HM TREASURY

TREASURY MINUTES

Progress on implementing recommendations from 28 Committee of Public Accounts reports (Session 2010-12) and 5 National Audit Office reports

Cm 8387

July 2012

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Fourteenth Report

Department of Health (DH), Department for Communities and Local Government (DCLG), and HM Treasury

PFI in housing and hospitals

Summary of the Committee's findings

The Department of Health and the Department for Communities and Local Government (the Departments) are responsible for sizeable portfolios of PFI projects covering hospitals and social housing. By April 2009 there were 76 operational PFI hospitals in England and over 13,000 homes had been built or refurbished through PFI, representing a small but significant part of investment in social housing. The letting of contracts and the responsibility for managing them is devolved to NHS Trusts and local authorities. The Departments are responsible for overseeing their PFI programmes and reporting to the public and Parliament on value for money. This includes establishing the funding arrangements, approving contracts and providing support to the local projects.

There are important developments in the PFI market which affect the profitability of these contracts and the Committee is concerned that government is missing a trick in failing to secure the appropriate financial advantages for the taxpayer. Specialist financial institutions have been bundling projects together. This gives them the prospect of greatly enhancing the value of their interests in the projects through economies of scale.

In reaching its findings, the Committee took evidence from the Department of Health and the Department for Communities and Local Government on 24 November 2010. The Committee issued its report on 18 January 2011 and the Treasury Minute – the Government's formal response - was published on 24 March 2011.

PAC RECOMMENDATION 1

The Departments should prepare and publish whole-programme evaluations which assess PFI against alternative procurement routes using clear value for money criteria. The evaluations should include the merits or otherwise of including support services in the contracts.

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

Department of Health:

1.2 Although the Department does not propose to carry out a whole programme evaluation given the likely cost of such an exercise, it will carry out a critical review of all the information contained in the presently available post project evaluation and Gateway review reports from those PFI schemes that are already operational. This review will help to support the pipeline of new PFI hospital deals in procurement and the existing Treasury value for money analysis completed before the department approves any PFI deal to proceed. The review will also help the Department to refresh its existing guidance on the decision whether or not to include support services in future procurements.

Target implementation date

1.3 Autumn 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 Much work has been done in reviewing the available information and discussing aspects of operational PFI contracts with as many contract holders as possible. In November 2011, the

Chancellor announced the Government's intention to undertake a fundamental reassessment of PFI. Following the conclusions of the reform exercise, the Department will refresh its guidance, on the value for money of using private finance, and the inclusion of support services, as required.

Department for Communities and Local Government:

1.6 As requested by current Ministers, and as an integral part of the Spending Review 2010, the Department is reviewing the value for money of the Housing PFI programme as it now stands: that is the schemes now in procurement. The Department will draw on this analysis to inform decisions on whether or not to continue to support Housing PFI projects in procurement. The analysis and conclusion will also aid the Department to advise, assist and require local authorities, as appropriate, to improve the value for money of Housing PFI projects in procurement that continue to receive Departmental funding support. The Department will make available a summary of the results of its value for money assessment, currently proposed by the end of August 2011. The published assessment will respect the confidentiality and sensitivity of commercial data

Target implementation date

1.7 March 2013.

Current Status

1.8 Work in progress.

Action being taken to implement recommendation

1.9 The Department has continued to assess individual projects against benchmarked key metrics during their procurement through the Department and Treasury formal approval stages for PFI Business Cases. The Department is also updating its value for money assessment and benchmarking. However, although four projects have reached financial close, eight still remain in procurement. It is now considered that it would be more appropriate, given this continuing procurement, and informative, to publish a report. This is after most of the remaining projects in procurement have reached, or neared, financial close and a more up-to-date, stable and definitive value for money position has been reached.

PAC RECOMMENDATION 2

The Department for Communities and Local Government must ensure that the actions it has been taking to address previous programme failings will result in future projects being delivered to time and within cost.

2.1 The Government agreed with the Committee's recommendation.

Department for Communities and Local Government:

2.2 A Major Projects Review Group (MPRG) assessment of the sixth round of the Housing PFI programme identified a number of issues associated with previous rounds of the programme, including long procurement times and cost increases. The Department has since reviewed how both cost estimation and procurement times could be improved.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department has produced a set of lessons learnt proposals to improve the cost estimation, procurement times and value for money of any future Housing PFI projects. These proposals are being implemented in practice following the last Housing PFI project to enter into procurement. Prior to the 2010 Spending Review, bids in procurement can still be approved. However, the cancellation on the sixth round of bidding of Housing PFI programme, means no additional bids, that were not already in procurement, would be funded.

PAC RECOMMENDATION 3

In taking forward plans for delivering new and improved housing, the Department should ensure that the choice of procurement route, PFI or otherwise, is based on clear and transparent value for money.

3.1 The Government agreed with the Committee's recommendation.

Department for Communities and Local Government:

3.2 The Department undertook a review of the value for money of the remaining Housing PFI projects in procurement following the Spending Review 2010. This value for money review assessed these PFI projects against other housing investment routes, principally Decent Homes for refurbishment works and the National Affordable Housing Programme for new-build housing. The Department is clear that value for money must be the primary focus in the selection of the appropriate procurement option both at programme and project levels.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department has established a rigorous business case and approvals process to assess the value for money and deliverability of investment proposals. All business cases are now reported considered and signed-off by the Department's Investment Sub-Committee, which is chaired by its Finance Director or Deputy Finance Director.

PAC RECOMMENDATION 4

The Department of Health and other departments with PFI programmes should similarly negotiate with major PFI investors and contractors to secure better deals for the taxpayer.

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

Department of Health:

4.2 The Committee is right to draw attention to the voluntary Code of Conduct in respect of refinancing early PFI contracts previously negotiated by the Treasury. The Department is aware that the Treasury plans a further voluntary code of conduct with the PFI industry following its pilot project, as set out in the July 2011 guidance: *Making savings in operational PFI contracts.*

Target implementation date

4.3 Ongoing.

Current Status

Action being taken to implement recommendation

4.5 The Department is not the signatory to PFI contracts - these are held by NHS Trusts, NHS Foundation Trusts and Primary Care Trusts. As such, contracts are designed and negotiated to meet the needs and priorities of the local health economy. Following the finalisation of the Treasury's report, covering the work at the pilot project at the Queen's Hospital, Romford, a number of sessions have been organised to disseminate the lessons learned to contract holders. The Department understands that the Treasury has yet to finalise discussions with the PFI industry on the voluntary Code of Conduct. The Department will support the use of the voluntary Code.

Department for Communities and Local Government:

4.6 The Department is not a direct procurer of PFI projects but sponsors local authority PFI projects in the housing, fire and joint service centre sectors, and as such does not have the legal right to negotiate individual local authority contracts. Local authorities are legally responsible for the procurement and management of their PFI projects including agreement of the initial commercial contract terms and for the subsequent negotiation of any changes to contracts with the contractor. Local authorities have a direct service and financial interest in ensuring the value for money procurement and ongoing delivery of their PFI contracts.

Target implementation date

4.7 March 2014.

Current Status

4.8 Work in progress.

Action being taken to implement recommendation

4.9 The Department, with the Treasury, has jointly commissioned and is funding Local Partnerships to advise, assist and support local authorities. Further, this will assess, identify and facilitate the delivery of savings from housing, fire and joint service centre operational PFI projects sponsored by the Department. Local Partnerships will work with the Treasury, the Department and the Homes and Communities Agency (HCA) on this exercise, which forms an integral element of the Treasury's Operational PFI Savings Programme. The Programme allows opportunities to negotiate with major PFI investors and contractors to secure better deals for the taxpayer on the Department's sponsored PFI projects.

PAC RECOMMENDATION 5

Monitoring and improving value for money depends on local projects having access to good quality information from across the programmes. Both Departments should define minimum data requirements and then take responsibility for ensuring that information collected from and distributed to local projects is complete, accurate and consistent. The Department of Health and the Foundation Trust regulator Monitor should embed these data requirements in Foundation Trusts' terms of authorisation so that they are mandatory.

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

Department of Health:

5.2 The Department does not propose to increase the current level of mandatory information gathering above that which it already undertakes. The Department already collects a wide variety of NHS provider costs via the Estates Return Information Collection. Local health economy priorities and decisions dictate the precise scope of services delivered, and their quality, frequency, standard and purpose. The resulting cost of the service reflects these local issues as well as other local factors.

Current Status

5.3 Implemented.

Action being taken to implement recommendation

5.4 The Department is continuing to work with contract holders to create opportunities for voluntarily exchanging relevant data.

Department for Communities and Local Government:

5.5 Local authorities have been required to provide Housing PFI project datasets through a set of standard forms (proformas) at Outline Business Case, Pre-Preferred Bidder Final Business Case (FBC) and Preferred Bidder FBC approval stages. Datasets have also been required when particular issues arise – for example: on affordability, funding and value for money. The proformas cover all key project input and output data and assumptions including new-build capital costs, refurbishment capital costs, lifecycle capital costs, revenue operational management and maintenance costs and both capital and revenue funding and affordability. Authorities have also provided datasets for the current Spending Review 2010 review of the value for money of Housing PFI projects in procurement.

Current Status

5.6 Implemented.

Action taken to implement recommendation

5.7 In addition to the Department's original response in March 2011, the Department has made key benchmarking data available to local authorities, on operational PFI projects, through Local Partnerships and the HCA - within the context of the Treasury's Operational PFI Savings Programme.

PAC RECOMMENDATION 6

The Treasury, in consultation with Departments, should identify how value for money tests and incentives to improve maintenance could be built into the contract.

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

HM Treasury

6.2 Appropriate risk transfer is a cornerstone of the PFI model and one element of this concerns the private sector partner taking responsibility for ensuring assets are maintained to an agreed standard for the life of the contract. The transfer of maintenance risk over the life of the contract – tying the long-term maintenance of an asset to the initial construction – is one of the key intended benefits of the PFI model. However, the Treasury recognises that different contract structures may be appropriate where more flexible maintenance requirements exist. As part of the current workstream considering a broader range of infrastructure delivery models, the Treasury is considering the range of options around the ongoing provision of maintenance services over the lifetime of a contract.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 The objectives of long term value for money for the taxpayer, more effective use of private sector innovation and skills, reducing costs, improving flexibility and increasing transparency are central to the development of any new delivery models. Following the Chancellor's announcement in November 2011 on reforming the PFI model, the Treasury launched a call for evidence to bring forward proposals for a new approach in using the private sector in the delivery of public assets and services. This call for evidence closed on 10 February 2012.

6.5 One of the primary areas of focus being considered as part of the PFI reform agenda is the provision of hard facilities management and lifecycle maintenance. The call for evidence asked respondents to consider how the public sector could have better confidence in the ongoing value for money achieved from hard facilities management and lifecycle risk transfer; and how effectively the private sector has been able to price these risks. Ministers will want to consider all the options before reaching a decision on the direction of future policy, and will announce the conclusions of the call for evidence in due course.

PAC RECOMMENDATION 7

The Committee looks to the Department for Communities and Local Government to deliver on its commitment to keep its support capacity at an appropriate level. The Committee also expects the Department of Health to firm up plans for the future of its PFI Unit and for Trusts to contribute to a club to procure contract management support. Trusts should confirm that they will actively engage with the club.

7.1 The Government agreed with the Committee's recommendation.

Department of Health:

7.2 Whilst the role of the Department will evolve to reflect the proposed changes to the NHS, it is acknowledged that trusts should have access to an appropriate level of central support. This central support must be useful, relevant and be value for money. The Department already provides valuable central support and it will continue to work with trusts to help shape the central support they require in the future as projects develop and change. It is hoped that trusts will take a greater control over the PFI club over time.

Current Status

7.3 Implemented.

Action being taken to implement recommendation

7.4 The Department is continuing to provide support to trusts. The Department is reviewing its resources to support the finalisation and use of the Treasury's voluntary Code of Conduct on operational project savings.

Department for Communities and Local Government:

7.5 The Department re-affirms the commitment made by its Permanent Secretary to the Committee to keep its PFI support capacity at an appropriate level. The Department is mindful of its ongoing PFI responsibilities and obligations covering programme governance, management and delivery across operational projects, projects in procurement and, as arising, new projects. The Department is also mindful of the increasing importance of its role and responsibilities in respect of operational PFI projects including provision of advice to local authorities on value for money, consideration and approval of proposed material changes to projects and working with Treasury on centrally-driven cross-sectoral value for money changes to PFI projects under consideration.

Current Status

7.6 Implemented.

Action taken to implement recommendation

7.7 The Department is keeping its PFI resources under review to ensure they are at an appropriate level.

PAC RECOMMENDATION 8

In the Government's response to this report, the Treasury should outline its plans to support all departments in maximising value for money from their PFI programmes in the current economic climate. The Committee expects the Treasury to comment specifically on the evaluation of PFI as a procurement route, on using market leverage and on the sufficiency of central data.

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

HM Treasury

8.2 In February 2011 the Treasury launched a pilot project to identify the scope for achieving savings in operational PFI contracts. The contract for the Queen's Hospital in Romford project was scrutinised by an experienced team of commercial, legal and technical advisors to identify ways of reducing ongoing costs on behalf of the local NHS Trust. The lessons are being used to drive savings across the full portfolio of PFI contracts.

8.3 Treasury scrutiny and approvals processes require proposed PFI projects to demonstrate that PFI offers better value for money when compared to a conventionally procured alternative. The Treasury is currently working to improve the existing value for money framework. While the Treasury holds a certain amount of data at the centre, it is important to ensure that the scope of data collected does not overburden contracting authorities. However the Treasury recognises that centralised data will be an important tool in ensuring the improved value for money of projects moving forward, and as such the Treasury will work with Departments to improve the data collected across infrastructure projects.

Current Status

8.4 Implemented.

Action taken to implement recommendation

8.5 The Government is committed to ensuring taxpayers get value for money from PFI contracts. In July 2011, the Government announced a commitment to deliver at least £1.5 billion of savings across its portfolio of operational PFI projects in England. These savings can be recycled back into frontline services by the contracting authority. The announcement is part of an ongoing programme of reform to improve the cost effectiveness and transparency of PFI contracts.

8.6 The commitment followed pilot cost savings reviews at Queen's Hospital Romford and three Ministry of Defence projects. These pilots identified worthwhile savings opportunities across a range of areas within the contract scope.

8.7 Updated guidance and advice for public sector authorities on how savings can be made in operational PFI projects was published in July 2011 on the Treasury website entitled: *Making savings in operational PFI contracts*.

8.8 The Operational PFI Savings Programme team, part of the Infrastructure UK team in the Treasury, co-ordinates project specific activities and ongoing cross government initiatives, with project level saving reviews being delivered by the local contract management teams across the country.

8.9 The programme will support departments and contracting authorities by developing processes and frameworks for contract reviews that can be implemented to identify and realise savings in a cost-effective manner. It will seek to build stakeholder commitment to the savings process through engagement with both the public and private sectors, including developing and securing the adoption of a Voluntary Code of Conduct. As reviews progress, the programme will provide support and, if necessary, intervention to maximise the benefit of the savings activities undertaken by departments and contracting authorities, making use of the expertise in central government.

8.10 Lessons learnt from improving the efficiency of operational PFI contracts will be fed into the ongoing development of new delivery models for future public sector infrastructure investment.

8.11 The Government announced its intention to undertake a fundamental reassessment of the PFI model and has been engaged in a call for evidence to bring forward proposals for a new approach. The value for money guidance will be updated to reflect the conclusions from this process. Revised guidance will be published following consultation with Departments and the NAO. Privately financed projects are also subject to Treasury's revised assurance and approval arrangements, which were introduced in April 2011 to strengthen the scrutiny given in the approval process of all projects[1].

[1] Major Project approval and assurance guidance, published April 2011:
http://www.hm-treasury.gov.uk/d/major_projects_approvals_assurance_guidance.PDF

8.12 The Treasury continues to collect summary data on UK PFI projects annually and this information is published on the Treasury website. The Infrastructure Cost Review Annual Report 2011-12 sets out the action being taken by the Infrastructure Data Group to bring together industry, academia, clients and the Government to consider ways to address the challenges of capturing and using data for the efficient delivery of economic infrastructure projects[2]. The Government has also improved the transparency of wider performance data for infrastructure systems and networks, as published in the National Infrastructure Plan 2011.

[2] Infrastructure Cost Review: Annual report 2011-12, published April 2012: http://www.hm-treasury.gov.uk/d/iuk_cost_review_report2012_230412.pdf

Fifteenth Report

Department for Education (DFE)

Educating the next generation of scientists

Summary of the Committee's findings

A strong supply of people with science, technology, engineering and maths skills is important for the UK to compete internationally. The starting point is a good education for children and young people in science and maths. The Department for Education (the Department) has made impressive progress on aspects of science and maths secondary education. The numbers studying separate GCSE biology, chemistry and physics (known as 'Triple Science' when studied together) have risen by almost 150% between 2004-05 and 2009-10. There has been a rapid increase in the number of pupils taking A-level chemistry and maths, though physics has increased more slowly. Attainment has also improved as take-up has increased. Nevertheless, there is a risk that this progress will not be maintained.

As more autonomy is given to schools, the Department must develop an accountability framework that gives schools strong incentives to put all key elements in place for the benefit of their pupils. While schools will have the main responsibility for tracking their own progress, the Committee sees a continuing role for the Department in collecting sufficient information to know that the strategy is working, and to identify clearly where it is not. This will generally be the same information that schools are collecting to monitor and report their performance locally, so the question of extra bureaucracy should not arise. Once underperformance is identified, the Government will need to determine how action can be taken to tackle it, so that no pupil is denied a science and maths education that matches their abilities and ambitions.

In reaching its findings, the Committee took evidence from the Department on 23 November 2010. The Committee issued its report on 20 January 2011 and the Treasury Minute – the Government's formal response - was published on 24 March 2011.

PAC RECOMMENDATION 1

Reflecting the White Paper's emphasis on narrowing attainment gaps between pupils from different parts of society, the Department should repeat the National Audit Office's analysis on 2010 data to establish whether pupils in disadvantaged communities still have less access to Triple Science.

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

1.2 It is true that a smaller proportion of pupils who are eligible for free school meals enter Triple Science and fewer pupils in areas with higher deprivation are entered for Triple Science. Similarly schools with higher levels of free school meals pupils are less likely to have pupils entering Triple Science. Schools in local authorities with high proportions of pupils eligible for free school meals are less likely to offer Triple Science. However the proportion of schools with pupils entering Triple Science has increased markedly from 2009 to 2010 in the majority of local authorities, including those with high proportions of pupils eligible for free school meals. Indeed, Tower Hamlets is the most deprived local authority in England, and yet every maintained mainstream school in this authority offered Triple Science in 2010.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 Between 2010 and 2011 there was another large increase in the number of pupils entering triple science, and the number of free school meals pupils entering increased by almost 30%. The proportion of maintained schools offering Triple Science also increased by a sizeable amount, which means that a greater number of schools with high deprivation are now offering Triple Science.

PAC RECOMMENDATION 2

The Department should evaluate the various means by which it seeks to recruit such teachers, and focus its resources on those which are proving most effective.

2.1 The Government agreed with the Committee's recommendation.

2.2 The November 2010 Schools White Paper[3] announced the Government's intention to reform the way in which new and existing teachers are trained and developed. The White Paper sets out a number of steps the Department would be taking to meet its policy aims. That includes ensuring that teaching is sufficiently attractive to the country's most able young people by developing and extending routes into teaching which have proved to be attractive to this group. The Department is currently evaluating all the routes into teaching and in the light of the reforms to higher education and to student finance announced following the Browne Review, will publish for consultation shortly detailed proposals for the funding of initial teacher training from academic year 2012-13.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 On 8 November 2011, the Department published its implementation plan setting out the plans for training the next generation of outstanding and high quality teachers. The plan reaffirmed the commitment to recruit the very best graduates into teaching, securing better value from public expenditure on initial teacher training, and reforming training, so that more is led by schools, and there is a focus on the most important elements of being a teacher. It confirms a number of proposals including that the Department will use financial incentives (bursaries of up to £20,000) to attract the best graduates in the subjects where they are most needed, including physics and chemistry.

PAC RECOMMENDATION 3

As part of its plans for schools to publish details of their teachers' qualifications, it should develop an indicator for schools to report the proportion of their science and maths teachers with specialist knowledge relevant to the subject they teach.

