provider's continued viability was a key consideration in the Agency's decision to proceed to contract.

5.3 The department understands that providers want clarity about plans beyond 2015 to inform their long-term business planning. The department is considering the most effective ways of supporting the future development of affordable housing, and will be discussing this with the sector. Housing providers' financial position will remain an important consideration.

# Fifteenth Report

## Department for Work and Pensions

## Preventing fraud in contracted employment programmes

### Committee of Public Accounts report summary

The Department for Work and Pensions (the Department) spends around £900 million annually on programmes to help unemployed people find and sustain work through its contracts with a range of companies and some charities. The design of effective controls to prevent and detect contractors committing fraud is key to ensuring these programmes deliver value to participants and employers while protecting the public purse.

Following the Committees hearing on the Work Programme in February 2012, allegations of potential fraud and poor service from employment programme clients and whistleblowers were received by the Committee and passed to the department for investigation. Against a background of public concern the department has initiated an investigation of the adequacy of controls at A4e, one of its major contractors, and is investigating individual allegations. In the light of these events, the NAO examined the controls the department has in place to detect and deal with fraud and improper practices in employment programmes.

The department's arrangements for overseeing and managing its contractors did not pick up vital evidence about potential frauds. For example: the department failed to obtain internal audit reports produced by A4e in 2009 referring to a considerable number of cases of alleged fraud and malpractice across the country which are only now being investigated. The investigations of alleged fraud that the department has carried out have not been sufficiently thorough. For example: the department appears not to have pursued cases where employers have gone into administration and was not proactive in asking for additional information on the allegations of fraud supplied by the Committee before concluding that there was insufficient evidence to investigate further.

The department has not defined what standards a company must meet to be a 'fit and proper' organisation with which the department is willing to contract. The department's recent assessment of A4e did not cover a number of the areas relevant to 'fit and proper' including: the company's ownership and governance arrangements; corporate controls such as the working of the company's audit committee and internal audit; and the culture of the company and the clear and transparent objectives for those employed on welfare to work programmes by the company. This issue is not confined to companies contracting with the department for Work and Pensions, but is an issue faced by all Government departments, particularly where a company's main source of income is Government contracts. The Committee will consider this issue more generally in due course.

The department's controls against financial fraud for the Work Programme, which include checks on each contractor's claims for payment, are a significant improvement on previous schemes, although the Committee is already beginning to hear allegations that some providers give a poor service. Furthermore, risks also remain in the department's other programmes, such as Mandatory Work Activity, which do not have in place the same level of controls, and concerns also exist about other programmes for the unemployed such as training programmes funded by the Skills Funding Agency. While the Work Programme has stronger controls, its greater focus on payment for outcomes potentially creates other risks to value for money.

The department's 'black box' approach to contracting for the Work Programme allows providers to innovate, but without sufficient auditing to demonstrate value for money and neither is there a mechanism in the contract for improving service standards over time. The Committee has already received a number of allegations of poor practice and inadequate services provided to unemployed people looking for work.

The department must put in place mechanisms to enable further investigations brought to light by whistleblowers. The department lacks sufficient information on the nature and number of complaints made directly to contractors about their performance to identify trends and learn lessons. Without better information on complaints the department will be unable to assess fully the quality of service offered by its contractors. Where there are problems the department has no obvious mechanism through which participants, contractors' employees or Minister's can raise issues of concern relating to fraud and poor service with it.

The department has still to publish full data on the programme. However, Ministers, the Press and the Trade Association for employment providers are putting partial data, which cannot be verified into the public domain. Confidence in the programme depends on the publication of full data by the department, which can be verified.

While the department might find it tempting to define an acceptable level of fraud it is the Committees view that this is the wrong approach. Rather than define what is an acceptable level of fraud in any public programme the department should take all reasonable and affordable steps to drive out fraud. The Committee believes that its recommendations for improved oversight, new inspections, more transparency and more effective due diligence on companies who seek public contracts will all contribute to this. It is not enough to have the power to terminate a contract after the fact. Government has a responsibility to prevent fraud as well as to remedy it.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Work and Pensions on its approach to preventing fraud in contracted employment programmes on 22 May 2012. The Committee published its report on 28 September 2012.

## Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**The department has not exercised sufficient oversight of its contractors to identify potential fraud and improper practice. A number of allegations of fraud have come to light of which the department was not previously aware and which it has not investigated. Some of these would have been made known to the department if it had asked the right questions of providers as part of its oversight and inspection arrangements. The department has also acknowledged that the controls in place during the transitional period in implementing the Work Programme need to be updated.**

***The department should review its oversight arrangements for all its contracted employment programmes to ensure that they are fit for purpose. The arrangements should include:***

- ***reassessing the role, qualifications and expertise of the department's provider assurance team, which visits providers to examine governance arrangements, service delivery, financial procedures and data security;***
- ***obtaining copies of all providers' relevant internal audit reports;***
- ***the department instigating unannounced visits to providers and undertaking sample checks with both clients, training providers and employers, and***
- ***early publication of data so that varied practices between contractors become obvious***

1.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 31 March 2013.

1.2 The design of the Work Programme specifically took account of some of the failings in past contracts to which the Committee drew attention. In respect of the four specific arrangements:

- the department has reassessed the role, qualifications and expertise of the provider assurance team and concluded that all members have the qualifications and training relevant to their job role. However, the department further concluded that fraud awareness would help to give team members a broader view, whilst maintaining the distinction between their role and that of the department's audit team. A fraud awareness course is being developed and will be delivered to all team members by end March 2013.
- the provider assurance team and NAO have agreed to pilot the requesting of all audit plans as part of its standard process and review relevant audit reports. The pilot will establish the value of seeing the plans and any training requirements.

- unannounced / short notice visits to providers are permitted under the Work Programme contracts and are already undertaken, where deemed necessary, and are carried out by the department's internal audit and investigations team. The department checks a random sample of Work Programme provider's client records each month, and a random sample of payments made to providers, which includes contact with employers and claimants.

- the department published an annual report on contracted employment provision in December 2012, which provided facts and figures and an overview of trends. The publication of the Work Programme statistics on 27 November 2012 provides information on performance to end July 2012. The Named Day PQs PQ/12/106274 and 106279 provided information on fraud and non-compliance from 1 April 2006 to 31 March 2012. The next appropriate reporting period for fraud and non-compliance is the 2012-13 operational year and will be available for the May 2013 report. The next publication of performance statistics for the Work Programme has been pre-announced for May 2013.

## PAC CONCLUSION 2

**The department's recent investigation into A4e did not establish whether the company was a 'fit and proper' contractor. The investigation focussed on particular allegations of fraud and looked at A4e's controls over specific transactions streams. But the department did not examine other relevant issues such as how A4e's ownership and governance structures impact on business controls, the adequacy of corporate controls such as the role of the audit committee and internal audit, the objectives set for staff working in the organisation and the extent of company training in ethical behaviour. The department also lacks a clear definition of 'systemic fraud'.**

***The department should define transparent criteria for assessing whether providers are 'fit and proper' companies and what would constitute 'systemic fraud' and assess providers against these criteria, paying particular attention to those which have a majority of their business with public bodies or have atypical ownership or governance arrangements. Given the number and size of public contracts for service delivery the Committee believes the Cabinet Office should look at whether there is appropriate guidance for departments.***

2.1 The Government disagrees with the Committee's recommendation.

2.2 A "fit and proper" contractor test is not a recognised statutory test in the context of the procurement rules. The department evaluated bidders as part of the competition to appoint providers to the Employment Related Support Services Framework, which included an assessment of providers' economic and financial standing and technical and professional ability. Bidders were also assessed under the Regulation 23 (of the Public Contracts Regulations) criteria for the rejection of suppliers (for example: money laundering, bankruptcy and certain criminal offences).

2.3 If the department finds proven and adequate evidence of systemic fraud, then it will not hesitate to terminate commercial relationships. There is no definition of systemic fraud - each set of facts needs to be looked at on a case-by-case basis.

## PAC CONCLUSION AND RECOMMENDATION 3

**The department's controls against financial fraud in the Work Programme are stronger than those in previous schemes, but some risks still remain, for example, where individuals find employment without their help. The department has sharpened the definitions and checks that trigger payments to contractors, reducing the scope for abuse. These controls are a welcome improvement on those in past schemes, but some risks still remain in the design of the Work Programme, such as the possibility of paying providers for individuals who have found work without their help.**

***The department should review and strengthen its controls where necessary to ensure contractors are only paid for results that they have achieved.***

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department does not regard as financial fraud, actions that are consistent with the terms of the contract. In particular, the department concluded that it would not be possible to separately identify individuals who had found work without any help from their provider. Such distinctions would always be open to subjective interpretation and dispute.