3.1 The Government agreed with the Committee's recommendation.

3.2 Information on the level and subject of all teachers' post A-level qualifications and for secondary school teachers the curriculum subject they teach forms part of the new annual School Workforce Census. From April 2011, information from the new School Workforce Census was to be published on the qualifications and deployment of secondary school teachers as part of the School Workforce statistical first release. The data from the census would enable the Department to provide annual analysis on the subject specialisms of the current teaching workforce, including the proportion of science and mathematics teachers with specialist knowledge relevant to the subject they taught. Additionally, the Department will monitor progress and ensure resources and initiatives are targeted appropriately.

Current Status

3.3 Implemented.

[3] *The Importance of Teaching,* Cm 7980, November 2010

Action taken to implement recommendation

3.4 In April 2011, the Department published a statistical first release: *School Workforce in England: November 2010*[4], (SFR06/2011). This contains the headline national results collected by the School Workforce Census on school teachers and other staff. Table 13 contains information on the qualifications held by secondary school teachers in the subject they teach.

3.5 On 25 April 2012, the Department published the *School Workforce in England: November 2012* [5] (SF 06/2012). Table 13 is not yet ready to be published, but is expected to be added in summer 2012.

PAC RECOMMENDATION 4

The Department should work with Ofsted and others who have looked into the problem, such as the Royal Society of Chemistry, to understand the scale of the challenge faced. It should ensure that all available relevant information is used in its current review of capital spending, so that the review includes a full assessment of the urgency of this requirement alongside other demands on the capital budget.

4.1 The Government agreed with the Committee's recommendation.

4.2 It had made clear that building condition needed to be a priority in determining how Government capital is allocated for building, rebuilding and refurbishing school buildings. That prioritisation will depend on improvement in the information on school buildings and in the management of all relevant information. Improvement of information systems needed to take account of the central cost of information management and the bureaucratic burden on school and local authority staff. The balance between improvement and cost of improvement will be one of the decisions taken following the conclusion of the capital review; the review was expected to report in the spring 2011 and the implications would be considered.

Target implementation date

4.3 October 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The independent review of education capital, led by Sebastian James (Group Operations Director for Dixons) published its findings and recommendations in April 2011. One of the review's conclusions was that maintenance is critical to controlling the lifetime cost of schools, that the quality of maintenance across the estate is extremely variable and that this is exacerbated by the fact that no good quality data is collected on the condition of the estate. The review recommended that capital allocations should be determined using objective information on need for pupil places and on the condition of the local estate.

4.6 The report suggested that central government needs to have a proper understanding of the condition of the estate in different parts of the country in order to allocate resources effectively, but acknowledges that it can never have enough information to choose sensibly between competing priorities for capital at a local level. It also concluded that targeted funding according to micro-policy goals is not a sensible way to distribute money. It does not allow schools and Local Authorities to focus on key priorities, nor does it allow for the distribution of money in an efficient and equitable way.

4.7 In July 2011, the Department announced its intention to move forward on the national collection of data on the condition of the whole education estate. Work is underway to develop a high level, centrally managed and funded survey programme. Contracts have been awarded for the

[4] http://www.education.gov.uk/researchandstatistics/statistics/allstatistics/a00196713/school-workforce-sfr.
[5] http://www.education.gov.uk/rsgateway/DB/SFR/s001062/index.shtml.

establishment of an asset management software system to hold and analyse the data; for surveyors to validate existing local authority condition data; and to undertake surveys on the condition of schools. The survey visits will take account of the school's views on condition needs as part of this. The scope will not however cover suitability. The data on the entire maintained estate will be available by October 2013 and will enable the Department to target capital funding to where it is most needed.

4.8 Inspections by the Office for Standards in Education, Children's Services and Skills (Ofsted) under Section 5 of the Education Act 2005 rarely report on school accommodation in subject-specific terms. Science inspections do not formally comment on accommodation unless it features as one explanation for student outcomes. Ofsted has found a number of concerns relating to science laboratories, including an insufficient number of laboratories, preventing teachers from routinely delivering practical work; and insufficient services in laboratories, which limits the time individual pupils have to carry out experiments. Ofsted has not found any evidence of dangerous laboratory equipment or resources.

4.9 The Royal Society of Chemistry (RSC) and SCORE (Science Community Representing Education) have just commissioned Pye Tait Consulting to undertake a major research project into access to practical work which will include visits to a representative sample (10%) of schools in England. RSC and SCORE expect to publish their report *Resourcing School Science* early in 2013.

PAC RECOMMENDATION 5

In deciding which centrally funded programmes to continue, the Department should ensure it has properly evaluated all major programmes to identify which are most effective, and which combination of programmes provides a coherent package of support for schools. It should maintain sufficient information to target these programmes at those areas and schools which need the most help.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department had evaluated major programmes that had been running for some time, funded as part of the Science, Technology, Engineering and Mathematics (STEM) Programme up to March 2011. However, some centrally funded programmes had not been running long enough to have proved their effectiveness but there are usually early indications. Although individual projects could be evaluated against their key performance indicators, it could be difficult to isolate single factors responsible for increasing take-up and achievement. Future support for science and mathematics would reflect the Government's priorities and reflect available evaluation evidence.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 A number of external evaluations have recently been completed and will help determine the future direction of policy. An evaluation of the effectiveness of the regional science learning centres was conducted in early 2012 and will be one of the major inputs to a joint Departmental and Wellcome Trust quinquennial review. The evaluation report was able to show a crucial link between teachers attending courses and improved school performance. The independently chaired panel will make recommendations to Ministers and the Wellcome Trust Board in summer 2012.

5.5 Additionally, evaluations of smaller programmes, such as the CREST Awards expansion project, led by the British Science Association (BSA) included looking at why some schools had declined the opportunity to join the CREST scheme (which gives young people recognition for science project work), and why communications with 'hard to reach' schools had been unsuccessful. The BSA has shared this information with other STEM organisations.

PAC RECOMMENDATION 6

The Department should take account of the lessons from its Career Awareness Timeline Pilot in developing those career awareness programmes that are currently delivered nationally, and encourage schools to involve science and maths teachers in providing careers advice.

6.1 The Government agreed with the Committee's recommendation.

6.2 The STEM careers awareness timeline pilot led by the University of Warwick, together with careers awareness work led by Sheffield Hallam University, has produced some useful practical planning and audit tools for schools. These provide prompts which help to make careers work more effective, for example by providing careers information to young people at the most appropriate times and developing better links with local employers to showcase the range of STEM careers opportunities. The Centre for Science Education at Sheffield Hallam University, in association with Babcock Power, developed a wide range of curriculum resources, and careers workforce resources, and has provided continuing professional development over the life of the project under the theme of 'enthusing students, equipping professionals, supporting employers'.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 John Hayes MP, Minister of State for Further Education, Skills and Lifelong Learning, launched the National Careers Service on 5 April 2012. This offers information and advice about education, training and work options to young people through a website and helpline service. Central to this is information for young people about which employment sectors are expected to expand and where in the country opportunities exist; what skills and qualifications they need; and how to achieve those qualifications. Beyond that, there is an emerging commercial market in products and services that help young people make career choices. An example is '*Growing Ambitions*' which provides free information for teachers and careers professionals to help channel the aspirations of young people. The site already contains over 3,500 resources from some 140 organisations which can be downloaded and used.

6.5 Schools will be placed under a new duty to secure access to independent careers guidance for their pupils from September 2012. While young people will continue to look to their science and mathematics teachers for inspiration about STEM careers, the Government also wants every young person to have access to careers guidance from external sources, including career advisers. The Careers Profession Alliance is taking forward work to develop initial training and continuing professional development resources for careers advisers. This includes the development of an online module to support the training of careers professionals in the area of STEM.

6.6 An Ofsted thematic review of careers guidance, reporting in summer 2013, will look at how schools are responding to their new responsibilities. This will identify good practice and establish a baseline for future improvements in the quality of provision. The Department will ask Ofsted to look at examples of STEM careers provision as part of this review.

PAC RECOMMENDATION 7

While relying on local delivery and local scrutiny, the Department must still obtain the information it needs to monitor progress nationally. It should continue to collect, analyse and publish appropriate information to track take-up and achievement in science and maths. Where pupils do not have access to a good science and maths education, the Department should clearly set out a process for intervention which requires schools to address this disadvantage to their pupils.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Department would continue to collect, analyse and publish appropriate information to track take-up and achievement in science and mathematics. Where lack of progression or poor attainment in core subjects suggested that improvements were needed, the Department would work with local authorities to diagnose the support that is needed to bring about rapid improvements which might include calling in expertise from a local outstanding school or other external intervention. The Department was refocusing school inspection by Ofsted on core areas relating to teaching and standards of attainment. This would mean more time spent in the classroom, observing lessons, pupils' work and the progress that they are making.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 Ofsted launched its new inspection framework in January 2012, focusing on teaching, achievement, leadership and behaviour and safety. Inspectors are now spending more time in classrooms, observing lessons, examining work, reviewing assessment and marking procedures, and evaluating the progress that pupils are making. Ofsted continues to take a more detailed look at science and maths through its triennial subject surveys.

7.5 In October 2011, the Department let a new contract to Myscience.co Limited (who already run the network of science learning centres) to deliver the Triple Science Support Programme up to March 2014 in succession to the Learning and Skills Network. The new contract focuses on supporting all state funded schools to be able to offer triple science and encouraging more young people to study three separate sciences.

7.6 To encourage more STEM graduates into the profession, in November 2011 the Government launched its initial teacher training (ITT) strategy, *Training our next generation of outstanding teachers – Implementation plan,* to recruit and train more high-performing graduates as teachers of mathematics, chemistry and physics. The Plan sets out the Government's ITT funding aim, which focuses on attracting the best graduates as specialist teachers. In the academic year 2012-13, bursaries of up to £20,000 will be available for mainstream postgraduate mathematics, chemistry and physics teachers, the amount determined by the degree classification. In addition, trainees on the Institute of Physics' pilot ITT course in physics with mathematics will also be eligible for bursaries up to £20,000. This course is expected to attract high-performing physics and engineering graduates with a strong interest in mathematics and physics.

7.7 The Department also continues to fund the regional network of science learning centres which deliver continuing professional development to science teachers and technicians. Together with the Wellcome Trust, the Department is jointly reviewing funding for the science learning centres in advance of the current joint funding agreement ending in March 2013. The Government announced in the Autumn Statement £10 million of funding over five years from 2013-14 for Project Enthuse, matched by funding from the Wellcome Trust, to provide bursaries for teachers and technicians attending courses at the National Science Learning Centre.

PAC RECOMMENDATION 8

The Department should set out the information it expects schools to publish, and provide guidance on what good performance looks like.

8.1 The Government agreed with the Committee's recommendation.

8.2 The November 2010 Schools White Paper outlined the Government's commitment to free schools from centralised bureaucracy and government interference, in return for greater accountability to parents and local communities. The programme of reform included proposals to publish and share comprehensive information about the school and their performance to make it easier for parents, governors and the public to judge how well it was serving its pupils. This work would also include the simplification and modernisation of the current statutory requirements which outlined the information which schools must make available for parents. The Department was consulting stakeholders on removing the requirement on schools to publish a prospectus annually and introduce a new requirement for schools to publish minimum specified information online.

8.3 Reformed performance tables will continue to play an important role in the accountability system. They will be sharper and more focused on the essentials of a sound education - the new English Baccalaureate demonstrating breadth across key academic subjects (English, mathematics, science, a foreign language and history or geography), and attainment in the basics of English, mathematics and two sciences. In addition, the Department is committed to making all the data it holds on schools available to the public in an easily accessible format. For example school expenditure data were recently published alongside the performance tables. The Department aims to develop a website which will allow parents easy access to a wealth of data on schools through which comparisons can be made against criteria important to the local community.

Current Status

8.4 Implemented.

Action taken to implement recommendation

8.5 The Government has completed a review of The School Information (England) Regulations 2008 (SI 2008/3093), which have been amended by The School Information (England) (Amendment) Regulations 2012 (SI 2012/1124). From September 2012, maintained schools are no longer required to produce an annual prospectus or have a curriculum policy, to avoid duplication of effort and unnecessary cost. Instead, maintained schools are required to publish specified information online, so that parents have the information they need to make informed decisions about their child's education. This includes: the use and impact on attainment of the Pupil Premium paid to schools for each free school meals pupil; the curriculum, by academic year and by subject; the school's policy in relation to behaviour; the special education needs and disability provision; and admission arrangements.

8.6 On performance, the school website will be required to have links to the Ofsted website and its latest report on the school. Drawing on the School Performance Tables on the Department's website, the school website is also required to detail the most recent Key Stage 2 and 4 results indicating the percentage of pupils who achieved specific performance measures and the percentage of pupils who are making the expected progress.

8.7 New funding agreements will ensure academies and free schools publish the same information as maintained schools, including their Pupil Premium allocation, spend and impact on attainment.

Sixteenth Report

Ministry of Justice (MOJ)

MOJ: Financial Management Report

Summary of the Committee's findings

Strong and effective financial management and control are crucial to any organisation and especially so for the Ministry of Justice (the Department), which delivers its services through a wide range of arm's length bodies and agencies, including the courts, prisons and probation services. The Department's 2010 Spending Review settlement is tough, requiring a 23% reduction to its resource budget over the next four years.

The Department has a range of financial management processes in place but lacks a consistent approach across its business, and to date it has not integrated financial management into its policy and operational workings. Until recently, it was failing to place a sufficiently strong focus on financial management. So, for instance, it was the only major government department to deliver its 2009-10 accounts late. The Committee welcomes the assurances given to it by the Department's Accounting Officer that he and his team are now giving financial management the attention and priority it deserves. The Committee looks forward to seeing the evidence that these improvements really have delivered, and that is why the Committee has decided to call the Accounting Officer to give evidence again in a year's time.

In reaching its findings, the Committee took evidence from the Department on 20 November 2010. The Committee issued its report on 25 January 2011 and the Treasury Minute – the Government's formal response - was published on 24 March 2011.

Since the publication of the 16th Report, the Committee took evidence from the Department and HM Courts and Tribunals Service on 16 January 2012. The Committee issued a further report (75th report on the Department's Financial Management) on 20 March 2012 and the Treasury Minute – the Government's formal response – will be published on 16 July 2012. A number of the recommendations made in the 16th Report are superseded by those made in the 75th Report.

PAC RECOMMENDATION 1

The Ministry of Justice (the Department) has much to do to embed strong financial management as standard across its business but the Committee welcome the steps the Department has started to take in order to improve. The Department should produce a report on progress to this Committee by September 2011 and the NAO will then validate the Department's assessment. The Committee will then take further evidence on its financial management at a hearing in November 2011.

1.1 The Government agreed with the Committee's conclusion and recommendation.

1.2 The Ministry of Justice (the Department) is the first Whitehall Department to use self-assessment against the NAO's model to judge progress, an indication of the seriousness with which the Department takes financial management of its resources. The journey of improvement that began soon after the Department was formed, albeit from a low base, culminated in a self-assessment prior to the Committee's hearing that the Department had established financial management practices that were adequate in supporting the business under stable circumstances and was progressing towards those that would enable it to cope effectively in more challenging times. The NAO have subsequently been able to provide some assurance of the Department's self-assessment process.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 In September 2011, the Department provided a report to the Committee on the range of improvements in the Department's financial management. The Department concluded that it has an improving and increasingly embedded culture of financial awareness and focus on financial issues. This included:

- introducing robust and transparent governance structures;
- more accurate and timely management information to support decision making;
- granular understanding of the costs of services the Department provides;
- introducing an integrated planning and modelling framework;
- more accurate forecasting of volumes of services required; and
- improved modelling of the impacts of policy proposals, including responding quickly and effectively to requirements for information and cost implications.

1.5 The Department regularly assesses itself against the NAO's Financial Management Maturity Model. The NAO has provided some assurance of the Department's self-assessment process indicating that the Department's systems and processes now implemented will enable achievement to level four maturity on the NAO model

PAC RECOMMENDATION 2

The Department needs to be clearer in its funding arrangements with these bodies about what its expectation of them is, setting out, for example, clear rules of engagement and management information requirements. It should also tailor the depth and frequency of its oversight arrangements to reflect the real risks different bodies pose.

2.1 The Government agreed with the Committee's conclusion in relation to the Legal Services Commission (LSC) but not with its conclusions in relation to the controls over its other arm's length bodies (ALBs). The Government therefore partially agreed with the recommendation.

2.2 The relationship between the Department and its ALBs is governed by framework documents that are wholly in line with Cabinet Office guidance and supported by regular accountability meetings. The Department plans to go beyond these standards and has completed a fundamental review of all of its ALBs, enabling progress on plans to both reduce the number and strengthen the accountability and governance of the remaining bodies.

Current status

2.3 Implemented.

Action taken to implement recommendation

2.4 The relationship between the Department and its ALBs is governed by framework documents that are in line with Cabinet Office and Treasury guidance, which is further supported by regular accountability meetings. The Department has revised and strengthened its standard framework document, which has been approved by the Treasury.

2.5 Following a review of existing framework documents, the Department identified six – the Criminal Cases Review Commission, the Criminal Injuries Compensation Authority, the Official Solicitor, the Public Trustee, the Parole Board and the Youth Justice Board - that required strengthening. Work to agree and implement the new framework documents is nearing completion and the documents should be signed off between the Department and the individual ALBs in early summer.

2.6 A revised framework document was put in place for the Legal Services Commission (LSC) in October 2010. Work is currently underway to ensure that a new framework document is in place and agreed in time for the creation of the Legal Aid Agency.

2.7 The Department maintains close oversight of LSC activities, risks and finances through a combination of dedicated meetings and incorporation of LSC information into the Department's normal governance structures. LSC operational performance, risk and progress on implementing its portfolio of change programmes is scrutinised monthly by the LSC Oversight Board, chaired by the Department's Director General of Justice Policy Group and attended by the Department's Director General of Finance and Corporate Services, the LSC's Chief Executive and other senior officials.

2.8 The LSC's Chief Executive is also a member of the Executive Management Committee and is an attendee at the MoJ Departmental Board, providing regular exposure of relevant LSC operational and financial performance. The LSC's Director of Finance is a member of the Ministry's Financial Management Committee. The Ministry also receives a regular flow of information from the LSC including monthly management accounts

2.9 From April 2011, the Department's ALB Governance Division has been responsible for driving up sponsorship standards across the Department, ensuring ALBs are supported by consistent governance arrangements, with clear lines of accountability The level of scrutiny is proportionate and determined by a formal, consistent, documented risk assessment, with the Department's Principal Accounting Officer sighted on the sponsorship arrangements. The Department has recently updated the risk profiles on its ALBs. ALBs will be expected to move onto the Department's shared service as contracts allow. Interim arrangements have been put in place to import data into the Department's finance systems for reporting purposes.

PAC RECOMMENDATION 3

The Committee looks to the Department to bring forward the work it is doing to understand the cost base in the National Offender Management Service (NOMS) and HM Courts Service (HMCS). The Committee expects the Department to be explicit about how it will use this information to drive value for money, and the Committee wants to hear how the Department will develop proposals for similar analyses across the rest of its business.

3.1 The Government agrees that the Department must be explicit about how it will use this information to drive value for money and agrees that the Department must develop proposals for similar analyses across the rest of its business. However, the Government disagrees with the Committee's conclusion and that part of the recommendation to bring forward the National Offender Management Service (NOMS) and Courts costing work.

3.2 The work to specify, benchmark and cost around seventy services delivered in prisons and probation and to develop activity based costing for the Crown Court and the Magistrates' Courts is a major undertaking, complicated by the nature of the activities covered - where staff such as prison officers spend their time undertaking multiple tasks. The results of this work are implemented as they are agreed and provide the basis for new ways to drive efficiency and inform budget processes. It is essential that the work is robust and sustainable. This Programme is already being managed as a priority by both NOMS and the Department and is being delivered as quickly as possible within the constraints of the Department's budget and competing priorities.

Current Status

3.3 Implemented.

Action taken to implement the recommendation

3.4 In January 2011, the Department established a Costing Committee to agree the corporate requirements for unit cost data. The Committee also oversaw a programme of work on the development of systems and processes to routinely capture and utilise this data across the Department. Specifications and costings for all prison and probation services was completed by December 2011, when the Specification, Benchmarking and Costing (SBC) programme was set up.

3.5 The 'big ticket' services (for example: residential services in prisons and unpaid work in probation) had already been prioritised in support of the Spending Review savings. This standard set of services provides a comparable basis for costing of actual delivery. The SBC work has identified what the direct cost of the inputs like staff should be when the service is delivered efficiently.

3.6 The INview public prisons costing system will collect 'does cost' information for all the specified services, as well as other non-specified activities including management and other local overheads. INview will enable comparison of staffing and resource use between prisons, against profiled requirements and in relation to the SBC operating models. Other views of the data will show how budgets are spent across the services and enable benchmarking and comparison of costs.

3.7 A proof of concept system trial was completed during 2011, and has now moved into full implementation which will include a number of actions to improve data quality. INview will provide data at service level internally during 2012-13, with ongoing development to make the data sufficiently robust for future publication. In the mean time, prisons have been able to use the 'should cost' models to support local benchmarking and help them achieve the operational efficiencies required for 2011-12 and the SR period.

3.8 The PREview probation costing system was introduced in 2010 to probation trusts to collect expenditure on each specified service. For each of the 35 Trusts, PREview produces total and unit 'does costs' for the specified services with the unit 'should costs' for SBC specifications, provided for comparison. PREview also produces the 'does cost' of 13 non-specified services such as spending on strategic partnerships and Youth Offending Teams (YOTs), and local spending on support services such as finance and IT. Trusts are starting to use this information to compare the resources they use to deliver their activities.

3.9 Activity based costing information is already being used by HM Court Service (HMCS) as a basis for budget setting. The existing models were further refined during 2011-12 to inform the allocations process for the now merged HM Courts and Tribunals Service (HMCTS). The same information is used for benchmarking regions on specific areas of cost category, to identify efficiencies and good practice.

3.10 Since January 2009, HMCS has made significant headway using 'Lean' techniques. The successor HMCTS has completed staff resource requirements for key categories of work and associated costs for Magistrates' Courts and the office administration in the Crown Court. The remaining scheduled activity based costing work, (Crown Court in-court staff) was completed in 2011. Work to develop a model based on workload and cost drivers for the County Courts was completed in March 2012. The HMCTS Costing Committee meets monthly and was established to support the delivery of the Financial Improvement Strategy by ensuring work progresses on the "does cost" and' 'should cost' models.

PAC RECOMMENDATIONS 4 to 6 and 8 to 9

4. The Committee looks to the Department to produce a robust business planning process and to integrate its operational modelling with the full cost information systems it is developing.

5. The Department must produce its accounts on time in future.

6. The Committee looks to the Department to set fees so as to ultimately reach 100% cost recovery in a fair and equitable manner.

8. Concerted efforts to improve collection rates are needed urgently and the Committee looks to the Department to take the lead, through closer working between its Accounting Officer and the Heads of its criminal justice partners.

9. The Commission should categorise and analyse the causes of error, and then target its resources and initiatives to reduce the level, so that its accounts are no longer qualified. The Ministry's September 2011 progress report to this Committee should include an update on the performance of the Commission.

4.1 The Government noted the Committee's recommendations.

Current Status

4.2 The five recommendations to this report have been superseded by the Committee's 75th report published in March 2012. The Treasury Minute – the Government's formal response – to this report will be published on 16 July 2012, which will update these recommendations.

PAC RECOMMENDATION 7

The Committee looks to the Department to introduce the promised improvements to performance measurement by September 2011.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Department deployed a new set of management information reports by April 2011 to enable internal management reporting on Financial Penalty performance. The Department ran these reports in parallel with existing reports for a year to provide greater assurance enabling the current payment rate indicator to be replaced in April 2012. These reports have improved the quality of management information on both financial penalties and confiscation orders. This has allowed the Department to make a more accurate assessment of recoverability.

Current Status

7.3 Implemented

Action taken to implement recommendation

7.4 HMCTS introduced new performance indicators to monitor financial impositions. These indicators were developed following recommendations made in the 2006 PAC report into fine enforcement. The new indicators show how long it takes for impositions to be collected; how much of the impositions made within a period are collected within the month of imposition or within subsequent months; how many accounts are closed in a specified period; how many are compliant with payment terms; and how many are in arrears. Data on these reports was made available from April 2011. HMCTS is currently assessing the first year's data to consider the business drivers which impact on this data and whether any changes to current processes are needed to improve the collection of financial impositions further.

Seventeenth Report

Department for Education (DFE)

Academies Programme

Summary of the Committee's findings

Academies are state schools which are independent of local authorities and directly accountable to the Department for Education. They were originally intended to raise educational standards and aspirations in deprived areas, often replacing schools with long histories of under-performance. From May 2010 the Programme was opened up to all schools, creating two types of academy: 'sponsored' academies, usually established to raise educational standards at under performing schools in deprived areas; and 'converters' created from other types of school, with outstanding schools permitted to convert first. By 5 January 2011, there were 407 academies: 271 sponsored and 136 converters.

From 1 April 2010, most of the functions for funding and monitoring of academies transferred from the Department to the Young People's Learning Agency. The Department and the Agency were planning to overhaul academies' governance and accountability, with an emphasis on light-touch regulation. However, light-touch central regulation could only meet the standards for managing public money if it is accompanied by robust controls at academy level to ensure good governance and clear accountability. The Committee was also concerned that some existing sponsors had failed to fulfil the financial contributions they originally pledged to their academies. The status of some of these debts was unclear and, especially as sponsors of new academies were no longer required to make a financial contribution, there was a risk they will never be paid.

In reaching its findings, the Committee took evidence from the Department, the Agency and two major academy sponsors on 27 October 2010. The Committee issued its report on 27 January 2011 and the Treasury Minute – the Government's formal response - was published on 24 March 2011.

PAC RECOMMENDATION 1

The Committee's main concern for the future is that Academies' educational achievements should not be undermined by poor stewardship of the public funds necessary to sustain the impacts of the Programme.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Department welcomed the Committee's conclusion on value for money and the recognition of the progress that the Academies Programme had made. The Department was determined to ensure that the rapid improvement in educational achievements continued in sponsored academies. This success was in large part due to the high quality of leadership and governance of academies and the independence they enjoyed from local and central government. That was why the programme had been expanded. The addition of schools that were already judged good and outstanding could only serve to strengthen further the quality of leadership and governance across the academy sector. The Government saw no reason why this should lead to a diminution in the stewardship of public funds.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Department has continued to review its regulation and monitoring of academies to ensure that public funds are used efficiently and effectively, and that educational standards at sponsored academies are maintained. In the 166 sponsored academies with results in 2010 and 2011, the percentage of pupils achieving five or more GCSEs at A*-C including English and Mathematics increased by 5.3 percentage points compared to a 2.6 percentage point increase for all maintained schools.

1.5 The establishment of the Education Funding Agency (EFA), on 2 April 2012, will allow the Department to focus more clearly on the financial monitoring and regulation of academies.

PAC RECOMMENDATION 2

As it expands the Programme, the Department should work with others to help develop future school leaders. Demonstrating effective leadership should be a requirement of all established and converter Academies.

2.1 The Government agreed with the Committee's recommendation.

2.2 The quality of school leadership is a key determinant of pupils' success. As the Government made the school system more autonomous, by expanding the Academies Programme and by providing all schools with greater freedom from government control, taking up a leadership role would become more attractive and more important.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department is encouraging all academies to share the benefits of their leadership and experience with other schools. All schools that are performing well applying for academy status are expected to partner a weaker school. Any school, regardless of performance, can apply to join an existing Academy Trust. Any group of schools can apply to convert in a formal partnership as long as at least one school in the partnership is performing well. By April 2012, 440 converter academies were part of 162 academy chains.

2.5 Teaching schools have, as part of their role, the identification and development of leadership talent in their own schools and the schools working with them. There are currently 218 teaching schools. The intention is to have a network of 500 teaching schools by 2014-15. The Department is also expanding some targeted third sector sponsored programmes, typified by Future Leaders and Teaching Leaders.

2.6 In order to provide additional leadership capacity for struggling schools, the Department has designated some of the country's most successful head teachers as National or Local Leaders of Education. It is increasing the number of National Leaders of Education to 1,000 by 2015 (currently 650) and maintaining the numbers of Local Leaders of Education at the current level of 2,000.

2.7 A new designation of Specialist Leaders of Education was introduced in 2011 to identify talented senior and middle leaders who can lead the development in their areas of expertise by working with their peers. 1,000 have been designated already and the aim is to have 5,000 by 2014-15.

PAC RECOMMENDATION 3

The Department should encourage sponsors working with Academies in deprived areas to expand into primary schools, for example by taking on responsibility for primary schools located in the same neighbourhood, so that issues of literacy and numeracy are addressed at an earlier stage. The Department should consider allowing more Academies to develop into the primary school sector.

3.1 The Government agreed with the Committee's recommendation.

3.2 Sponsors working with academies in deprived areas would continue to be encouraged to expand into primary schools. Where primary schools are failing or seriously underperforming, be they in deprived or other areas, it is vital that in the interests of children's education there was rapid intervention to address the problem quickly.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 In June 2011, the Secretary of State for Education announced that as an urgent priority, the Department would start work on turning around 200 of the worst performing primary schools by finding new academy sponsors for them. The Department expects that most of the schools targeted will reopen as academies in September 2012.

3.5 As at 23 April 2012, Academy Orders (which are issued by the Secretary of State under Section 4 of the Academies Act 2010 and enable a maintained school to be converted into an academy) had been signed for 171 under performing primary schools and 27 sponsored primary academies have already opened. In addition, 30 open sponsored academies offer primary provision as well as secondary provision, and many secondary academies also currently work with feeder primary schools both to enhance the educational provision and to ease the transition across phases.

3.6 From September 2011, any primary school that is doing well – based on the judgement of the Office of Standards in Education, Children's Services and Skills (Ofsted) and exam or test results – can apply to convert as a stand-alone academy. Regardless of performance, any primary school can also apply to join an existing Academy Trust or to convert as part of a group of schools in a formal partnership as long as at least one school in the partnership is performing well. By 1 April 2012, 442 primary schools had converted to academy status.

PAC RECOMMENDATION 4

In developing a new financial handbook and governance framework, the Agency should make it compulsory for all Academies – sponsored and converter – to comply with basic standards of governance and financial management. This should include segregation of key roles and responsibilities, and timely submission of annual accounts.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Young People's Learning Agency (YPLA) had been asked to undertake a review of its financial relationships with academies. Stewardship of public funds is a fundamental part of the review. The review was being conducted with a working party of academy finance directors, principals and sponsors. The National Audit Office (NAO) had already been involved in the review and would continue to be so. Most outcomes of the review would be in place for the 2011-12 academic year underpinned by a new academies' financial handbook.

Target implementation date

4.3 Target date: September 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 On 2 April 2012, the Department established the Education Funding Agency (EFA) to take over the financial monitoring and regulatory role for academies that was previously carried out by the Young People's Learning Agency.

4.6 The EFA has established an accountability framework that allows academies to take responsibility for ensuring their own effective financial management. The financial handbook is being redrafted with a shorter principles-based focus, and it is expected that it will come into effect from 1 September 2012. The new financial handbook will contain updated guidance on the role of the Responsible Officer and Director of Finance, or equivalent, as well as setting out the importance of securing and demonstrating economy, efficiency and effectiveness in the use of public funds, as the three key dimensions of value for money.

4.7 The EFA has also produced a self-assessment tool to enable academies to evaluate their financial management and governance arrangements against the requirements. The EFA visits a small sample of academies who complete the return annually to validate their self-assessments. They also visit those identified as high risk, and those who do not complete the self assessment.

4.8 The percentage of academies submitting audited accounts on time has increased for 2010-11, even though the overall number submitting has tripled. The EFA works closely with academies whose returns are late to ensure that their returns are made as soon as possible. The number of financial returns required of academies has been halved, and academies now only submit an annual budget, audited accounts and a financial management and governance assessment.

PAC RECOMMENDATION 5

The Department needs to develop sufficient capacity and adequate arrangements to provide robust accountability and oversight of Academies' use of public funds.

5.1 The Government agreed with the Committee's recommendation.

5.2 Academies are independent and are bound as public bodies to observe their charitable trust deed and the general expectations on them to manage their finances and govern themselves well. YPLA on behalf of the Department could help clarify what academies need to do to comply with their funding agreements. YPLA issued on 11 February 2010 a self assessment for financial management and governance to allow academies to be clear what they must do to ensure proper stewardship of public money and value for money. This self assessment was due to be returned for YPLA validation by 11 March 2010. YPLA would also consider what formal annual assurance on proper and regular use of public funds should be required of academies' external auditors.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 Academies are a priority for the Department and its academies' functions have been staffed accordingly. The establishment of the EFA will allow the Department to focus more clearly on its financial monitoring and regulatory functions.

5.5 On 1 November 2011 the former YPLA issued an updated self-assessment for financial management and governance to allow academies to be clear what they must do to ensure proper stewardship of public money and value for money. Because of the large number of academies now open this self-assessment had staggered return dates from 31 December 2011 onwards. New academies are asked to complete the return within four months of opening.

5.6 The EFA reviews academies' self-assessments to obtain assurance that standards of financial management and governance are being maintained. Small samples of academies are visited to validate their self-assessments, including those identified as high risk and those that do not complete the self-assessment. All academies are expected to draw up an action plan to deal with any weaknesses. The EFA also reviews academies' budgets and accounts to demonstrate that good financial health is being maintained. Academies in financial failure are required to prepare and submit a recovery plan with agreed timescales. Progress against these plans is closely monitored through the submission of regular management accounts and cash-flow forecasts.

5.7 Academies' finance data will be published by the Department in 2012 alongside maintained schools' data and headline attainment indicators. This is in line with the Government's commitment to improving data transparency for all bodies receiving public funding.

PAC RECOMMENDATION 6

The Department should clarify the status and recoverability of these outstanding debts, negotiate clear and realistic payment schedules with the relevant sponsors, and monitor repayment.

6.1 The Government agreed with the Committee’s recommendation.

6.2 The Department and the former YPLA were carrying out a mapping exercise covering academes’ capital sponsorship and endowments. Where appropriate they were in contact with Academy Trusts and sponsors to discuss any outstanding monies owed.

Target implementation date

6.3 March 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The Department has been actively working with individual sponsors to reach agreement on the sponsorship position and to arrange or agree revised payment schedules where appropriate. Projects with traditional sponsorship arrangements are being looked at on a case by case basis to bring them to a conclusion by March 2013.

6.6 The former YPLA (now EFA) published guidance in January 2012 to reflect the decision by Ministers that a financial commitment was no longer required from sponsors. In line with the wider freedoms provided to all academies and maintained schools. This guidance was published on YPLA's website in January 2012. Ministers agreed to remove the requirement for all existing sponsors to establish endowment funds and to remove the requirement to continue to raise funds for existing endowment funds. As a consequence the Department no longer enforces agreements with sponsors to raise funds for existing endowment funds.

PAC RECOMMENDATION 7

The Department should clarify the objectives of each strand of the Programme, stating clearly how success will be measured and how Academies will be held to account for their performance.

7.1 The Government agreed with the Committee’s recommendation.

7.2 Analysis of the international evidence demonstrates that world class education systems devolve as much power as possible to the front line. It also demonstrates that, alongside school autonomy, accountability for student performance is critical to driving educational improvement. Whilst academies are accountable to the Secretary of State through their funding agreements, the Government wants all schools to be accountable to parents and the wider community. As set out in the Schools White Paper, the Department would make much more information about schools available in standardised formats to enable parents and others to assess and compare their performance.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 The objective for every academy is to raise academic performance. As part of the process of enabling parents and the wider community to hold all schools to account, in autumn 2010 the Department introduced a primary floor standard, comprising both literacy and numeracy attainment and progression measures, and raised the secondary floor standard, first introduced in 2001, from 30% to 35%. In June 2011, Ministers made a commitment to increase the secondary floor standard to 40% from summer 2012, and 50% by 2015.

7.5 Academies’ financial data will be published by the Department in 2012 alongside maintained schools’ data and headline attainment indicators. The Department is also introducing new destinations measures from July 2012. The measures will be widened to include employment destinations from spring 2013. This is in line with the Government's commitment to improving data transparency for all bodies receiving public funding. Academies are able to mirror the arrangements for maintained school governing bodies, from September 2012, which allow them to have smaller and more skills focused governing bodies. The governing body will be better able to hold the head teacher accountable for standards.

7.6 Ofsted launched its new inspection framework in January 2012 focusing on teaching, achievement, leadership and behaviour and safety. Inspectors are now spending more time in classrooms, observing lessons, listening to pupils read (in primary school), examining work and assessment and marking and evaluating the progress that pupils are making.

PAC RECOMMENDATION 8

The Department and the Agency should regulate funding and monitoring to make the processes as efficient as possible, and regularly review their capacity to keep pace with increases in the number of Academies.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Department keeps under review the requirements of the growing number and greater diversity in the types of academy to ensure that its capacity and that of YPLA keep pace with developments. Both the Department and YPLA had re-directed resources within their organisations to expand their capacity to fund and to monitor the performance of the increased number of Academies.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 The former YPLA's financial review of academies has halved the number of financial returns which academies had to make. The EFA is continuing to review the required returns to ensure they provide the right information to support streamlined and effective systems for safeguarding public funds. The EFA approach is a risk-based one, reviewing the returns made by academies and their auditors and following up issues of high risk and non-compliance. The EFA also works closely with academy representative bodies to ensure that returns are fit for purpose and timely. The EFA has encouraged the academy representative bodies to take on the role of promulgating good practice and encouraged new academies to participate in these forums.

8.5 The Department's reform of funding arrangements for academies from the 2013-14 academic year will free up EFA capacity because it will no longer be using the resource-intensive replication process. The rise in the number of academies should not lead to a corresponding increase in the support capacity. The Government's policy is that the relationship between the Department, EFA and academies should be one characterised by a light touch, reflecting the expectation that successful schools, sponsors, federations and other groupings of academies will support weaker schools.

Eighteenth Report

HM Revenue and Customs (HMRC)

HMRC 2009-10 Accounts

Summary of the Committee's findings

In 2009, HM Revenue and Customs' (the Department) implemented the new National Insurance and PAYE Service (NPS), the final phase of its project to modernise the collection of income tax through the Pay as You Earn (PAYE) system. The NPS brings together for the first time all of an individual's pay and tax details into a single record and offers the opportunity of increasing the accuracy of tax codes and reducing the likelihood of over and underpayments of tax.

The average taxpayer has a right to assurance that the Department has done all it can to maximise returns to the Exchequer when resolving disputes over large companies' tax liabilities. While the Committee acknowledges the Department's legal duty to respect taxpayer confidentiality, the Committee expects the Department to seriously consider the scope for greater transparency over its procedures for resolving such disputes, so that public confidence in the fairness of settlements with large companies is assured.

In reaching its findings, the Committee took evidence from the Department on 12 October 2010. The Committee issued its report on 1 February 2011 and the Treasury Minute – the Government's formal response - was published on 24 March 2011.

PAC RECOMMENDATION 1

Problems in delivering the new National Insurance and PAYE Service (NPS) system delayed the processing of PAYE for 2008-09 by a year. The Department did not tell taxpayers of the delay promptly, causing uncertainty and worry for millions of people. The Department also failed to tackle a legacy of processing backlogs going back to 2004-05. It has now run out of time to collect all the tax due before April 2007, and has not yet repaid the millions of taxpayers who paid too much PAYE in these years. As a result, it has failed to collect tax that is properly due, caused uncertainty to taxpayers and treated them inequitably.

1.1. The Government agreed with the Committee's conclusion.

1.2 The Department regrets that so many people have had to wait for their tax affairs to be resolved. In implementing the new system, before taking action to reconcile customer records for the tax years 2008-09 and 2009-10, the Department rigorously tested the functionality of the automatic process and checked test outputs back to the customer record to ensure accuracy. Although the Department could deal with individual customer requests for tax reconciliations from April 2010, the rigorous testing used for the automated process continued until late summer, so that the Department could not start full, live running until September 2010. The Department accepts that it should have advised customers about the delay in reconciling accounts for the year 2008-09 and earlier, so that they were better prepared for this outcome.

Target implementation date

1.3 31 December 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The Department has implemented an Open Case programme to tackle the legacy backlog of cases. More than 70% of the cases have now been cleared and the Department remains on track to finalise this programme by the end of 2012.

1.6 Due to the late introduction of its new computer system, the Department ran its End of Year Reconciliation process for tax years 2008-09 and 2009-10 together. By March 2011, for the years 2008-09 and 2009-10, the Department had completed the End of Year reconciliation for 99% of records, where all the necessary information was held. 85% of customer records balance at the end of the year, and the remainder receive repayments or are notified of underpayments -which are placed in the customers' tax codes where possible. Additionally, for those years, the Department can confirm that all other directly identifiable un-reconciled records were cleared by the target date of 31 March 2012. However, there may be a small minority of records still requiring reconciliation that are currently held in other workloads. The earlier years cannot be specifically targeted within the workload, but the Department aims to have completed them all by 31 December 2012.