3.3 The department has reviewed controls for the Work Programme and concluded they are sufficient and fit for purpose.

### PAC CONCLUSION AND RECOMMENDATION 4

**There is currently no obvious route through which clients, contractors' employees, MPs or the public can raise issues of concern relating to fraud and poor service with the department. The whistleblowing mechanisms in place are managed by individual, or groups of, providers. There is no facility for MPs to report high volumes of complaints to the Department. Furthermore, the department relies on providers to disclose details of complaints they have received, as it does not have any mechanism to collect this information to identify trends and learn lessons from customer feedback.**

**The department should:**

- **publicise its arrangements to enable whistleblowers to make complaints; and**
- **capture and analyse information about complaints made about providers.**

4.1 The Government agrees with the Committee's recommendation, but considers that whistleblowers and complaints are separate issues that require differing arrangements.

**Recommendation implemented.**

4.2 The department has implemented a robust complaints procedure for the Work Programme. Work Programme providers are contractually required to have their own dispute resolution procedure for dealing with complaints from customers about the provider (or any of its sub-contractors). Following internal review with the provider, concerns can be escalated to the Independent Case Examiner (ICE) for resolution. In practice the vast majority of complaints are resolved between participants and providers without recourse to ICE. The ICE reports on complaints received, and the department takes any action required based on these reports.

4.3 The department also requires all providers on the Employment Related Support Services Framework to have in place an accessible, confidential 'whistleblower' system to enable staff to report inappropriate behaviour in their organisation, including fraud allegations. Where participants have concerns about fraud they can be reported to their Jobcentre adviser.

### PAC CONCLUSION AND RECOMMENDATION 5

**There is no mechanism to raise service standards set at the start of the Work Programme over time. The Committee recognises that the payment structures are designed to achieve more than one aim and the Committee will return to the issue of the work programme after it has been in operation for long enough to consider whether the questions it has raised about variations between different providers have either successfully stimulated innovation, or have created unacceptable variations between providers.**

**The department needs to improve public confidence in providers by increasing transparency. It is clear from the allegations that the Committee received, and from the response in the media to the Committee's examination of the Work Programme, that there is a substantial lack of public confidence and trust in some employment programme providers.**

***The department should take steps to satisfy public confidence in providers by publishing relevant information on its website about its main providers, including corporate governance, ownership structures, performance information, levels of fraud detected and complaints received and how they have been resolved.***

5.1 The Government agrees with the Committee's recommendation, but disagrees that the Government should publish detailed information about its suppliers' governance or ownership structures.

**Target Implementation date:** May 2013.

5.2 The department is committed to publishing relevant information about providers, including performance information and supply chain details. However the department does not believe it is for the Government to publish detailed information about its suppliers' governance or ownership structures, not least because of the scale of the task that would be involved in collating and keeping up to date relevant information on the thousands of firms supplying Government – given that it would be difficult to justify singling out contracted employment programme providers.

5.3 The department will be publishing an annual report on contracted employment provision in May 2013, which will provide facts and figures and an overview of trends.

5.4 The vast majority of complaints are resolved satisfactorily between participants and providers. The ICE reports on cases escalated to them, so the department does not consider that it would be appropriate to report separately.

## PAC CONCLUSION AND RECOMMENDATION 6

**The department must publish validated data on the outcomes achieved by the Work Programme. Much concern could be allayed if the results of the Work Programme were placed in the public domain. Partial data released by the employment providers' trade association, ERSA, the media or ministers serve merely to heighten suspicion and proper transparency would allay concerns. The providers' contracts require them to achieve a certain level of performance by the end of year one.**

***Given that contracts started in June 2011, the department should know now whether these targets have been met and should publish that data immediately.***

6.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

6.2 The department is committed to publishing job outcome information at the earliest opportunity, in line with the rules set out by the UK Statistics Authority that require official statistics to meet stringent accuracy and validation tests.

# Sixteenth Report

## Department of Health

## Securing the future financial sustainability of the NHS

### Committee of Public Accounts report summary

Ensuring a viable financial future for healthcare providers is vital if the public are to have confidence in the delivery of their local services. Yet the Committee still does not have critical details of how the new system introduced by the NHS reforms will work so that services remain available to patients in their locality.