1.7 For the annual End of Year Reconciliation relating to 2010-11, all cases where the Department has received all the necessary information were worked by 5 April 2012. The 2010-11 cases identified as overpayments were completed first to ensure repayments were made as soon as practical for this tax year.

PAC RECOMMENDATION 2

The Department must ensure that coding notices are subject to proper quality assurance before being issued, and that taxpayers are told of their individual under and overpayments as soon as practical.

2.1 The Government accepted the Committee's recommendation and has undertaken various actions and initiatives in this area.

2.2 The Department fully agreed there were issues that led to incorrect tax codes being issued for 2010-11 and has apologised to customers. The Department also accepts the need to improve the quality of its data and outputs and is working hard to ensure these are much more accurate. It implemented a number of IT fixes and carried out clerical recovery work to cleanse the data on the National Insurance and PAYE Service (NPS) and align it better with information from employers and pension providers. Before the 2011-12 annual coding exercise, the Department carried out rigorous testing and controlled go-live exercises. These showed a substantial improvement in the accuracy of 2011-12 Coding Notices. The Department is carefully checking the outputs from the live annual coding and these reflect that improved accuracy.

Target implementation date

2.3 31 March 2013.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The Department adopted extensive quality assurance on coding notices. This was acknowledged by the NAO in their report on the 2010-11 accounts. This included strong project management and testing regimes around these programmes, which ensures the Department's outputs to customers are tested and validated to statistically viable standards. For 2011-12 tax codes, the Department improved the testing regime further, resulting in more accurate codes (circa 98% accuracy). To help customers understand and check their codes, the explanatory leaflets, which accompany the coding notices (P2s) and the End of Year Reconciliation notices (P800s) have also been rewritten and tested carefully. The new leaflets have been tested with voluntary sector groups and customers.

2.6 For the annual End of Year Reconciliation relating to 2010-11, all cases where the Department has received all the necessary information were worked by 5 April 2012. The 2010-11 cases identified as overpayments were completed first to ensure repayments were made as soon as practical for this tax year.

PAC RECOMMENDATION 3

The Committee looks to the Department to be able to clearly demonstrate that it has resolved systemic data quality issues by the end of 2011 and that NPS is delivering the benefits that it was intended to bring - including improved accuracy and speed of processing, and prompt processing of under and overpayments.

3.1 The Government partially accepted the recommendation.

3.2 Over 97% of the 2008-09 and 2009-10 reconciliations for cases where it had all the information were completed by 11 February and it expects to complete the balance by the end of March 2011. As well as its data cleansing work, the Department has undertaken a rigorous test and assurance approach prior to the key events in the PAYE calendar, including dry runs to test quality from a customer perspective. The annual coding exercise for 2011-12 has benefitted greatly from this approach and is proceeding well.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department undertook extensive recovery work before the end of the 2008-09 and 2009-10 end of year reconciliation exercise and has now worked through the remainder of the identifiable cases, which had been previously set aside for further technical or manual intervention.

3.5 The NAO has recognised the significant work undertaken by the Department to tackle systemic data quality issues. Departmental data is now in a far better state as a result of action taken over the last year, which included the cleansing of 11 million customer records. Further initiatives are underway to deliver more improvements in this area. Among these initiatives is the establishment of a Data Improvement Project (DIP) in preparation for the implementation of Real Time Information (RTI). The project has undertaken further work to develop the Departments understanding of the root causes of data quality issues affecting incoming PAYE data. It is addressing these issues with a programme of targeted education and support interventions with employers, industry representative bodies and software developers.

PAC RECOMMENDATION 4

In making decisions on thresholds, the Department should consider both the narrow balance of cost and returns for a particular tax stream, but also, with a view to preserving equity between taxpayers, the broader consistency with the decisions it takes in other tax areas.

4.1. The Government partially accepted the recommendation.

4.2 The Department has a duty to treat its customers even-handedly, but always having regard to the need to deploy its finite resources in the most effective and efficient way. Tolerances have always been set at a level to balance operational cost-effectiveness with the Department's responsibility to be fair to the customers affected and the taxpaying population as a whole. Different tolerances have always been applied, depending on the circumstances. These are set by reference to the risks and constraints across different customer groups, taxes, credits and reliefs, and across different years.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The change to the tolerance, for end of year PAYE underpayment cases, was temporary and in respect of the specific circumstances applying at the time. The tolerance was reverted to its former level for 2010-11.

PAC RECOMMENDATION 5

In its response to this Committee's recommendations, the Department should provide a comprehensive statement of the costs of the NPS, including the estimated cost to the conclusion of the stabilisation programme. The statement should include the costs associated with recovering the processing of annual coding notices and end of year reconciliations exercise, and the revenue foregone as a result of the delays, and clearly set out the assumptions used in coming to these figures.

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

5.2 The costs to develop, deliver, and implement NPS and recover from the IT problems will be a total of £389 million by 2014-15. Forecast NPS recovery costs up to the end of March 2011 are £20.8 million. This includes costs associated with recovering the processing of annual coding notices and end of year reconciliation exercise. The vast majority of the costs of stabilising the NPS software have been incurred and the estimated costs for 2011-12 are in the region of £250,000.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 In their report on the Department's 2010-11 accounts, the National Audit Office set out an update on NPS stabilisation including costs and revenue foregone. The NPS stabilisation programme was closed on 31 March 2012 and the activities now form part of the Department's business as usual operations.

PAC RECOMMENDATION 6

The Department should make succession plans for the replacement of senior staff well in advance of their departure dates, particularly when such dates are plainly known in advance due to fixed term contract arrangements.

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

6.2 The Department advertised the post of Chief Information Officer in a fair and open competition. This process was presided over by a Civil Service Commissioner and the best candidate was appointed. He was contracted to give a period of six months notice to his previous employer. To mitigate the major risks facing it in terms of its implementation of NPS and renegotiation of its IT contract with Aspire, the Department followed its own procurement policies and procured the services of its Acting Chief Information Officer on a day rate which was less than the current market rate.

6.3 The Department accepts the importance of making succession plans for the replacement of senior staff and that mitigation plans should exist for more than one scenario. In the period since the cited case HMRC has put in place initiatives to strengthen the calibre and management of talent pipelines and heighten the sophistication and rigour of succession planning for the most senior level roles.

Current Status

6.4 Implemented.

Action taken to implement recommendation

6.5 The Department has a new leadership strategy. This brings together all the Department's leadership development programmes and forms a coherent, streamlined direction for HMRC. The new Leadership Strategy is now being rolled out within the Department, impacting the Senior Civil Service community first, with performance data being reported to the Department's Board and Executive Committee by September 2012 and periodically thereafter.

6.6 This will include rolling reviews of the Director General and Director cadre using industry tested and Cabinet Office recommended succession planning methodology. This will enable the Department to plan future succession into board-level posts more effectively and by example, the succession plan for some Director General roles and for the role of Lead Non Executive, ,is now being deployed pending some known departures.

6.7 Identifying and nurturing the considerable talent that already exists within the Department is an integral part of its planning. The Department uses its leadership framework to evaluate the technical and behavioural skills of its people, whilst continuing to develop its overall leadership capability. In addition, the Department has set up an accelerated development programme at Director level for those tax and operational delivery professionals who have been identified as having most potential.

PAC RECOMMENDATION 7

The Department should now set a clear operational standard to process all PAYE cases within 12 months of the end of the tax year.

7.1 The Government partially accepted the Committee's recommendation.

7.2 The Department regrets that so many people have had to wait for their tax affairs to be resolved. The Department intends, once backlogs are clear, to move as quickly as possible to an operational standard that requires all PAYE cases to be processed within 12 months of the end of the tax year. The Department has undertaken to clear these backlogs by the end of 2012 and will then be able to fully meet that standard. The Department currently has work from years 2007-08 to 2010-11 to clear and estimate that it will be around two years before it can operate to this standard. However, with the much higher levels of automation under NPS, the Department will be able to focus resources on exceptions handling. Therefore this is a realistic target once backlogs are dealt with.

Target implementation date

7.3 31 March 2013.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Department is on track to meet this commitment. More than 70% of the legacy backlog of cases has now been cleared. The Department remains on track to finalise this programme by the end of 2012.The 2010-11 end of year reconciliation exercise remains on schedule. The process is already complete for the cases where the Department has all the information and work continues on the remainder of cases in line with the Department's commitments. The 2011-12 automated end of year reconciliation process has already started, two months earlier than last year.

PAC RECOMMENDATION 8

The Department should ensure that it does not miss the deadline for collecting revenue for 2007-08 and that its assessments of future legislative changes take full account of the operational impact.

8.1 The Government accepted with the Committee's recommendation.

8.2 The Department has processes in place to assess the impact of every legislative change as it is developed so that it can identify all operational impacts at the earliest point in the development cycle. This includes the identification of all risks and issues around compliance and the assessment and collection of tax before any time limited deadlines expire.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 Processes are in place to assess the impact of every legislative change as it is developed. The Department had until March 2012 to collect any remaining 2007-08 underpayments, and the legacy Open Case programme scheduled its work accordingly.

PAC RECOMMENDATION 9

The Department should assess the return on investment of having additional staff collecting PAYE and structure its staffing to maximise the net revenue collected.

9.1 The Government partially accepted the Committee's conclusions and recommendation.

9.2 The creation of a stable PAYE environment under the new NPS system will avoid the loss of revenue associated with backlogs. More accurate processing in end of year reconciliation is also likely to reduce the numbers and values of over and under-payments every year so the net revenue outflow will decrease. In the short term the Department will allocate additional resource within its settlement envelope to help tackle backlogs.

Current Status

9.3 Implemented.

Action taken to implement recommendation

9.4 The Department recognised the critical importance of stabilising PAYE in its business plans and gave extra priority to the recovery and stabilisation of PAYE over a two year programme. That programme is on track. More than 2,000 temporary staff have been recruited to deliver the Department's plan to recover service standards, preparing the way for the introduction of Real Time Information (RTI).

9.5 The Department has clear plans to bring PAYE fully up to date by April 2013, with the pre-NPS open cases all cleared by December 2012. Going forward, the Department expects to launch a programme to automate more clerical processes. Increasing automatic processing will allow the Department to assess the genuine clerical workload and the operational resources required. The Department is also looking more closely at the underlying causes of customer contact to better understand how reprioritising or reordering the resolution of certain work items would resolve matters earlier for customers and therefore reduce contact (and thus achieve further efficiencies). As RTI is introduced, there will be more significant decreases in work management items from the use of real time data.

PAC RECOMMENDATION 10

Whilst the Committee recognises the Department's obligation to ensure taxpayer confidentiality, the Department should consider the scope for increasing transparency in the area of large and complex tax cases and for assuring Parliament and the public that due process in the resolution of these cases is being followed. The Committee looks to the Department to cooperate fully with a NAO review of its procedures for resolving tax disputes.

10.1 The Government agreed with the Committee's recommendation.

10.2 The Department already has in place governance arrangements for the resolution of tax disputes with large companies, and these will be published to provide greater transparency. However, Taxpayer confidentiality means that HMRC cannot provide information about individual taxpayers. The Department will also fully cooperate with a NAO review of its procedures.

Current status

10.3 Implemented.

Action taken to implement recommendation

10.4 The Department published details of its governance of the resolution of tax disputes in July 2011, as part of its draft guidance on the refreshed Litigation and settlement Strategy. The Department has co-operated fully with the NAO review of its procedures and with the further review by the NAO in early 2012. In February 2012, the Department announced planned changes to improve transparency and strengthen governance in relation to tax disputes.

PAC RECOMMENDATION 11

The Department should set separate performance indicators for the amount of tax credit debt it collected, and for identifying and writing off debt that is no longer recoverable.

11.1 The Government partially accepted the Committee's recommendation.

11.2 The Department does not believe that it needs to introduce new, separate performance indicators to further distinguish the ways in which tax credit debt is cleared as it already has indicators in place that enable it to adequately and cost effectively manage overall debt levels, clearance rates and methods of clearance as well as for the specific sub-set of debts that relate to tax credits.

11.3 The Government's high level debt and banking priority is to maximise cash flow to the Exchequer and minimise, as far as possible, the overall debt balance and age of debt. This applies as much to tax credit debt as to debts arising from other taxes and duties. As the Committee has noted, the Department collected £67.9 billion of debt in 2009-10, £5.6 billion more than in 2008-09. The Department's accounts show that it reduced the amount of receivables outstanding by £1.6billion (5.8%) at the end of March 2010. These significant improvements were delivered despite the recession making debts more difficult to recover.

Current Status

11.4 Implemented

Action taken to implement recommendation

11.5 As in previous years, the Department has a target to reduce tax credit debt to under £4 billion. In addition to this target, the Department has set a key performance indicator to increase the amount of debt it collects. On a monthly basis, the Department measures the levels of debt it collects and remits / writes-off, and reports these results through its reporting cycle.

Nineteenth Report

Department for Transport (DFT) and HM Treasury (HMT)

M25 Private Finance Contract

Summary of the Committee's findings

In May 2009, the Highways Agency (the Agency) signed a 30-year private finance contract for widening two sections of the M25 motorway, and maintaining the entire 125 mile length of the road, including the Dartford Crossing, and 125 miles of connecting roads and motorways. The contract has a present value cost of £3.4 billion. The Agency mishandled this project to address congestion on the M25 at a potential extra cost to the taxpayer of around £1 billion. The invitation to tender for the contract excluded hard shoulder running as a solution for traffic congestion. The Committee is concerned that a private finance solution aimed at transferring risk to the private sector should have restricted innovation in this way.

It took nine years from 2000, when consultants were commissioned to produce a long-term sustainable strategy for the M25, to 2009 for the contract to be signed. Between 2004 and 2010 the Agency spent £80 million on consultants on this project. More should have been done to limit the costly delays to the project and the amount spent on advisers who will have benefited from the drawn out procurement. The Agency lacks the expertise to assess whether its advisers are providing value for money. Large amounts were spent on advice yet the outcome of the procurement has been very poor value for the taxpayer.

In reaching its findings, the Committee took evidence from the Department and the Highways Agency on 1 December 2010 and further evidence on 16 December 2010. The Committee issued its report on 8 February 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

The Agency mishandled the procurement at a potential extra cost to the taxpayer of around £1 billion. It took nine years from the government starting to consider congestion on the M25 to the Agency letting the contract. By asking bidders to focus only on road widening, the Agency limited the alternative solutions bidders could offer, ruling out hard shoulder running. The Agency lacked robust information, particularly on maintenance and operation costs, which undermined its ability to assess and challenge the bids received. The delays in progressing the project also exposed it to the credit crisis resulting in higher financing costs of £660 million. The recommendations that follow are intended to help the Agency do better in future.

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

1.2 Whilst the M25 private finance contract will ultimately deliver a value for money outcome, there were clearly shortcomings in the way the procurement was handled, which have impacted on the total net benefit that will be achieved, and therefore the Department and Agency agreed with the Committee that there are important lessons to be learned.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The private finance contractor is scheduled to complete the two initial widening schemes in advance of the London 2012 Olympics. The road has been effectively operated and maintained from September 2009 and the performance driven contract is having a positive impact on performance and the contractor continues to improve the service delivered. The asset renewal investment made by the contractor has been significant, bringing better outcomes for drivers and improving network resilience.

PAC RECOMMENDATION 2

The Agency should make more effective use of mechanisms to control the cost of its advisers, for example, through scoping their work into tightly defined packages, using target pricing, and managing contract performance closely.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Department and the Agency are committed to reducing both reliance and expenditure on consultants across the board. Better engagement with prospective bidders before formal invitation of tenders and reduced complexity of tender documents should help, as will the new forms of framework contracts the Agency has developed for the appointment and management of consultants and specialist advisors. Both the Department and the Agency are growing internal capability in a number of areas to reduce reliance on external advisers.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Agency has introduced a new framework contract for the engagement of external engineering advisors with various payment options to align with the risk of the required or specific task. Performance monitoring regimes are an integral part of the new framework arrangement monitoring the delivery of the task against time, cost and product satisfaction. Further work is continuing on the use of other Government Department (OGD) frameworks, alternative payment options, risk management, and Agency skills development and guidance.

2.5 Prior to engaging external legal advisors, agreement is required from the Department's General Counsel's Office to the scope and role of the external lawyers. The General Counsel's Office is involved in the management and performance monitoring of external advisors. The Agency is making full use of its investment control framework and the Department approvals consultancy process to provide a robust challenge to the original scope and business case when appointing technical and legal support.

PAC RECOMMENDATION 3

The Agency needs to develop its own commercial skills so that, in major procurements, it can challenge its advisers effectively, evaluate the quality of the advice received, and engage only those advisers who provide good value for money.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Agency is continuing to develop its internal commercial skills, and is introducing processes that will ensure, for example, that before committing to any new PFI projects it will have in place an internal multi-disciplinary team of appropriately qualified and experienced staff to manage the project, with the skills and experience needed to manage and challenge external advisors appropriately. The Agency is also developing better forms of contract, to link payment to successful outcomes, and to ensure better information is required to inform investigation of any instances where actual costs exceed planned target costs.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department's and Agency's reliance on external advisors has been reduced in line with the Spending Review 2010 and is being kept under continual close scrutiny. Accordingly, internal commercial skills are being developed across the Agency to reflect the changing requirements needed to deliver the Agency's business.

3.5 Improved forms of contract have been developed, which link payment to successful outcomes and ensure that better information is available to inform investigations, where actual costs exceed planned targets. In particular, the NEC professional services contract has been adapted, to allow time charge, lump sum and target cost task orders or contracts, which includes performance indicators for measurement of suppliers against delivery to time and cost. In addition, the Department's General Counsel's office supports legal development work within the Agency and the management of external legal advisors. This enables better challenge and management to the delivery of external legal support.

3.6 No private finance projects are currently planned. Internal multi-disciplinary teams will be put in place to manage any further private finance projects and external advisors. The team and its training needs will be developed at that time.

PAC RECOMMENDATION 4

The Agency should identify the lessons from this contract and use them to seek reductions in operation and maintenance costs in its other contracts, particularly the 85% cent of the strategic motorway network that is not under a PFI contract.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Agency will continue to improve its cost estimation and use this information to drive down contract prices. Since 2008, the Agency has been investing in both parametric estimating and cost intelligence models for major projects. The cost intelligence model is based on work and cost breakdown structures, which enable the Agency to capture unit rates and to benchmark unit rates between contractors, projects and regions and track them over time. Rates from the model also feed into the parametric estimating system to ensure efficiencies that reduce rates are used as the basis of all future estimates.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Agency is developing improved estimating tools for maintenance and renewals. These approaches enable the Agency to improve its cost estimating capability and to drive down contract prices, using the reduced rates from efficiencies as the basis for future estimates.

4.5 An understanding of the commercial strategic approach to operation and maintenance (O&M) of long term contracts is being developed through closer working with existing Design, Build, Finance, and Operate (DBFO) companies to understand their commercial approaches and to explore how these could be applied to other forms of Agency contracts. The Agency is now capturing costs from all O&M contracts, including DBFO, to benchmark and to compare and contrast costs across Agency area contracts. Of the 11 DBFO contracts, only the M25 motorway DBFO has formal cost capturing arrangements. For the other ten contracts, DBFO company accounts are being reviewed on an annual basis, with indicative O&M details being extracted.

PAC RECOMMENDATION 5

The Agency, the Department for Transport and the Treasury should check that all advertisements inviting interest in tendering are drawn widely so that viable solutions are not ruled out.

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

Department for Transport

5.2 The Government is committed to improving the scope for bidders to offer innovative solutions to achieve policy outcomes. Before entering the procurement phase, each Highways Agency project will be subject to a review to check whether a more flexible approach to delivery is viable. Working with the Cabinet Office, the Agency will develop a better Official Journal of the European Union notice to be used when seeking expressions of interest in tendering from the market, to encourage and enable a flexible, outcome-based approach.

HM Treasury

5.3 The Treasury does consider it important that procurement notices are drawn appropriately – so allowing for innovative solutions to public sector procurements and supports the steps set out above. However, the Treasury does not agree that this should form part of the Treasury approvals processes. It is the responsibility of a project Senior Responsible Owner (SRO) to ensure that all procurement documentation is appropriately drafted to allow good value for money solutions to come forward during the procurement process. Further, the Treasury would expect the project sponsoring Department to assist the procuring authority in ensuring the documentation is appropriate, thereby maintaining a consistent approach across the relevant sector; and in ensuring that account is taken of any relevant new technology.

Current Status

5.4 Implemented.

Action taken to implement recommendation

5.5 For major procurements, the Agency now seeks pre-procurement engagement in order to fully understand the full scope and potential for innovation on a particular contract. Contract forms already recognise and incentivise innovation, and these will be kept under review to ensure they do not become a barrier to innovation.

5.6 The current Highways Agency Investment Control Framework (ICF) process requires completed ICFs (stages 1 and 2) before the procurement phase. This enables gateways to be considered at both stages to check that the correct approach is being followed and challenge the approach if it is unduly constraining innovation. In addition, since April 2011, any major project, which would include any future private finance, requires Treasury approval via the Major Projects Review Group (MPRG) assurance processes at three key stages: strategic outline case, outline business base and full business case. The MPRG will consider: deliverability, affordability, and value for money. This will ensure, at the Agency challenge stage, that innovation is not being inappropriately constrained.

5.7 The European Commission has published a proposal for a revised public sector procurement Directive and the Agency will review any new public procurement regulations to determine whether further work can be done to further encourage and enable a flexible outcome based approach to major project delivery. This will incorporate learning from the recent procurement of asset support contracts (for the provision of maintenance services and works) incorporating the new asset maintenance and operational requirements specification in which requirements are outcome based as far as possible, and require the contractors to take a risk based, intelligence led approach to optimise their delivery.

5.8 The Treasury is currently reviewing the private finance model and the Agency will await the conclusions of this study. The Agency will then explore the development of tender assessment methodology capable of dealing with the risks of assessing different solutions that may not be directly comparable. This will give the Agency a sound legal basis for making contract award decisions to support delivery of value for money.

PAC RECOMMENDATION 6

The Committee concluded in 2005 that the Agency was inhibited by a risk averse culture resulting in it having fallen behind other leading countries in adopting alternative traffic management measures. The Committee recommended among other things that the Agency should design pilots with clear objectives, budgets and timescales and evaluate the outcome quickly to enable faster roll out where appropriate. The Committee is concerned that these recommendations have not been implemented and expect the Agency to do so now.

6.1 The Government agreed with the Committee's recommendation.

6.2 Pilot schemes should be designed, so as to provide a sound, timely basis for taking decisions on roll-out of new techniques, without compromising the good safety record of the motorway and trunk road network. Following the 2004 NAO value for money report: *Tackling Congestion and Making best use of England's motorway and trunk road network,* the Agency worked with the NAO to develop detailed guidelines for the process of conducting and analysing pilots, which have been in place since 2007. The length of time needed to establish and evaluate the performance, including the safety record, of any new approach clearly needs to be proportionate to the risks involved.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 Because of the perceived slowness to make changes, a register of Agency pilots and trials, including a tracking capability, has been put in place. This will ensure that appropriate and informed investment decisions can be made and proper control exercised. An appropriate communications and publication process has been developed and implemented. The Agency's guide to the design of pilots and trials has been refreshed and the register of pilots reaffirmed to support clear objectives, budgets and timescales. This will continue to ensure that appropriate and informed investment decisions can be made and proper control exercised, whilst recognising a more speedy approach. The effectiveness of the process and the guidelines will be concluded and reported by December 2012.

PAC RECOMMENDATION 7

The Agency should establish rigorous, effective and objective mechanisms to challenge the evidence for key decisions, involving people with relevant expertise who are not part of the project team.

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

7.2 Appraisal and decision-making should be rigorous, effective and objective. In 2009, the Agency strengthened its investment approval process through the regular involvement of a senior committee, consisting of the Chief Executive and Board Directors responsible for finance and procurement, which reviews all major investments before key stages in the development and delivery of a project. This provides an internal challenge at the highest level before any funds are committed. The appointment, in January 2011, of a non Executive Chair is specifically intended to strengthen governance arrangements. The Major Projects Authority will also provide a challenge function for major projects of this scale.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 Actions taken to implement this recommendation have been addressed above. The ICF process specifically includes the challenge of the procurement strategy.

PAC RECOMMENDATION 8

The Treasury, in its role of promoting best practice in privately financed projects, should examine existing guidance to clarify the rules to be applied when officials, who have worked on private finance projects, leave the public sector.

8.1 The Government agreed with the Committee that conflicts of interest and the appearance of conflicts of interest should be avoided when former civil servants are appointed to other organisations. However, the Government disagreed with the Committee's recommendation.

8.2 The Government updated and strengthened the procedures, which apply to all civil servants for up to two years after leaving the civil service. These are set out in the Business Appointment Rules for Civil Servants and form part of the Civil Service Management Code. The rules are very clear about the scrutiny civil servants at all levels must go through, including where they have had official dealings with a prospective employer during their civil service career.

8.3 The operation of the rules is overseen by the independent Advisory Committee on Business Appointments (an advisory non-departmental public body sponsored by the Cabinet Office). The Advisory Committee audits Departments' compliance with the rules. It publishes details on its website about appointments approved and taken up by the most senior civil servants.[6]

8.4 The Government believes that the existing Rules on Business Appointments, which are the responsibility of the Cabinet Office, are sufficient and that it is not necessary for the Treasury to publish further guidance.

[6] http://acoba.independent.gov.uk

Twentieth Report

Office of Communications (Ofcom)

Ofcom: the effectiveness of converged regulation

Summary of the Committee's findings

The Office of Communications (Ofcom) is the independent regulator and competition authority for the United Kingdom communications sector, which encompasses broadcasting, telecommunications and wireless communications. Ofcom was formed in 2003 from the merger of five previous regulators. Its operating expenditure in 2009-10 was £122 million, funded through broadcast licence fees and charges, and grant-in-aid from two government departments: the Department for Business, Innovation and Skills (£75.7 million in 2009-10); and the Department for Culture, Media and Sport (£0.6 million).

Ofcom needs to do more to demonstrate its focus on value for money and to allow the taxpayers and companies that fund its activities to assess its performance. Ofcom sets out in its annual work plan the activities it plans to undertake, but it does not specify its intended outcomes, explain how its activities will achieve those outcomes, or set out how it will measure success. This makes it impossible to assess whether Ofcom is delivering value for money.

In reaching its findings, the Committee took evidence from Ofcom on 14 December 2010. The Committee issued its report on 10 February 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

Ofcom publishes a lot of information about consumer outcomes, but acknowledges that it needs to do more to define the specific results its work is attempting to achieve. Ofcom should set out in its Annual Plan what outcomes it intends to deliver, expressed in a clearly defined and measurable way, and indicating in advance what success will look like. The Committee welcomes Ofcom's commitment to undertake this work, and the Committee looks forward to seeing the results in its 2011-12 Annual Plan. Ofcom should then report regularly and publicly on its progress against these intended outcomes.

1.1 The Government agreed with the Committee's recommendation.

1.2. Ofcom has made significant progress in the ongoing development of a comprehensive performance framework to enable the clear and transparent assessment and communication of the delivery of its intended outcomes. Ofcom's 2011-12 Annual Plan, published on 4 April 2011, clearly sets out the intended and measurable outcomes in respect of its strategic priorities for the year. A table of detailed outputs (actions planned by Ofcom) accompanied the publication of the Annual Plan, and this will subsequently be updated to provide a clear view of intended outcomes across Ofcom's work plan.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 Ofcom has introduced a comprehensive performance framework to enable the clear and transparent assessment and communication of the delivery of its intended outcomes. Ofcom's 2012-13 Annual Plan sets out the intended and measurable outcomes in respect of its strategic priorities for the year. A table of detailed outputs (actions planned by Ofcom) accompanied the publication of the Plan, and this will be updated periodically throughout the year to provide a clear view of the intended outcomes across Ofcom's work plan.

1.5 Ofcom's 2010-11 Annual Report had clear links to the objectives set out in the 2010-11 Annual Plan, and measured performance against those priorities set out in the Plan, articulating what was achieved and the outcomes for citizens and consumers. The National Audit Office recognised and endorsed this progress and Ofcom has built on this in its 2011-12 Annual Report.

PAC RECOMMENDATION 2

In 2006, the National Audit Office estimated that the costs of creating Ofcom were in the region of £80 million but, because the expected financial benefits of the merger were not clearly defined at the outset, it is not possible to determine whether these costs have been recovered in full. This weakness is not uncommon in relation to public sector mergers, and this Committee commented on it in April 2010. The Government subsequently committed to "look closely at how it can ensure sufficient weight is given to value for money considerations and specific measurable benefits": the Committee would welcome a progress report from the Treasury.

2.1 The Government agreed with the Committee's recommendation.

2.2 In its response to the 2010 report on Reorganising Central Government, the Government committed to "*look closely at how it can ensure sufficient weight is given to value for money considerations and specific measurable benefits*."

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 Since May 2010, the Government has carried out a number of organisational changes and has sought to ensure that value for money has been properly incorporated in the consideration of any proposed changes.

PAC RECOMMENDATION 3

Ofcom should report its savings to Parliament and the public, on a basis which is in keeping with the principles set out by the Treasury, and as used by other public sector bodies.

3.1 The Government agreed with the Committee's recommendation.

3.2 There are a number of valid methodologies for assessing savings. These include present-value estimates of the net returns of a long-term investment such as a merger, which is the approach Ofcom has typically taken. However, Ofcom does not intend to count savings indefinitely. Ofcom will report its future savings publicly and to Parliament on a basis in keeping with the principles as set out by the Treasury. The Treasury welcomes the commitment to report future savings in line with Treasury principles.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 Ofcom will continue to report its future savings publicly and to Parliament on a basis in keeping with the principles as set out by the Treasury.

PAC RECOMMENDATION 4

The Treasury and Ofcom should review the current approach to determine whether it is the most appropriate mechanism for controlling Ofcom's overall expenditure, and report back to us by the end of 2011.

4.1 The Government disagreed with the Committee's recommendation.

4.2 Ofcom's spending cap over the Spending Review 2010 period was agreed using the same process as that used in the Spending Review by Government Departments and a number of other public bodies. In response to Treasury guidance, Ofcom provided a bid to the Treasury detailing how it would meet certain savings scenarios. This included analysis of possible efficiency savings and the scope for targeted savings made from reducing or stopping activity in certain non-core areas. The Treasury and Ofcom then worked together to come to a settlement that would drive efficiencies in the organisation whilst minimising the impact on the delivery of Ofcom's core responsibilities.

PAC RECOMMENDATION 5

Ofcom should avoid excessive 'general' contingencies and, where appropriate, make specific and transparent provisions based on risk and the level of certainty that they will be required. In its response, the Committee expects Ofcom to make clear the nature and value of the general and specific contingencies that it had in place at the start of 2009-10 and 2010-11.

5.1 The Government disagreed with the Committee's recommendation.

5.2 Ofcom recognises the need to set any contingency element in its budget on the basis of risk. In line with other public bodies, it takes a prudent approach in setting its annual budgets to ensure sufficient funds are available to undertake planned work, but unforeseen demand on resources can and does arise. While public bodies should adjust planned activities to accommodate this, it is not always possible or tenable to achieve the required outcomes within the overall financial budget relating to those activities. It is therefore appropriate to take a prudent approach when setting budgets to include a separately identified and rigorously managed contingency sum in the overall budget.

PAC RECOMMENDATION 6

As an organisation claiming to have a tight grip on costs, Ofcom should ensure that its approach to pay and related spending, such as travel and subsistence, is in line with current best practice in the public sector.

6.1 The Government agreed with the Committee's recommendation.

6.2 Ofcom does ensure that its approach to pay and related spending, such as travel and subsistence, is in line with current best practice in the public sector. The total wage bill is higher than that of the legacy regulators because Ofcom has consciously adopted a policy of recruiting fewer, better qualified employees.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 Ofcom froze staff pay for two years, ahead of many other public bodies. It undertakes annual benchmarking reviews of employee remuneration against relevant public and private-sector comparator groups to ensure an appropriate approach to, and levels of, remuneration. Overall remuneration budgets are set by the Ofcom Remuneration Committee - all members are independent non-executives - in the full knowledge of appropriate external relativities and the underlying economic environment.

6.5 Ofcom's expenses policy, which incorporates travel and subsistence, is regularly reviewed by the executive and is subject to approval by the Ofcom Remuneration Committee. The policy is benchmarked against current best practice within the public sector, specifically the Treasury Expenses Policy, and utilises reimbursement rates provided by HMRC, where relevant.

PAC RECOMMENDATION 7

Ofcom should ensure that its cost reductions are based on a full understanding of the relative costs of alternative cuts and of the effect of these cuts on the effectiveness of Ofcom in serving consumers. The Committee looks to Ofcom to produce a robust plan for implementing the necessary changes in a way that minimises the detriment to consumer outcomes.

7.1 The Government agreed with the Committee's recommendation.

7.2 Ofcom launched an Expenditure Review Programme in July 2010 to consider all areas of expenditure while maintaining its capability and effectiveness. Its response to the budgetary challenges of its Spending Review settlement focuses on three core areas: stopping or substantially reducing activities; redesigning programmes and projects for greater efficiency; and reducing support and supplier costs.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 Ofcom sets its budget within the spending cap set by the Treasury. In arriving at the 2010 settlement, with the Treasury, savings were considered in conjunction with an internal review of Ofcom's strategic purposes and resource allocation. This comprehensive review reflected the rapid pace of change in the markets and sectors regulated by Ofcom, together with evolving regulatory and legislative requirements.

7.5 Following the review, Ofcom has implemented a restructuring programme which has identified and will deliver long-term sustainable savings, while ensuring capability, capacity and quality of output. To achieve this, Ofcom has reduced overheads; updated processes to improve underlying productivity; and reduced spending on low-priority activities. The programme will ensure delivery of financial targets and maintain effectiveness, whilst minimising the risk of detriment to citizen and consumer outcomes.

7.6 Ofcom's spending cap was reduced in the Spending Review 2010 (SR2010) period by 28% in real terms, which equated to real savings of £44.2 million. This settlement was subsequently amended in October 2011 to include an additional provision on the regulation of postal services[7]. The increase in Ofcom's spending cap is £1.9 million lower than the 2011-12 standalone budget of Postcomm and reflects Ofcom's continued commitment to reduce the overall cost of regulation. The revised figures, which include the costs of delivering the savings (for example: redundancy costs), indicates Ofcom's spending cap has reduced from £143 million in 2010-11 to £119.7 million by 2014-15.

7.7 Ofcom's pro-active response to the Spending Review, underpinned by a strategic review of its business, allowed Ofcom to arrive at a settlement with the Treasury, which delivers a significant proportion of Ofcom's savings during the first two years of SR2010. Ofcom's forecast outturn for 2011-12 is £108.7 million (including the cost of regulation of the postal services sector from October 2011), which is significantly below Ofcom's agreed spending cap of £127.5 million. Ofcom's budget for 2012-13 has been set well within Ofcom's agreed spending cap and Ofcom remains ahead of plan to deliver its committed savings.

PAC RECOMMENDATION 8

Outcomes for consumers in communications markets have been broadly positive. *However, the Committee is concerned that Ofcom needs to do more to tackle some issues, including silent calls, consumer switching, and competition in fixed-line telephony:*

[7] Postal Services Act 2011

- ***The maximum fine that Ofcom may impose on organisations persistently making silent calls has recently been increased; Ofcom has also indicated to the industry that its enforcement regime will be much tougher from February 2011.***

- ***The Committee is concerned that it is too difficult for consumers to switch telecoms providers, Ofcom is currently undertaking a strategic review to look at the reasons for this.***

- ***The level of competition in fixed-line telephony is relatively limited. This is understandable to a certain extent given, for example, the nature of the infrastructure, but the Committee believes that consumers could be getting a better deal than they are.***

In addition to these areas, three of the goods and services most complained about to the consumer helpline Consumer Direct are within Ofcom's purview: mobile phone service agreements, telephone landlines and internet service providers. The Committee would like Ofcom to write to it in June 2011 to update on progress and developments in all six of these areas.

8.1 The Government agreed with the Committee's recommendation.

Current Status

8.2 Implemented.

Action taken to implement recommendation

8.3 Ofcom wrote to the Committee in June 2011 updating it on progress and developments in all six of the areas that the Committee requested.

Twenty First Report

Ministry of Justice (MOJ)

Youth justice system in England and Wales: reducing offending by young people

Summary of the Committee's findings

Central government and local authorities spent £800 million in 2009-10 dealing with youth crime, primarily through the Youth Justice Board nationally and Youth Offending Teams locally. 10% was spent on trying to prevent young people becoming offenders. Most of the rest was incurred in dealing with offending behaviour, including over £300 million on custody, which is used to deal with 3% of offences. The National Audit Office has estimated that the total costs to the UK economy of offending by young people could be up to £11 billion a year.

In recent years, the Youth Justice Board has been effective in leading reform within the youth justice system and diverting resources to the offenders most at risk of committing future crimes. Since 2000, the number of young people entering the youth justice system, the number held in custody and the amount of re-offending committed by young people, have all fallen. Youth custody, which is expensive relative to other ways of dealing with young offenders, has fallen during a period when the number of adults in custody has continued to rise. This is a particularly noteworthy achievement, and one in which the Board has played a central part.

Some areas of difficulty remain, however, particularly with more serious offenders. Young people are now more likely to re-offend after a serious community penalty than they were in 2000 and three in four of those leaving custody will re-offend in the following year. Dealing with these offenders is difficult, but it has been made more so by poor quality assessments and sentence planning in one third of cases, together with a lack of research into the relative effectiveness of different programmes. This also makes it particularly difficult to decide which activities to retain, and which to cut, following the 2010 Comprehensive Spending Review.

The Ministry of Justice (the Department) has decided to abolish the Youth Justice Board, though it did not take into account the Board's performance in making this decision. The Committee has some concerns that reorganisation at this time could impact on building on the progress achieved to date. Following the abolition, it will be the role of the Ministry to maintain the successes that the Board has achieved in its oversight of the youth justice system, and to address effectively areas where more needs to be done.

In reaching its findings, the Committee took evidence from the Department and the Youth Justice Board on 12 January 2011. The Committee issued its report on 15 February 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

There have been substantial reductions in the number of young people entering the system and the number of offences committed by young people, although it is not known to what extent these reflect genuine reductions in crime, or displacement, whereby criminal offences are now being dealt with by non criminal sanctions. In addition to these reductions, the number of young people being sentenced to custody has also fallen substantially. All those involved in these successes should be commended.

1.1. The Government noted the Committee's comment.

PAC RECOMMENDATION 2

The Ministry should set out a clear and measurable strategy for how it will work to reduce the risk of reoffending by these young offenders.

2.1 The Government agreed with the Committee's recommendation.

2.2 The 2009 cohort figures show a continuing reduction in the total volume of reoffending by juveniles, including reductions in the volume of reoffending for young people on custodial and more serious community sentences. The overall volume of reoffending has fallen 27% between 2000 and 2009. For custodial sentences, it has fallen by 29% and for community sentences, it has fallen by 19%. For community penalties, this suggests that while a higher proportion of offenders are committing at least one offence, those that are re-offending are committing fewer re-offences overall.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department's Green Paper *Breaking the Cycle* set out a clear strategy to ensure the effective use of sentencing for young offenders and to incentivise local partners to reduce youth offending and reoffending by using a payment by results model. The Government published its response to the Green Paper and introduced the Legal Aid, Sentencing and Punishment of Offenders Act 2012, which completed its Parliamentary passage on 25 April 2012.

2.5 The latest reoffending statistics[8] showed that 34.1% of young offenders re-offended within one year. This represents a rise of 1.5 percentage points compared to the previous 12 months and a rise of 0.4 percentage points since 2000. However, compared to 2000, the characteristics of juvenile offenders in the year ending June 2010 meant that they were more likely to re-offend. Reductions in the number of first-time entrants meant that, on balance, the cohort is comprised of more challenging young people, with more previous convictions, who are more likely to offend. After controlling for offender characteristics, the re-offending rate decreased by 2 percentage points.

2.6 The *Youth Custody Pathfinder* pilots were launched in October 2011 to incentivise local authorities in England and Wales to reduce reoffending and prevent young people escalating through the justice system. These two-year pilots focus on those youths at risk of custody enabling local authorities to deliver programmes best suited to help young people in their locality by targeting interventions where they consider they will have the greatest effect. Upfront investment has been provided to three consortia of local authorities (West London, North East London, West Yorkshire) and one single local authority (Birmingham). The Pathfinder areas were brought together in February 2012 to share learning on the different activities being undertaken through the pilots. An interim evaluation report is due to be completed by January 2013.