In 2011-12 NHS organisations in England reported a combined overall surplus of £2.1 billion. There were, however, significant variations in performance between NHS bodies. 377 NHS organisations reported a surplus in the year, but 10 NHS trusts, 21 NHS foundation trusts and three Primary Care Trusts (PCTs) reported a combined deficit of £356 million. Eleven NHS foundation trusts would not have made foundation trust status today given their financial performance, and there is a real concern that some organisations will fail. The very difficult financial situation of some NHS bodies is particularly marked in London, where two trusts reported a combined deficit of £115 million. The department placed one of these, South London Healthcare NHS Trust, in special administration in July 2012.

The financial sustainability of hospital trusts is even more serious than these figures suggest. Up to now, PCTs and Strategic Health Authorities (SHAs) have been able to give struggling trusts additional financial support in a variety of ways that have not always been transparent. In addition, the department has provided further significant cash injections of £1.1 billion to some trusts in the form of public dividend capital that it does not expect all of them to pay back. All this additional funding is hiding underlying financial problems, as without this help a further 31 NHS trusts and 11 Foundation trusts may not have broken even, or would have reported larger deficits.

The department was not able to explain clearly what would trigger a trust being placed into the failure regime, and how decisions would be made about the future of a trust in financial difficulty. The Committee was particularly surprised that the department was unable to say how the process will work for South London Healthcare NHS Trust, which is already in special administration. The Committee also fears that the new system creating central "risk pools" to deal with trusts in financial difficulties is likely to put more pressure on other health trusts who are already seeking financial savings to meet the £20 billion efficiency savings target. Any monies held in central "risk pools" means less money available to commissioners and trusts to pay for patient services and therefore yet more pressure in the system.

A number of trusts in financial difficulty have PFI contracts with fixed annual charges that are so high the trusts cannot break even. Paying these charges is one of the first calls on the NHS budget and the department is liable for supporting all PFI payments because it underwrites the Deed of Safeguard given to contractors. It already expects to have to find £1.5 billion to bail out seven trusts facing problems with PFI repayments over the remaining life of their contracts - equivalent to £60 million a year. The guarantee provided by the Deed of Safeguard also gives PFI providers the upper hand in any attempt by trusts to renegotiate the contracts, which experience suggests can result in reduced service levels rather than greater efficiency. The priority given to meeting PFI annual charges inevitably distorts priorities which is especially worrying at a time when resources are constrained.

The department was unable to spell out to the Committee a clear plan to achieve financial sustainability and a clear strategy for dealing with financial failure in individual trusts. The department could not provide adequate reassurances that financial problems would not damage either the quality of care or equality of access to all citizens, wherever they live. The incentives for Clinical Commissioning Groups (CCGs) to work collaboratively within regional health economies remain unclear. Given the scale of the challenge, it is alarming that there is a lack of comparative data that could inform a debate on reconfiguration of services particularly because the department expects that every trust will need to reconfigure services.

Good governance is one of the key elements in ensuring financial sustainability of trusts. The Committee is disappointed that the department has failed to deliver on its promise to write back to the Committee, by the end of April 2012, on progress to improve governance within NHS trusts.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department of Health and Monitor on the financial sustainability of the NHS on 11 July 2012. The Committee published its report on 30 October 2012.

## Government responses to the Committee's recommendations

**PAC CONCLUSION AND RECOMMENDATION 1**

**The overall financial surplus of £2.1 billion reported by NHS bodies in England in 2011-12 disguises the fact that there are a significant minority of organisations in financial difficulties. On top of that, the NHS faces significant challenges in making £20 billion of efficiency savings at the same time as the system is reformed under the Health and Social Care Act 2012. Many crucial details of the new system have not yet been determined. The recommendations below highlight the actions the department and Monitor need to take to improve the financial resilience of the NHS.**

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

**PAC CONCLUSION AND RECOMMENDATION 2**

**The department and Monitor were unable to explain how they expect proposed "risk pools" to work. Currently PCTs and SHAs support some trusts through providing funding over and above amounts in contracts, but neither the amount of additional funding nor the reasons for it are transparent. In future, contributions to "risk pools" (money which might be levied on all NHS bodies to support failing trusts or commissioners) will add to the already difficult challenges facing trusts. This top-slicing of the NHS budgets risks destabilising otherwise healthy organisations, and creating inequities between those contributing and those in receipt of support.**

***The department and Monitor should clarify how "risk pools" will work from April 2013, and how they will manage the risk of creating an uneven playing field.***

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

2.2 The Health and Social Care Act 2012 requires Monitor to establish one or more financial mechanisms, which might include charges on commissioners / levies on providers, to support the continued provision of essential NHS services in the event of a Foundation Trust or company being placed in special administration.