2.7 In 2009, the Youth Justice Board (YJB) launched Integrated Resettlement Support (IRS); an approach to tackle the problems faced by young people coming out of custody. The Board established the first resettlement consortia in the North West in 2009 to help promote effective partnerships across all the relevant agencies. Since then, a further six have been established across England and Wales and all are committed to the consortia way of working into 2012-13. Further consortia will be established. These consortia are better able to share resources and expertise of agencies that already have an excellent track record in delivering education, training and accommodation across the private, voluntary and community sectors and a final evaluation on the first three consortia is due to be completed in June 2012. In addition, £3.5 million of European Social Fund (ESF) funding is available for London boroughs for resettlement projects.

2.8 The Government has made a commitment to turn around the lives of some of England's 120,000 most troubled families, including many with a history of youth offending and anti-social behaviour. Louise Casey, Director General of the Troubled Families, wrote to the upper-tier local authority chief executives on 27 March 2012 with details of the financial framework for the Troubled Families programme. Historical youth offending is one of the criteria to be used to identify the families. Local authorities will be incentivised to tackle youth reoffending in these families under the programme's payment by results model. The Troubled Families programme went live on 1 April 2012 and will run until April 2015.

[8] Proven Re-offending Statistics Quarterly Bulletin July 2009 to June 2010. Ministry of Justice, April 2012.

PAC RECOMMENDATION 3

The assessment of young offenders, and the resulting sentence plans to tackle the causes of their offending, are key determinants of how resources should be targeted. The Youth Justice Board should use the lessons learned from these inspections and its own performance monitoring to drive improvement in weaker Youth Offending Teams.

3.1 The Government agreed with the Committee's recommendation.

3.2 Since the Youth Offending Teams (YOT) Core Case Inspection programme began in April 2009, the YJB has been collating lessons learnt from those inspections and from its own monitoring to identify those areas that require urgent improvement action. As a result of this, the YJB's performance improvement activity with both individual and groups of YOTs in 2010-11 has focused heavily on improving assessments. The YJB has rolled out a programme of assessment, planning, intervention and supervision activity and it will be monitoring the impact to identify improvements. In addition, in March 2011, the HM Inspectorate of Probation (HMIP) published aggregate findings to date from the ongoing Core Case Inspection programme. This report has been shared with YOTs to help inform their work.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The YJB has developed a YOT performance framework to drive forward improvement on weaker YOTs. Two key elements of the framework, which were rolled out nationally in April 2012, include self-assessment tools and a new peer review model. The self-assessment tool can be used by YOTs to assess the current delivery of local youth justice services, and identify, as well as challenge the barriers preventing progress. The youth justice peer review supports YOT partnerships in identifying strengths and areas for improvement in their current systems and practice.

3.5 Work has also taken place with HMIP to ensure the new YOT performance framework is aligned to HMIP's new risk-led inspection framework. The self-assessment tool has been designed to take account of HMIP expectations. The transparent approach to monitoring YOT performance informs HMIP's decisions on where to conduct risk-led and thematic inspections.

PAC RECOMMENDATION 4

Without evidence of effectiveness, there is a risk that reductions in funding for frontline services could result in cuts to the most successful interventions. The Committee welcomes the commitment from the Board and the Ministry to maintain research spending. They should focus on research that will enable them to assess which interventions are most effective and use the findings to direct funding into what is known to work.

4.1 The Government agreed with the Committee's recommendation.

4.2 There is good quality international evidence on the cost effectiveness of intervening with children at an early age to reduce offending in later life and with teenagers who are at risk of offending, for example: Family Nurse Practitioner Partnerships and Functional Family Therapy. There is also research that shows that family interventions such as Multi-systemic Therapy can reduce reoffending among young chronic offenders, and some of these approaches are currently being tested in a United Kingdom context. The YJB has invested in research, which has produced promising findings on how to rehabilitate and manage young offenders to reduce their reoffending behaviour. It is, however, acknowledged that between 2006 and 2009 there was significantly less research on interventions published by the YJB and it is acknowledged that there is a need to further develop the youth justice evidence base to help facilitate the targeting of resources.

Target implementation date

4.3 June 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 There will continue to be a youth justice research programme in 2012-13. The level of investment will be subject to available resources. The Department and YJB joint Youth Justice Analysis Programme (YJAP), established in late 2010, is continuing to coordinate the use of youth justice research resources across the YJB. The Department has already started a research programme and further work is planned to consider whether it is feasible to assess the relative effectiveness of juvenile criminal justice disposals on proven reoffending.

4.6 In December 2011 a report was published by the Department which assessed the predictive validity of Asset (the risk assessment tool used by Youth Offending Teams) on proven re-offending and this is the first output from the Juvenile Cohort Study.

4.7 The YJB launched an Effective Practice programme in April 2012, the aim of which is to identify intervention practice examples from the youth justice sector and published research. The programme will rate the examples according to their effectiveness and inform youth justice practitioners about the interventions they use. Changes will be rolled out incrementally over the coming year and include increasing the range of effective practice, making this practice accessible to the youth justice sector, working closely with the academic and social research sectors in classifying practice, supporting the implementation of effective practice in local services, and supporting the development and evaluation of innovation.

4.8 The YJB has established a key strategic partnership with the Social Research Unit (SRU) based at Dartington. In April 2012, the SRU published its first two cost-options reports for investing in children's services in the UK: 'early years' education' and 'youth justice'. The youth justice report provides data on the costs and benefits of a number of interventions to inform investment decisions by central and local government: Functional Family Therapy, Multi-dimensional Foster Care, Multi-systemic Therapy, and Aggression Replacement Training. The SRU reviews will be supported by an effective practice panel with membership from the academic and practice communities. The YJB's largest research study of interventions in the youth secure estate, which contains a strong focus on cost effectiveness and value for money will conclude in December 2012, with a view to it being published in spring 2013.

PAC RECOMMENDATION 5

The justice system assumes a level of understanding on the part of young offenders that will in many cases be lacking. This increases the risk that young people will not engage with or understand the requirements of their sentence plan. The Committee welcomes the commitment to review the assessment process and recommend that an explicit assessment is made of communication difficulties. Where such difficulties are identified, speech and language therapy should be considered as part of the sentence plan.

5.1 The Government agreed with the Committee's recommendation.

5.2 The YJB is currently undertaking a project to review the current assessment and intervention planning framework and to develop a new framework. The proposals will be formulated into a business case for approval by July 2011, following which implementation of the project will be started. The speed of roll-out of the new framework will be subject to assessment of the business case and to available resources.

Target implementation date

5.3 July 2014.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 There have been delays in implementing the proposed project to review the current assessment and intervention planning framework and to develop a new framework. Proposals will be submitted for consideration including by the Cabinet Office by June 2013. If approved, the proposed Assessment and Planning Interventions Framework to Youth Justice services will begin roll-out to YOTs towards the end of 2013. Roll out nationally will take at least nine months. Completion is expected in 2014, followed by post-implementation support.

5.6 It is proposed that the new assessment framework includes a discrete section for gathering relevant information about the needs of young people and a specific section on speech and language. The project will also seek to improve intervention planning by bringing all activities associated with addressing individual young people's behaviour together into one plan. The new assessment framework will be implemented from towards the end of 2013, for completion by July 2014.

PAC RECOMMENDATION 6

The Board should be much more active in building its knowledge of commonly used interventions, understanding their effectiveness, and disseminating this information to Youth Offending Teams across England and Wales, including by providing example course material and content.

6.1 The Government agreed with the Committee's recommendation.

6.2 Since its establishment, the YJB has used information from the research it has commissioned and from commissioned reviews of other available research to publish guidance to YOTs, including its *Key Elements of Effective Practice* series that many YOTs say they have found helpful. However, it is recognised that there is a demand for more information about what specific interventions contribute to reducing offending and for more effective dissemination of information about the effectiveness of interventions.

Target implementation date

6.3 March 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The YJB undertook a project to review and redesign its overall approach to effective practice during 2011 to introduce a much greater focus on sector defined priorities, as well as significantly improved dissemination mechanisms. Some changes have been implemented including an annual consultation within the youth justice sector on priorities. Further changes will be rolled out during 2012 and 2013 and include:

- increasing the range of effective practice and making this accessible to the sector;
- working closely with the academic and social research sectors in classifying practice;
- supporting the implementation of effective practice in local services; and
- supporting the development and evaluation of innovation.

PAC RECOMMENDATION 7

The Ministry's future performance management regime should focus more clearly on outcomes and identifying the factors that have led to changes in them.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Green Paper, *Breaking the Cycle: Effective Punishment, Sentencing and Rehabilitation of Offenders* set out the Government's intention to slim down central oversight of YOTs and ensure that performance monitoring in the future focuses on three key outcomes:

- reducing the number of first time entrants to the youth justice system;
- reducing reoffending; and
- reducing custody numbers.

7.3 The YJB developed a revised approach to YOT performance improvement that focused on these outcomes, and will move towards a lighter touch performance monitoring system and increase local accountability for delivering services. It is proposed to develop and test the new approach to performance improvement during 2011-12 with full implementation from April 2012 onwards.

Current Status

7.4 Implemented.

Action taken to implement recommendation

7.5 The new YOT Performance Framework addresses poor performing YOTs and places a heavy emphasis on the principle of sector-led improvement and outcomes. The two key initiatives supporting this agenda are the YOT self-assessment tools and a new peer review model. Both were piloted in March 2012, and were rolled out nationally in April 2012. An outcome-based approach to performance monitoring was also introduced to enable resources to be targeted to where they are needed most.

PAC RECOMMENDATION 8

The Ministry should identify the strengths in the way the Board has operated and publish a plan showing how the best elements will be retained within the new structure for youth justice.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Government's proposal to abolish the YJB was informed by the Government's three tests for non-departmental public bodies rather than a separate assessment of performance. . The Government will ensure that the strengths of the YJB are retained in the new structure for youth justice and that a distinct youth focus is maintained in the future. A Transition Programme Board was established to oversee the process and ensure that the strengths of the YJB were identified and incorporated with the new structure.

Current status

8.3 No longer being implemented.

Reason for no longer implementing recommendation

8.4 The YJB is not included within the Public Bodies Act 2012 and it will remain an arm's length body subject to triennial reviews in accordance with Cabinet Office guidance.

PAC RECOMMENDATION 9

The Ministry should ensure that it has the capacity to drive change on national priorities, and that it has the mechanisms and local intelligence it needs to work with Youth Offending Teams to improve value for money.

9.1 The Government agreed with the Committee's recommendation

9.2 The Government stated that the main functions of the YJB will continue should responsibilities be transferred to the Department including overseeing local YOTs and disseminating best practice. The aim is to build on the operational experience of YOTs and the YJB and bring this into the Department. .

Current status

9.3 Implemented.

Action taken to implement recommendation

9.4 The YJB is not included within the Public Bodies Act 2012 and it will remain an arms length body subject to triennial reviews in accordance with Cabinet Office guidance.

9.5 Provision has been made in the new organisational design of the YJB to:

- drive change on national priorities through the Effective Practice Team and Development Managers within the Development directorate; and
- to work with YOTs in England through Heads of Local Partnerships at area level in the Community Directorate and with Welsh YOTs through its Wales Division.

9.6 This will ensure effective oversight of YOTs is maintained and focused on key outcomes including reducing offending and reducing custody numbers while reducing central burdens on local areas.

9.7 The new YOT performance framework has taken into account the levers available in addressing performance issues, and these will be developed over the coming year as the new systems and approaches embed. This will include consideration of financial incentives and the Youth Justice Grant.

PAC RECOMMENDATION 10

The Board and the Ministry should encourage investment in prevention where reducing youth crime has been identified as a local priority. They should consider offering match-funding, piloting the use of other incentives such as payment by results, and sharing the proceeds of reduced custody levels.

10.1 The Government agreed with the Committee's recommendation.

10.2 The Government is continuing to provide funding to YOTs via the Youth Justice Grant, and this funding can be used for prevention work, as well as reducing reoffending. The Government is also providing other sources of significant funding that can be used for prevention, including the Department for Education's £2 billion Early Intervention Grant (EIG). The EIG enables local areas in England to decide how to invest in a range of programmes for children, young people and their families against local priorities, including preventing youth crime.

Target implementation date

10.3 June 2014.

Current status

10.4 Work in progress.

Action taken to implement recommendation

10.5 A survey of YOTs found that around 60% had successfully accessed the Early Intervention Grant (EIG) in 2011-12. YJB has continued to support YOTs with evidence and advice to help them bid locally for EIG funds. In line with the Government's localism agenda, decisions are made locally, based on local priorities.

10.6 The Department has developed Payment by Results approaches in line with proposals set out in the *Breaking the Cycle* Green Paper to act as an incentive for local areas to invest in the most effective activities, which prevent young people offending and re-offending. The two year pilot of Youth Justice Reinvestment Pathfinder Initiative, with local authorities, is providing them with upfront funding. The pilot went live in October 2011 and evidence will be collated to consider how the scheme can incentivise YOTs to improve their delivery. Following the completion of the pilots in October 2013, an evaluation report of the pilots will be published by April 2014. Agreement on next steps will be taken by June 2014.

10.7 The YJB is working with the Big Lottery's *Realising Ambition* Programme in England to develop programmes aimed at reducing first time offending. Led by Catch 22, a consortium of organisations will develop the programme and select, as well as implement a range of programmes, which will be rolled out during 2012.

10.8 For 2012-13, the Home Office has routed half of its Youth Justice prevention funding through police authorities (except for London, where this was 100%) in preparation for the introduction of Police and Crime Commissioners (PCCs) in November 2012. In 2013-14, PCCs will have the full Home Office prevention funding available to them. It is unclear whether all police authorities will channel this funding directly to YOTs. In 2012-13, the YJB will support YOTs in working across police force areas, preparing for the introduction of PCCs. This includes developing the evidence base and value for money information about current YOT programmes, to support PCCs' investment decisions.

10.9 The cross-government Troubled Families initiative will also work to address inter-generational problems and help to reduce the number of children drawn into the youth justice system.

Twenty Second Report

HM Treasury (HMT)

Excess Votes 2009-10

Summary of the Committee's findings

The Committee of Public Accounts scrutinises the reasons behind individual Departments exceeding their allocated resources and reports to the House of Commons on whether it has any objection to making good the reported excesses. In the context of the recent Comprehensive Spending Review, strong and effective financial management and control are more important than ever for Government Departments if they are to avoid exceeding their resource limits. Nevertheless, on the basis of the Committee's examination of the reasons why the Statistics Board and the Government Actuary's Department exceeded their voted provisions for 2009-10, the Committee has no objection to Parliament providing the necessary amounts by means of an Excess Vote.

In reaching its findings, the Committee took evidence from the Treasury on Excess Votes 2009-10 on 8 February 2011. The Committee issued its report on 10 February 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATION 3

Departments must ensure that staff are aware of the voted limits, and the repercussions of a breach, and that controls are in place for the accurate forecasting of income and expenditure to prevent future excesses. Departments cannot decide that incurring an excess vote is an acceptable consequence of failing to maintain appropriate financial control.

1.1 The Government agreed that achieving the spending reductions of around £80 billion in the Spending Review will require a robust approach to spending control. The Government also agreed that staff should be fully aware of the voted limits and the consequences of a breach.

Current Status

1.2 Implemented.

Action taken to implement recommendation

1.3 To take a robust approach to spending control and to make staff aware of the full consequences of a breach, the Government has implemented the Clear Line of Sight reforms, which align parliamentary controls with the Treasury's budgetary controls, providing departments with a single set of spending limits. Control of Annually Managed Expenditure (AME) has been strengthened and end–year spending control has been improved by replacing End of Year Flexibility with a new Budget Exchange scheme. Additionally, the Online System for Central Accounting and Reporting (OSCAR), which replaces the Combined On-line Information System (COINS), will provide enhanced management information for the Treasury and departments.

1.4 The Treasury has updated *Supply Estimates: a guidance manual and* the *Consolidated Budgeting Guidance,* and is refreshing *Managing Public Money.* It has also published *Improving Spending Control*. Together, Treasury guidance emphasises the importance of maintaining firm in-year control, provides clarification on voted limits, outlines consequences of breaches to controls and promotes departmental monitoring and sharing of spending information with the Treasury.

1.5 However, the Treasury recognises that a risk remains of some departments overspending. The Treasury will continue to analyse the reasons for any breaches and stress the need for departments to take appropriate action to mitigate them. Whether breaches occur will depend upon the effectiveness of departmental in-year financial management. The Government is therefore taking steps through the cross-government *Finance Transformation Programme* to help finance professionals and other staff across Whitehall develop the right skills to deliver continuing improvements in departmental financial management.

Twenty Third Report

Ministry of Defence (MOD)

Major Projects Report 2010

Summary of the Committee's findings

In October 2010, the Government published its Strategic Defence and Security Review (SDSR). The SDSR offered the Department an opportunity to bring its plans into balance with the expenditure limits set in the Comprehensive Spending Review. The Department has already cancelled projects such as the Nimrod MRA4 and Sentinel aircraft, accepting greater operational risks in some areas and writing off nearly £5 billion of taxpayer's money. The Committee will look further at the decision to cancel the Nimrod, which is to be scrapped with £3.6 billion wasted. Looking beyond these headline decisions, implementing the SDSR will require further decisions and the renegotiation or cancellation of a significant number of existing contracts to make the programme affordable.

The Department has a poor track record in taking such decisions on the well informed basis necessary to optimise value for money. Responsibility and accountability for projects are often eroded by frequent changes of Senior Responsible Owner. The Department failed to understand fully the financial consequences of the decision taken in December 2008 to delay the Queen Elizabeth Class aircraft carriers. In 2004 the Department removed funding for Tranche 3 of its planned procurement of Typhoon aircraft from its budget in the full knowledge of the robust contractual obligations it was under. The decision was based on the highly optimistic assumption that other partner nations would also not wish to purchase the final tranche of aircraft, so the requirement would be waived.

In reaching its findings, the Committee took evidence from the Department on 15 December 2010. The Committee issued its report on 22 February 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

The Strategic Defence and Security Review (SDSR) provided the Department with an opportunity to re-examine its commitments and make them affordable within the available budget. The scale of the budget shortfall has meant the Department has had to take difficult decisions to dispose of both the Nimrod MRA4 anti-submarine aircraft and the Sentinel surveillance aircraft, writing off nearly £5 billion in taxpayer's money and losing two important military capabilities.

Such decisions are never desirable. The fact that the Department has been pressured to make them offers a compelling argument why it must address the problems which have affected defence procurement for decades and on which our predecessors have commented extensively. If it does not, the cycle of failure will continue, with badly needed capabilities being delivered later than planned and cost increases crowding other capabilities out of the equipment programme.

1.1. The Government noted the Committee's conclusion.

1.2 The over-programming in the forward equipment plan is being addressed. The SDSR and Planning Round 2011 have made significant inroads into the gap in the Defence Budget. However, the Secretary of State has always been clear that although the SDSR had made substantial progress towards closing the gap, there was further to go. The Department expects the Defence Reform Review (DRR) to help close the gap further.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Secretary of State announced on 14 May 2012 that the defence budget is now in balance across the next ten years. The committed core equipment programme, together with the £8 billion of available unallocated headroom, will fund the capabilities required to deliver Future Force 2020, as set out in the SDSR. The equipment programme also includes a centrally held contingency reserve. This gives the Department the ability to deal with unforeseen strategic shifts and cost growth in its major programmes. The over-programming has therefore been addressed.

1.5 Mechanisms have been put into place to improve the Department's acquisition practices. This includes continuing the implementation of the measures outlined in the Strategy for Acquisition Reform, published in February 2011. These focus on a number of areas, including: improving management information, better provision and use of costing information, increasing transparency through a NAO affordability assessment of the equipment and support programme and developing more rigorous control of the equipment programme.

PAC RECOMMENDATION 2

The Treasury agrees with the Committee that affordability is a vital concept in any Accounting Officer's duties. The new Accounting Officer must at all times have affordability at the forefront of her mind and be prepared to act decisively if she sees it is threatened.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Permanent Under-Secretary for Defence is clear that ensuring Defence projects are affordable is one of her key priorities.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Permanent Under-Secretary for Defence is clear that ensuring Defence projects are affordable remains a priority, to support UK Armed Forces on operations. The announcement of the conclusion of PR12 is a major step forward. However, the Department must work hard to ensure that programme costs remain under control.