2.3 The department previously set out that such arrangements could apply from April 2014.[3] However, the department has recently carried out initial work which identified a number of concerns regarding how commissioner charges and provider levies might operate in practice.

2.4 There is a risk, depending on the detail of how they operate, that levies on providers could distort competition, for example: by placing some providers at an unfair cost disadvantage to others. There is also a risk that levies could worsen some providers' financial difficulties, for example: if weaker providers were expected to pay more to fund special administration than others. There are also remaining questions regarding commissioner charges. These include how the charges might affect commissioning behaviour and whether and if so, how the NHS Commissioning Board should take account of the charges in making allocations to Clinical Commissioning Groups.

2.5 In light of these issues, the department will provide funds directly to cover the costs of special administration in both 2013-14 and 2014-15 and potentially beyond that. The department will give further consideration to options for funding special administration in the longer term.

[3] *Sector regulation: update on plans for consultation and implementation* Department of Health, July 2012

## PAC CONCLUSION AND RECOMMENDATION 3

**The Department has not clearly explained the circumstances in which it would apply the failure regime to hospital trusts. The fundamental objective when putting a trust into special administration is to secure provision of essential services, with insolvency the final resort. So far, South London Healthcare is the only trust to have been put into a special administration regime. There are a growing number of NHS trusts and NHS foundation trusts in financial difficulty, but it is not clear what will trigger them being placed in special administration, or exactly how the process will work including the role of Ministers. At present it seems as if the Department is inventing rules and processes on the hoof rather than anticipating problems and establishing risk protocols.**

***The Department, Monitor and the NHS Commissioning Board must set out clear principles for intervention that explain to trusts and the public the circumstances in which they would implement the special administration regime, and what the consequences would be, including whether an insolvent trust would be allowed to fail and how Ministerial intervention will work.***

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2013.

3.2 The decision about whether to place a trust into special administration would reflect the outcome of joint consideration between the department, Monitor (for Foundation Trusts), the NHS Trust Development Authority (for NHS trusts), and commissioners, about what had led to the Trust facing financial difficulty.

3.3 At a high level, the department would provide finance for a Foundation Trust (FT) or an NHS Trust to turn itself around where there was a realistic opportunity to establish a viable organisation. It might also provide finance where this was necessary to protect the taxpayer from incurring larger liabilities that could arise, for example in relationship to PFI arrangements. It could also provide bridging finance to enable work to develop and test options.

3.4 In some cases, the challenges faced by the FT or NHS Trust might be too severe to turn it around by providing short-term financial support. This could perpetuate lower quality services and represent poor value for money. In such cases, Monitor could trigger the formal special administration regime for FTs by appointing a Special Administrator, provided the FT was unable or likely to become unable to pay its debts. The Secretary of State would trigger special administration for NHS trusts, on the recommendation of the NHS Trust Development Authority.

3.5 The department will publish criteria early 2013 setting out how it will make these decisions on whether to provide turnaround finance or trigger special administration. The department will write to the Committee when the document is going to be published. Commissioners will play a significant role in helping to make these decisions, so that the department only invests in providers and services, which are genuinely needed in the local area.

## PAC CONCLUSION AND RECOMMENDATION 4

**There is a risk that, as commissioning becomes more decentralised, local commissioners will make short term and narrowly focused decisions rather than taking a strategic and joined up approach. The Department could not explain what will ensure Clinical Commissioning Groups (CCGs) work together to achieve financial and service sustainability in local health economies.**

***The NHS Commissioning Board should set out how they will manage strategic commissioning from April 2013, and how they will promote commissioning decisions which meets patient needs across a local health economy.***

4.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

4.2 The Government believes that Clinical Commissioning Groups (CCGs) will be incentivised and supported to make good commissioning decisions for their populations, and to work with other CCGs and with other organisations in doing so.