2.5 The Department will publish an annual assessment of the costs and affordability of the equipment programme. This will be accompanied by an independent assessment from the NAO. The Department is committed to greater transparency and to impose the discipline required to making, and keeping, its plans affordable.

PAC RECOMMENDATION 3

The Department should ensure that SROs remain in post during key phases of a project lifecycle. It should consider, as part of the work of the Defence Reform Unit, how to give them the authority and information they need to manage the delivery of the equipment for which they are accountable.

3.1 The Government agreed with the Committee's recommendation.

3.2 SROs are appointed for all the Department's capability programmes, not projects, and the primary responsibility is to realise the expected benefits from delivery of a programme associated with a number of projects across the Defence Lines of Development (for example: equipment, infrastructure, training).

Target implementation date

3.3 April 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Department has refreshed its SRO policy and, following an in depth review of the SRO role in Defence, is committed to ensuring that the issue of SRO's authority, span of control and tenure is addressed in line with establishing the new devolved Operating Model under Defence Reform. The Department will develop this new operating model and will consider ways to meet the concerns raised by the Committee. However, for military capability programmes it should be noted that changes brought about under Defence Reform will see further turnover of SRO responsibilities in the short-term.

PAC RECOMMENDATION 4

The Department should write to the Committee with a note by the end of April 2011 setting out in detail its forecasts of the costs of implementing the SDSR, the status of contract cancellations and renegotiations and how it has assessed the value for money of the decisions it is taking.

4.1 The Government submitted a note to the Committee at the end of April 2011.

PAC RECOMMENDATION 5

In future, before entering into new contracts, the Defence Board should consider the effects of decisions on the affordability of the overall defence budget. The Treasury also has an important role here to keep the Department honest and should offer a more robust challenge to the affordability and value of such decisions.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department does consider investment decisions in the context of the wider affordability of the defence budget. The Department is taking steps to bring the forward Equipment Programme into balance, and is committed to annual independent audit by the NAO on these plans. All investment decisions for equipment projects with an acquisition cost over £100 million are subject to approval by the Treasury and are required to demonstrate affordability and value for money.

5.3 The Treasury takes a strong interest in the wider affordability of the defence budget, and this will remain an important factor when considering investment decisions. The Treasury will therefore continue to offer a robust challenge to the affordability and value for money of such decisions.

Target implementation date

5.4 May 2012.

Current Status

5.5 Implemented.

Action being taken to implement recommendation

5.6 The Secretary of State announced the outcome of Planning Round 12 on 14 May 2012 and confirmed that the Defence Programme is now in balance. An affordable and fully funded committed core equipment plan, together with £8 billion of unallocated headroom, has been established, which includes commitments to current projects. This makes funding available for the major equipment programmes announced in the SDSR and the support costs for all current and new equipment. It also includes a centrally held financial contingency reserve, which gives greater confidence that the programme can be delivered within budget.

PAC RECOMMENDATION 6

The Department should make all key decisions - about entering into, cancelling or deferring equipment acquisitions - based on a complete analysis of the financial and operational consequences. The need for such analysis becomes more, not less, vital when decisions are made under pressure.

6.1 The Government agreed that key decisions should be made based on analysis of the best available information.

6.2 The Government agreed that the decision to defer the Carrier Programme added cost to that programme. When the decision was taken, it was recognised that it would lead to an increase in overall costs. The decision was based on the best analysis available at the time, within the constraints which applied to the conduct of the Equipment Examination. The objective at the time was to reprioritise investment to deliver those capabilities of the most immediate urgency. The detailed working through of the decision was subjected to the Department's usual investment scrutiny procedures, and required re-approval in the normal way.

Target implementation date

6.3 Steps to balance the budget achieved as of May 2012, with further reforms planned from April 2013 in the context of Defence Transformation.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 At the time of the SDSR announcement, the Department acknowledged that further work was required to understand fully the implications of carrier conversion. This was why the Department entered into an assessment phase to confirm the technical options and their associated timescales, costs and industrial implications. The Secretary of State announced on 10 May 2012 that, as a result of that work, the Department would move away from the Carrier Variant (CV) JSF and UK Armed Forces will instead operate the Short Take-Off and Vertical Landing (STOVL) variant JSF. The Department now has a much clearer understanding of the technical risks associated with conversion to a Carrier Variant-capable ship. It is now clear that an operational Carrier Strike capability, based on CV JSF and a ship fitted with cats and traps, is not affordable and could not be delivered until 2023 at the earliest.

6.6 Now that the defence programme has been brought into balance with future resources, including financial contingency and unallocated headroom of £8 billion, this should remove the pressure to defer or de-scope projects for reasons of short-term cash management and affordability. The importance of complete and robust understanding of the implications of all decisions is fully acknowledged, has been strengthened with improved investment approval procedures from April 2011, and will be strengthened further by a range of measures that the Department is taking as part of Defence Transformation.

PAC RECOMMENDATION 7

An inadequate understanding of costs is indicative of more deep rooted problems in the way the Department takes decisions. If not addressed, this will jeopardise the chances of delivering better value for money from the defence budget than has been achieved to date. In future the Department, working closely with the Treasury, should only take key decisions when it has sufficient financial and other management information to demonstrate the actions it chooses to take are both affordable and represent value for money.

7.1 The Government noted the Committee's conclusion and agreed that key decisions should be taken on the basis of financial and other information.

Target implementation date

7.2 Steps to balance the budget achieved as of May 2012, with further reforms planned from April 2013 in the context of Defence Transformation.

Current Status

7.3 Work in progress.

Action being taken to implement recommendation

7.4 The Government agreed that costs needed to be carefully analysed and acknowledged that further work was required to understand fully the implications of carrier conversion. The conversion was always acknowledged to be hugely complex and challenging. However, the scale of the work needed and the resulting complexity and costs did not fully emerge until the Department was well into its investigations. As the scale of the complexity became clearer, it was apparent that the original schedule would have to be extended, in turn leading to increased cost. This work indicated that the cost of conversion of one aircraft carrier had risen to nearly £2 billion, over twice as much as originally estimated, and the capability could not have been delivered until 2023.

7.5 The Department does not believe that either the delay, or this increase in costs, is acceptable. The cost growth would distort the equipment budget, and would extend the time period when UK Armed Forces would be without a carrier strike capability. The Secretary of State's announcement on the 10 May 2012 shows that the Department takes decisions, which are affordable and represent value for money. The Treasury continues to take a strong interest in the wider affordability of the defence budget, and this will remain an important factor when considering investment decisions.

PAC RECOMMENDATION 8

At present the Department does not hold any budgetary contingency to enable it to manage the cost implications of risks such as that which transpired on the Typhoon project. As it gets its budget back into balance, the Department should take a corporate view of risks to affordability and delivery across its equipment programme and establish, in consultation with the Treasury, a tightly controlled financial contingency to deal with the risks which emerge.

8.1 The Government partially agreed with the Committee's conclusion and recommendation.

8.2 The cost of the Typhoon project has not increased as a result of the 2005 decision to remove Typhoon Tranche 3 funding from the project. However, the Department accepts that buying the additional Tranche 3 Typhoon did add an additional unplanned pressure on the Defence Budget which required the Department to reprioritise planned expenditure.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 As the Secretary of State announced on 14 May 2012, the Director General Finance and Chief of Defence Materiel included a centrally held financial contingency reserve within the Equipment Programme. This will make it easier for the Department to manage project cost growth, without impacting the wider defence programme.

PAC RECOMMENDATION 9

The Defence Board is the key decision-making body in the Department and it should test every proposal it receives to make sure it is not "gold plated", does not have undue risk, is affordable within likely spending constraints and has sufficient flexibility to adapt if required.

9.1 The Government agreed with the Committee’s recommendation.

9.2 These issues are being addressed as part of Defence Reform work on equipment acquisition.

Current Status

9.3 Implemented.

Action being taken to implement recommendation

9.4 Following the appointment of the Director General Finance, as Chair of the Department’s Investment Approvals Committee, increased emphasis has been placed on compliance with these criteria when considering project approvals. The Department is increasingly looking to acquire equipment, which has the scope for incremental improvement through life to avoid the risk of ‘gold plating’ at initial acquisition. The Department has included a financial contingency reserve within the budget, which gives greater confidence that the programme can be delivered within budget. In addition to the committed core programme, and contingency, there is some £8 billion of headroom, which will allow further projects to be brought into the committed core programme.

Twenty Fourth Report

Department of Health (DH)

Delivering the Cancer Reform Strategy

Summary of the Committee's findings

Each year in England, around 255,000 people are diagnosed with cancer and around 130,000 die from the disease. The NHS spent £6.3 billion on cancer services in 2008-09. Tackling Cancer has been a priority for the Department of Health (the Department) since its ten year NHS Cancer Plan was published in 2000. In 2007 the Department published its five-year Cancer Reform Strategy (the Strategy) to deliver improved patient outcomes.

Over the last ten years, the NHS has made significant progress in delivering important aspects of cancer services, with falling mortality rates and consistent achievement of the cancer waiting times targets. Since publication of the Strategy in 2007, improvements have also been made in reducing the average length of stay and numbers of patients treated as day cases. A significant increase in resources has contributed to these improvements, but the progress has also been achieved through clear direction and high profile leadership underpinned by strong performance management linked to waiting times and mortality targets.

The Department has refreshed its approach to delivering improvements in Cancer Services, with the publication in January 2011 of *Improving Outcomes: A Strategy for Cancer*. The Committee considers it a priority that the Department should continue to improve information on cancer-related activities. The Committee looks to the Department to develop robust mechanisms to ensure the collection of high quality, comprehensive and timely data to raise awareness of cancer, provide transparency in the performance of commissioning consortia, and ultimately drive improved outcomes for cancer patients.

In reaching its findings, the Committee took evidence from the Department on 7 December 2010. The Committee issued its report on 1 March 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

In the transition to a new NHS structure, the Department must maintain the momentum it has recently established in improving information on cancer related activities. The recommendations that follow are intended to help the Department further improve delivery of cancer services and improve outcomes for cancer patients.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Department welcomed the Committee's recognition that progress had been made in improving cancer services and outcomes over the last ten years. The Department agreed that variations in service delivery need to be tackled, and performance raised to the standard of the best; and that, to drive further improvements, the momentum must be maintained in the programme to ensure that high quality, comprehensive and timely data are available and used when decisions are made about the delivery of services

Target implementation date

1.3 2014-15.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The National Cancer Intelligence Network (NCIN) has continued to improve the data available to help commissioners and provider to plan and deliver the right services and the best possible outcomes. *An Intelligence Framework for Cancer* was published in December 2011 setting out what the Department is committed to doing and its aspirations for cancer intelligence.

1.6 The Cancer Commissioning Tool Kit (CCT) has been expanded; registered users can now access general practice (GP) profiles, Primary Care Trust (PCT) profiles and radiotherapy profiles. Cancer service profiles for breast and colorectal services include outcomes information relevant to cancer in secondary care and contain information for benchmarking and reviewing variation at acute trust and multi-disciplinary team level. Radiotherapy profiles allow local centres to benchmark against national average data.

1.7 Quality Accounts are annual reports to the (local) public from providers of NHS healthcare services about the quality of services they provide and should mirror provider's financial accounts. A draft guide to help providers to use Quality Accounts more effectively, to improve cancer services and outcomes, has been circulated to cancer networks. However, it should be recognised that after April 2013, it will be for the NHS Commissioning Board (NHS CB) to work with its partners and others to ensure there is the necessary information to support the objectives of improving outcomes.

PAC RECOMMENDATION 2

The Department should report back to the Committee by the end of 2011 on the outcome of the pilots and the impact that raising public awareness of the symptoms of cancer has on achieving earlier diagnosis.

The Department should ensure that Commissioners investigate, as a matter of urgency, those GP practices that have both high and low referral rates and compare their referrals with their use of diagnostic tests.

2.1 The Government agreed with the Committee's recommendations.

2.2 Whilst the Department agreed with the Committee about the importance of commissioners investigating GP practices with very high or very low usage of the two-week urgent referral pathway for suspected cancer, its role is to provide the information about referral patterns, for commissioners to use. The data about GP usage of diagnostic tests are not yet generally available.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department published the evaluation report of the regional bowel cancer awareness campaign, piloted in the East of England and South West in January 2011. A copy of this report, which was published in March 2012, was passed to the Committee. A separate report summarising the evaluation of the local projects to raise awareness of the symptoms of bowel, breast, and lung cancer has also been published[9]**.** A new data collection, showing GP practices' usage of key diagnostic tests, went live in April 2012. Once this diagnostic test data is routinely available, it will be included in the CCT kit and the GP practice profiles. This will feed back benchmarking data to GPs and, where appropriate, be used to encourage the increased use of tests, leading to earlier diagnosis.

PAC RECOMMENDATION 3

The Department should work with commissioners to get a firmer grip on the reasons for variations and what impact this has on patient outcomes. In order to reduce the risks of a postcode lottery in access to treatment and services, the Department should identify and implement clear and practical actions that can be taken to spread good practice quickly so that the worst performing Primary Care Trusts (PCT)s can be brought up to the standards of the best.

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

[9] Promoting early diagnosis of breast, bowel and lung cancers: First report 2010-2011 local projects.

3.2 While many of the variations are unexplained, some are understood. For example, screening uptake is generally lower in socially disadvantaged areas. Equally, the productivity of radiotherapy machines in some sparsely populated areas is always going to be below the optimum because they serve a relatively small population, but it is important to have machines located there in order to prevent patients having to travel very long distances, often daily, over significant periods. Because of the current poor quality of chemotherapy data, it is difficult at present to assess the extent of variations in chemotherapy treatment.

Target implementation date

3.3 2014-15.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Department has continued to ensure that good practice material from NHS Improvement (NHSI) and the National Cancer Action Team (NCAT) is disseminated widely. The national teams have produced a number of publications, and hold regular national events. The NCAT has been tasked with establishing a project to look at radiotherapy productivity and capacity and to help the NHS to achieve maximum productivity. *A productive radiotherapy service* has been produced and shared with radiotherapy centres.

3.6 Through the NCIN, the Department and the NHS Commissioning Board will continue to ensure that commissioners and providers have the comparative data to identify when they are performing less well. Clinical commissioning group pathfinders have worked with the Department to identify the information and support required to commission cancer services effectively. Service profiles and key messages for commissioners have been disseminated and made available via the CCT. The chemotherapy dataset collection became mandatory for NHS Trusts from April 2012.

PAC RECOMMENDATION 4

The Department should develop a cancer information strategy which includes common standards for the quality and timeliness of data on cost, activity and outcomes. It should clarify how it intends this information to be used to improve patient outcomes and to inform patient choice.

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

4.2 While ideally all the information needed to support effective decision-making would be available, it has been necessary to prioritise some aspects of desired improvements over others. Ten years ago, the focus of the Cancer Plan was on improving treatment, establishing multi-disciplinary teams and reconfiguring services. The Cancer Reform Strategy in 2007 marked a shift towards addressing the more effective use of resources and better use of information. *Improving Outcomes – a Strategy for Cancer* moves the Department further forward in terms of delivering the information needs of commissioners, providers, clinicians, patients and the public. The approach to cancer data will be in line with the Government response to the *Information Revolution* consultation and the corresponding *Information Strategy for Health and Adult Social Care in England*, published on 21 May 2012 [10], which will take forward the information agenda more generally.

Current Status

4.3 Implemented.

[10] The Power of Information: putting all of us in control of the health and care information we need

Action taken to implement recommendation

4.4 The Department has worked with the NCIN to publish a framework document that brings together improvements to cancer information, and further commitments for continued improvements, with proposed timelines for delivery. The framework, published in December 2011, sets out the role of those organisations involved in cancer intelligence, and how commissioners, providers and patient groups are supported in putting information to work to improve outcomes for patients.

4.5 The 2010-11 Programme Budgeting data was published on the Department's website in December 2011[11]. The data includes a breakdown of Cancer expenditure by care setting. This allows local commissioners to investigate, in more detail, how their expenditure and health outcomes compare to other commissioners. The new care setting breakdown will also enable improvements in data quality by providing greater transparency of expenditure figures, and highlighting areas where improvements are required. The Department will continue to make changes to improve data quality.

PAC RECOMMENDATION 5

The Department needs to convey to cancer registries and, in turn, to clinical teams the value and importance of recording accurate staging data at the point of patient diagnosis. The Department should ensure that staging data is complete and timely in at least 70% of cases in each region by the end of 2012.

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

5.2 The Operating Framework for the NHS in England 2011-12 made it clear that providers are expected to include staging data in the information they feed to cancer registries.

Target implementation date

5.3 End of 2012.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 The Operating Framework for the NHS in England 2011-12 made clear that providers are expected to include staging data in the information that they feed to cancer registries. Cancer registries are expected to have staging data for at least 70% of their cases by the end of 2012.

5.6 A major modernisation programme is being undertaken across cancer registries. The process of cancer registration will be revolutionised by the introduction of a unified cancer registration service across England. Over the next two years, all registries will migrate to the English National Cancer Online Registration Environment (ENCORE) system, which will allow all data sources to be processed through a single central clearing house.

5.7 A National Cancer Staging Panel has been established to ensure high quality and consistent recording, interpretation and usage of staging information.

PAC RECOMMENDATION 6

Cancer registries should be required to provide data to the Office for National Statistics within six months of the end of the relevant calendar year to enable the Department to speed up the provision of comprehensive national and regional outcomes data to commissioners.

[11] Programme budgeting PCT benchmarking tool 2011

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

6.2 The Government agreed that the length of time it takes to get survival rate information means that this is not a good method of rapidly monitoring changes in performance. However, even if cancer registries provided data more quickly, which they have committed to do, the time lag will continue to be significant, which is why the Department is developing proxy measures.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 As part of the new National Core Contract, the Department has mandated all registries to use key national feeds, supplemented by emerging specialist and local data feeds. Where possible, national feeds should be processed once, on behalf of all, to eliminate duplication. A specification was written with the registries to make this transition and was included in contracts for 2011-12 and has been rolled forward to 2012-13. Registrations for 2010 were completed within 12 months. Once registries have migrated to ENCORE, near real-time data collections will be possible, feeding back to clinical teams on a monthly basis, and reporting incidence data within six months.

6.5 The Department will want to work with Public Health England and the NHS CB to implement a strong governance model across all registries, to ensure a new core contract is agreed and consistently delivered nationally.

PAC RECOMMENDATION 7

In moving towards commissioning by GPs, the Department should work with the NHS Commissioning Board to set out clear standards requiring commissioners to demonstrate how they are obtaining value for money. The Department should say how it will measure improvements and what incentives and penalties will be used to ensure that value for money is at the heart of commissioning decisions.

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

7.2 Moving forward, it will be fundamental for commissioners to fully understand the costs and value for money of their services, with the challenging financial climate the NHS faces, despite the Government protecting the NHS, with cash funding growth of £10.6 billion (over 10%) by 2014-15. To make the necessary investment in patient care, services will need to be more productive and efficient.

Target implementation date

7.3 October 2012.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Department accelerated work to develop tariffs for chemotherapy and radiotherapy during 2011-12. There is now a mandated currency with non-mandatory prices operating for radiotherapy and chemotherapy delivery services from April 2012.
7.6 The Department will set a mandate for the NHS CB, which will include key outcomes and information about available resources. The Department is still considering what the mandate will say about improving efficiency in the new commissioning system. However, value for money will remain an issue for local commissioners. The draft mandate was published alongside the formal consultation in July 2012.

PAC RECOMMENDATION 8

The Department should improve its information on outpatients and other forms of follow-up care by requiring such activity to be properly coded. The Department should also identify and disseminate examples of good practice where savings and benefits to patients are identified and evaluate what impact alternative approaches to follow-up care have on hospital activity.

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

8.2 Despite the good 2010 Spending Review settlement for health, the NHS faces the challenge of achieving up to £20 billion efficiency savings by 2014-15 in order to keep up with pressures on the service from an ageing population, improvements in technology and better drugs. This is an unprecedented challenge, but every penny saved through efficiency measures can be reinvested to meet the additional demands. The challenge also means there will be a drive towards delivering services away from expensive inpatient units, and closer to patients' homes.

Target implementation date

8.3 2014-15.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 NHSI is working with a range of sites around the country on models of follow-up care. The Proof of Principle[12] stage is complete, with standardised pathways agreed and models of care defined based on safe risk stratified care for patients. Models of care are based on ensuring that the needs of individual patients are met. Savings will be made by reducing unnecessary outpatient appointments, and there will be an economic value to patients by not having to attend such follow-up appointments. Successful rollout will be dependent upon a shift in commissioning services based on 'packages of care' rather than activity based.