4.3 The strong emphasis on the NHS outcomes framework in the Government's mandate to the NHS Commissioning Board will provide a critical incentive to NHS commissioners to work with others within and beyond the NHS to ensure that commissioning secures as much value as possible for patients and the public. Both the NHS Commissioning Board and Clinical Commissioning Groups will be under duties to seek improvements in the quality of services and reductions in inequalities of access to services and improve service outcomes.

4.4 The Health and Social Care Act requires CCGs and local authorities to work together, through Health and Wellbeing Boards, to make sure their strategies are joined up, with shared goals for key aims including better health and care services and reducing health inequalities.

4.5 The Government expects the NHS Commissioning Board to support clinical commissioning groups, so that they are able to operate in a strategic and joined up manner. One way in which the NHS Commissioning Board will do this is by hosting Strategic Clinical Networks to help local commissioners of NHS care to reduce unwarranted variation in services and encourage innovation. The NHS Commissioning Board's Local Area Teams have a key responsibility to promote integrated approaches by commissioners, local authorities and providers to issues and opportunities in their localities, and in particular to facilitate strategic change/reconfiguration.

4.6 The authorisation process published by NHS Commissioning Board include requirements looking at the strong clinical and multi-professional focus of the CCG; whether the CCG has clear and credible plans, which continue to deliver the Quality, Innovation, Productivity Prevention (QIPP) challenge within financial resources, in line with national requirements and local joint health and well-being strategies and the CCG's collaborative commissioning arrangements.

**PAC CONCLUSION AND RECOMMENDATION 5**

**Liabilities under PFI contracts create additional problems and cause some trusts to remain in deficit. A number of trusts in financial difficulty have PFI contracts with fixed annual charges that are so high they cannot be financially viable. PFI payments are one of the first calls on an NHS trust's resources. Yet individual trusts are in a weak position when seeking to renegotiate such contracts because PFI contractors have the security of a Deed of Safeguard underwritten by the Department that guarantees payments. So trusts are locked into paying unaffordably high PFI payments whilst facing a very weak position on renegotiating the contracts. The Department ultimately underwrites the payments but it is unclear how the Department will have the money to meet this commitment under the arrangements when most NHS monies will be passed to the commissioning bodies.**

***The Department should report back to the Committee on whether it has achieved 5% savings on annual unitary charges for PFI projects as the Treasury Pilot concluded were achievable, and whether there has been any adverse impact on services.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2013.

5.2 The Treasury pilot, which concluded with the publication in July 2011 of the document *Making savings in operational PFI contracts*, was conducted at the Queen's Hospital, Romford, which is part of the Barking, Havering and Redbridge NHS Trust. The pilot concluded that annual savings of around 5% of the annual unitary charge were achievable (this in schemes which include "Soft" Facilities Management (FM) services such as cleaning and catering). Following the publication of the Treasury document, the department arranged information sharing sessions with other trusts with PFI schemes and is currently following up with these trusts the amount and extent of savings subsequently achieved in operational PFI projects.

5.3 As agreed with the Treasury and Cabinet Office, the department will report back an aggregate savings figure to these bodies for NHS schemes, which is expected early in 2013. It will be for these bodies to report on the final agreed figures as appropriate, for example: to the Public Accounts Committee. The department's return will also include information on whether such initiatives had any adverse impact on services.

**PAC CONCLUSION AND RECOMMENDATION 6**

**Some service reconfiguration within the NHS to reduce costs is inevitable but the relevant cost and outcome data to inform public debate is not available either to CCGs or members of the public. Public debate about access to services and potential service reconfiguration needs to be informed by complete and easily accessible data.**

***The Department should work with the NHS Information Centre to ensure that information on costs and outcomes is easy for members of the public to access and understand.***

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2016.

6.2 The Health and Social Care Information Centre is planning, with the NHS Commissioning Board, to create a safe haven containing a data infrastructure, which protects patients' information, and makes summaries available of patient activity, tariff and the outcome of care at an aggregated level. The information will be linked to patient satisfaction levels and presented via web sites in a manner that is easy to understand. It is proposed to commence implementation with a small number of data sets in 2013-14, and to progressively build up the data repository over the three years 2013-14 to 2015-16.

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