8.6 There is an ongoing process of disseminating examples of good practice through publications, websites, clinical forums and clinical journals. The latest publications for the Children and Young People and Adult Survivorship work streams were launched during 2011-2012 charting their latest outcomes. There will also be a poster publication comprising case studies, from the test site teams, illustrating their work and outcomes. All of these publications, including interactive pathways, will be available on the NCSI and NHSI websites.

8.7 The NHS Information Centre is working in partnership with the Academy of Royal Colleges to improve outpatient health episode statistics data and coding. From April 2013, it will be for the NHS CB and Clinical Commissioning Groups to take this recommendation forward in new commissioning arrangements.

[12] In this case, "proof of principle" means the concept that stratified pathways of care with the focus on self management with remote monitoring might reduce outpatient follow up had been proven. The next stage would be to test transferability of the principle before national roll out.

Twenty Fifth Report

Department for Work and Pensions (DWP)

Reducing errors in the benefits system

Summary of the Committee's findings

The benefits system is large and complex. There are around 30 different types of benefits and pensions, and £148 billion was paid out to 20 million people in 2009-10. The Department for Work and Pensions (the Department) estimates that £2.2 billion of overpayments and £1.3 billion of underpayments were made in 2009-10 as a result of administrative errors by its staff and mistakes by customers. Whilst the value of these errors as a proportion of total benefit expenditure is low, the amounts involved are still very significant sums of public money and have contributed to the Department's accounts being qualified for 22 consecutive years.

Progress on reducing error requires a better understanding of where and why errors arise, and a greater focus on preventing errors occurring in the first place. The Department is not making use of all available sources of information, such as calls to advice lines or feedback from quality checking teams, to identify the reasons why staff make mistakes and where guidance and training efforts should be directed as a result. Greater use of risk profiling would help identify which customers are most likely to make mistakes on their benefit claims, allowing interventions to be targeted more effectively. Wider welfare reforms have the potential to reduce errors in the long term by simplifying benefits administration, but waiting for the implementation of the Universal Credit is not an option. The reforms will not be implemented in time to contribute much towards the 2015 target, and it is therefore essential that the Department maintain its current focus on getting error levels down now.

In reaching its findings, the Committee took evidence from the Department and Jobcentre Plus on 8 December 2010 and further evidence from the Department on 1 February 2011. The Committee issued its report on 10 March 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

By May 2011, the Department should write to the Committee with a clear delivery plan setting out the interventions it will implement to meet the target, how it will monitor progress and the corrective measures it will take if progress toward achieving the target is inadequate.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Department is committed to reducing the level of fraud and error in the benefit system (currently 2.0% of benefit expenditure as per the latest 2011-12 Preliminary estimates). The joint DWP / HMRC fraud and error strategy sets out a whole new approach to this issue, and both Departments will be introducing a range of new initiatives focused on tackling fraud and error across the whole of the welfare system.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Department provided the Committee with a delivery plan on 3 June 2011, which described the planning assumptions, plans for delivery, governance and progress monitoring arrangements for meeting the target.

PAC RECOMMENDATION 2

The Department's drive to reduce overpayments must not be at the expense of reducing underpayments. It should set clear goals to reduce underpayments which are as challenging as its target on overpayments.

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

2.2 The Department's actions to reduce levels of fraud and error are focused on improving levels of overall correctness, and will therefore address both over- and underpayments. As overpayments from benefits and tax credits are the largest area of loss, the strategy sets out a target to reduce these by 25% by March 2015. There is not a comparable target for underpayments, but this does not signify that the Department is any less committed to ensuring that its customers get the money to which they are entitled. In 2010-11, Jobcentre Plus identified and corrected 24,337 cases where there were underpayments totalling just under £11 million. The Pension, Disability and Carers Service identified and corrected 18,788 cases with underpayments totalling around £41.5 million. The Department is currently in the process of collecting those figures for 2011/12.

Target implementation date

2.3 October 2012.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 As part of the Department's benefits realisation strategy, the Department is developing a Monitoring and Evaluation plan that will track the Annually Managed Expenditure (AME) savings of fraud and error initiatives, and estimate the impact on the monetary value of fraud and error. This will include both underpayments and overpayments.

PAC RECOMMENDATION 3

The Department should complete a full cost-benefit assessment of each intervention, and keep these up-to-date, so that resources can be targeted on the interventions that are most cost-effective at reducing error.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Department has already completed the first stage in its new, systematic process to assess and regularly review cost-benefit analysis for all of its fraud and error interventions. *Work Programmes* have been produced for all key benefits, and set out for the first time, benefit by benefit, a comprehensive list of all fraud and error reduction activities that the Department is taking forward. These programmes allow the Department to understand more fully the range of actions that are in place, their costs, benefits, risks and key milestones.

Target implementation date

3.3 April 2013.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 Over the past few months, the Department has worked to improve the cost-benefit analysis of all its new initiatives to ensure a consistent methodology is applied. The Department is also in the process of formalising a schedule for introducing updates to the methodology and to the expected savings, taking into account and developments in the implementation of the initiatives.

PAC RECOMMENDATION 4

On administrative error, the Department should draw on available sources of information, such as staff feedback and calls to internal helplines, to detect where benefits processing staff are having problems. The Department should then use this information to revise guidance and training in order to help staff avoid making the most common mistakes.

On customer error, the Department should make greater use of risk profiling to identify those customers most likely to make mistakes on their benefit claims. The Department introduced risk assessments for Housing Benefit in 2003 and Income Support in 2010, but has yet to extend these to all benefits. The Department should then target appropriate actions, such as contacting customers to check if there have been changes in their circumstances which would affect their benefit entitlement, and evaluate such interventions.

4.1 The Government agrees with the Committee's recommendation.

4.2 The Department already gathers a range of information from staff through on-line forums and surveys, through workshops and via networking and good practice groups, and uses this to inform both the development of new initiatives targeting fraud and error in the benefit system, and improve guidance, learning and development products for staff.

Target implementation date

4.3 April 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 As part of its counter fraud and error programme, the Department is developing an Integrated Risk and Intelligence Service (IRIS), which will be a central hub of data and intelligence to support counter-fraud activity, and also to reduce error. IRIS will build on the Department's current use of risk profiling, and will extend it by employing advanced analytical techniques, and a wider range of data. Through IRIS, the Department aims to reduce fraud and error at the point of claim by carrying out data matching and risk scoring before benefit is put into payment; and to keep claims correct by identifying unreported changes of circumstance. IRIS will also enable improved analysis and evaluation of interventions. IRIS is a key enabler for Universal Credit, which is due to be implemented in October 2013, but it will also provide risk scoring for claims to other benefits.

PAC RECOMMENDATION 5

The Department should make sure agencies learn from each other so that all agencies adopt best practice in their quality assurance arrangements. The Committee expects Jobcentre Plus to fulfil its commitment to implement a system of independent checks by April 2011.

5.1 The Government agrees with the Committee's recommendation

5.2 Jobcentre Plus created a new independent checking tier in April 2011. The structure is currently at an early stage of development with further work to do in refining the checks undertaken, but staff have already been taken out of the operational management structure as the first step in providing the level of independence that the Committee was seeking. A new end-to-end check that covers all aspects of the delivery process is currently being developed for use by this independent checking team, prior to full national rollout from October 2011.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Department has now fully implemented a system of independent checks, referred to as the National Checking Team, for Jobseeker's Allowance (JSA), Income Support (IS) and Employment and Support Allowance (ESA). The implementation of checks was phased to ensure that the checking process for each benefit was properly designed and tested with lessons being learned that were applied to the next phase of implementation. The implementation began in April 2011 with the creation of an independent checking regime for IS claims. This was followed by national implementation of checks for new JSA and IS claims in October 2011, followed in January 2012 with checks for IS and JSA new claims maintenance and in March 2012 by the implementation of checks for ESA claims and claims maintenance.

PAC RECOMMENDATION 6

The Department must ensure that its commitment to reduce error remains a priority and is sustained while preparations for Universal Credit go ahead.

6.1 The Government agrees with the Committee's recommendation.

6.2 The strategy clearly sets out the Government's commitment to reducing both fraud and error before and beyond the introduction of Universal Credit. Many of the error focused initiatives that will be introduced as part of strategy implementation will come into effect before 2013. For example, work to introduce a range of IT fixes to help staff better navigate and operate benefit IT systems has already begun.

Target implementation date

6.3 April 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 Since April 2011, the Department has also invested heavily in compliance activities. Dedicated centres have been set up to spot and tackle cases where it is believed that people have not reported a change in their circumstances. A return on investment of approximately £1 spent for every £9 saved was achieved through the Case Cleanse programme across the major benefits. In addition, the Department has been working in partnership with local authorities. In October 2011 the Department launched a new data system that provides up to date information on tax credits to Local Government helping to detect Housing Benefit overpayments.

6.6 During 2011-12 the Department also undertook a number of joint criminal investigations with HMRC with a view to prosecuting claimants who have committed both tax credit and benefit fraud. By the end of March 2012, 52 convictions had been secured, resulting in the identification of over £1.1million in recoverable overpayments.

6.7 The counter fraud and error and programme is actively engaged with Universal Credit and other welfare reform programmes to ensure that fraud and error prevention, and security, is built into their design. The Department is embedding this culture within all its policy areas.

Twenty Sixth Report

Department of Health (DH)

Management of NHS hospital productivity

Summary of the Committee's findings

Over the last ten years Government spending on the NHS increased by 70%, from £60 billion in 2000-01 to £102 billion in 2010-11, with around 40% spent on services provided by acute and foundation hospitals. This substantial increase in funding enabled hospitals to invest in more, better paid staff and improve their buildings and equipment. In return there have been significant improvements in the performance of the NHS, particularly in those areas targeted by the Department of Health (the Department) such as hospital waiting times and outcomes for patients with cancer and coronary heart disease. However, the level of hospital activity has not kept pace with the increased resources as hospitals focused on meeting national targets, but not on improving productivity, and productivity has actually fallen over the last decade.

There are risks to the NHS being able to deliver up to £20 billion savings annually, for reinvestment in healthcare, alongside implementing a substantial agenda of reform. Productivity improvements will be key to delivering these savings. The Department points to areas where the reform agenda complements the delivery of savings; for example, by reducing management costs associated with Strategic Health Authorities and Primary Care Trusts, and in the requirement for hospitals to improve their performance prior to becoming Foundation Trusts. The Department and an expert independent witness told us that although the risks to delivering savings have increased in light of the planned reforms, the reforms have also increased its ability to improve productivity in some areas. The Committee expects to return to the issues of NHS efficiency savings and productivity in future reports.

In reaching its findings, the Committee took evidence from the Department and the NHS on 18 January 2011. The Committee issued its report on 15 March 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

The following recommendations are aimed at the transition phase of the planned reforms, during which the Department of Health's central focus on productivity and efficiency will remain vital. The Committee will be reviewing progress in delivering these savings, including productivity improvements, in due course.

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

PAC RECOMMENDATION 2

Though the increased money going into the NHS has helped to reduce waiting times, improve facilities, and deliver higher quality care, the Department promised at the same time to improve productivity. It failed and, in future, the Department needs to have a more explicit focus on improving hospital productivity if it is to deliver its ambitious savings targets without healthcare services suffering.

2.1 The Government agreed with the Committee's recommendation.

2.2 Productivity has been shown to have declined in hospitals from 2000 to 2008 by -1.4% per annum according to figures produced by the Office for National Statistics (ONS). The Department requires higher levels of productivity in hospitals in the future to achieve the savings it needs.

Target implementation date

2.3 March 2015.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 In order to achieve the up to £20 billion of savings required over this spending review period, the NHS needs to improve on the previous trend of declining hospital productivity. Quality, Innovation, Productivity and Prevention (QIPP) is the response to the challenge of improving the quality of care the NHS delivers whilst making up to £20 billion of recurrent efficiency savings by 2014-15.

2.6 QIPP will support the NHS by focusing on areas where quality and productivity can be improved simultaneously. In areas where the NHS has requested support, the Department has developed QIPP national workstreams.

2.7 The NHS has developed Special Health Authorities (SHA) integrated business plans that, amongst other issues, set out how each region will meet their challenges. These plans identified £17.4 billion of efficiency savings to meet an estimated challenge of £16.4 billion across all SHAs. These plans have been signed off by the Department and published locally.

PAC RECOMMENDATION 3

The Department should resolve differences with the Office for National Statistics (ONS) and agree measures for both NHS productivity as a whole and for hospital productivity specifically, which account effectively for changes in quality. This should be done in time for the ONS's 2012 annual report on NHS productivity.

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

3.2 The Department and the ONS agreed on how to measure productivity where data is fully available. This would look at the change in the volume of inputs relative to the change in the volume of outcomes received by patients. However, the Department is unlikely to ever be in such a position where this data is available, as this would require capturing perfectly the health outcome change for each and every patient seen and find a way to be able to attribute this to the NHS. The measurement of healthcare productivity is more advanced than other public service areas, and it is recognised that UK health productivity measurement is more sophisticated than most other countries.

Target implementation date

3.3 October 2012.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Department and ONS have discussed the current measure of productivity and how it may be improved. A number of issues were raised, including the measurement of quality, how to account for the activity commissioned from non-NHS bodies, improving the quality of the workforce data, incorporation of Patient Reported Outcome Measures, capital input estimation, and primary and secondary care drug estimates.

3.6 Some improvements, in data sources, have been considered possible to introduce in the next article, for example: making use of new electronic records of information on staff inputs and expenditure on agency staff and issues, such as the most appropriate statistical treatment for areas unmeasured output. The ONS, in consultation with the Department and other devolved administrations, will draw up a schedule of data and methods changes that are proposed to be included in the next productivity article, which will be published ahead of the next healthcare productivity article. Further analysis on data and methods will ensure that a consistent approach is maintained in the production of its estimates of UK healthcare productivity.

PAC RECOMMENDATION 4

The Department should make clear the responsibility of hospital Boards to use and act on comparable data with a view to identifying scope for improvement. Once it has agreed the productivity measure, the Department should then publish hospital level productivity data. The Committee expects the Department's oversight arrangements, under the reformed NHS, to include a role in both facilitating the sharing of good practice and in ensuring that under-performance is challenged.

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

4.2 Even after allowing for quality, cost differences between hospitals providing similar services are likely to remain. The Department publishes a reference costs index (RCI), which is a measure of the relative efficiency of NHS hospitals. With all other factors being equal, hospitals with services largely in the scope of tariff, and with a below average RCI, should expect to generate a surplus under Payment by Results as their costs will be lower than the national tariff. In 2010, the Department asked the CHE at York University to review the additional costs associated with specialised care to inform the level of top-ups, which are made to the tariff. In the course of their analysis, York found substantial variation in the average cost of treatment across hospitals, which was not due to the provision of specialised services, nor to the characteristics of each hospital's patients. The Department accepts that more work is needed to understand the reasons for these differing costs.

Target implementation date

4.3 July 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 The Department has, under an existing research contract with the Centre for Health Economics at York University, commissioned work to analyse the trend in hospital level productivity, allowing trusts to compare their performance against others. This will follow the same methodology as the national level productivity indicator and will be the most comprehensive measure of trust level productivity that has been created. The work will also look at the causes of variation to allow trusts to identify which factors unique to their hospital may be causing above or below average productivity performance.

PAC RECOMMENDATION 5

The Department should explain what more it will be doing to support hospitals and Commissioners to use national pay contracts to deliver productivity improvements.

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

5.2 The new contracts were designed to secure increased numbers of staff to deliver improvements in NHS services and give Trusts the tools, advice and guidance to match staff resources and activities to patient need and organisational objectives and improve productivity. The Department has used its Service Level Agreement with NHS Employers to ensure that ongoing support has been made available to employers. For example: NHS Employers has already collected and published good practice case studies in the use of the Knowledge and Skills Framework for Agenda for Change and on approaches to realising the benefits of the consultant contract through effective job planning. NHS Employers will shortly publish jointly with the British Medical Association further guidance on linking consultant job planning to organisational objectives.

Current Status

5.3 Implemented.

Action being taken to implement recommendation

5.4 NHS Employers published, jointly with the BMA, further guidance on linking consultant job planning to organisational objectives.

PAC RECOMMENDATION 6

The Department should report back to the Committee by July 2012 on hospitals' progress in reducing emergency admissions and the consequent impact on hospital productivity.

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

6.2 While demographic pressures continue to drive up underlying demand, there are a number of factors that are likely to limit emergency admissions going forwards:

- change to Payment by Results rules in 2010-11 limit payments to hospital trusts for this activity;
- from 1st April 2011 hospitals may not receive a payment for an emergency admission within 30 days of discharge from an elective admission, and local flexibilities may extend this to non-elective admissions;
- the GP contract for 2011-12 includes an element incentivising reductions in hospital activity; and
- the Quality, Innovation, Productivity and Prevention programme has a number of workstreams that will contribute. In particular, the long-term conditions workstream will focus on improving the quality and productivity of services for these patients and their carers, so they can access higher quality, local, comprehensive community and primary care. This will in turn, slow disease progression and reduce the need for unscheduled acute admissions by supporting people to understand and manage their own conditions.

6.3 These interventions are likely to have some effect in the short term and the Department will report back to the Committee in July 2012 on the progress of the system in reducing emergency admissions. Indeed, this data should be easily available as emergency admissions indicator in the NHS Operating Framework. However, the QIPP programme's transformational change is likely to mean more significant reductions will be realised after this date. The data available by July 2012 will only cover the period up to February 2012.

Target implementation date

6.4 March 2015.

Current Status

6.5 Work in progress.

Action being taken to implement recommendation

6.6 The workstream is working with the NHS to roll out the implementation of three drivers for high quality, sustainable care: risk profiling, integrated care teams and maximising self care. This will build on the progress already made by local health economies. As such, the workstream are currently working with Clinical Commissioning Groups and their economies covering 35 million of the population to ensure sustainable results for the long-term.

6.7 An important element of the workstream is the development of the year of care capitation mechanism based on levels of need - not diagnosis. This has the potential to be a game changer for the incentives that currently operate for admission. It will drive sustainable system improvements across the whole sector, which will facilitate the development of credible high quality community provision to manage and provide an alternative to the acute hospital. The focus of the workstream is on reducing the overall number of unscheduled admissions, where there is a positive trend.

6.8 Overall, non-elective activity levels are stable or lower than for the same period last year. This suggests that the trend of steady increases has now begun to change and put into context of a continuing increase in the demand for acute services, emergency admissions are being avoided or treated in more appropriate settings.

6.9 As this is the first year of the QIPP delivery, the Department would expect to see the larger gains achieved in the latter years of the QIPP delivery period, when some of the major transformational changes start to bed in.

PAC RECOMMENDATION 7

Before handing over responsibility to Monitor, the Department should set out:

- ***its plans for extending the system to the 40% of hospital activity not yet covered;***
- ***how tariffs will be aligned with the expected efficiency gains; and***
- ***how it will mitigate the risk that, were there to be increased price competition, this might reduce the quality of service, or hospitals may decide not to provide some services.***

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

7.2 In 2011-12 and 2012-13, the Department is introducing or mandating currencies for adult and neonatal critical care, ambulance services, chemotherapy, cystic fibrosis, radiotherapy and HIV outpatients, and mandatory tariffs for cystic fibrosis and renal dialysis. The system will extend from around 60% of acute hospital income currently to around 65% in 2012-13. Around 15-20% of acute hospital income comes from training, research and development, and other sources. Acute services remaining outside the tariff would be a mixture of specialised services such as burns and palliative care, and non-consultant led and other activity, where caution is needed because of the risks of activity inflation associated with introducing a tariff.

7.3 The national efficiency requirement in 2011-12 is 4%, offsetting pay and price inflation, which is assessed at 2.5% to give net price reduction of -1.5% to both tariff and non-tariff services. This is consistent with the £20 billion efficiency savings across the Spending Review period. 2% of the efficiency is embedded within the tariff through setting all tariffs 1% below the mean of reported average costs, better targeting of long stay payments, and more best practice tariffs.

7.4 Prices will remain fixed, so that competition continues to be on the basis of quality not price. This does not mean that there should not be some flexibility in the system, to allow for provision of services to patients, which would not otherwise be provided. In 2011-12 the Department has introduced a flexibility allowing commissioners and providers to agree a variation to price which is lower than the published tariff. This flexibility cannot be imposed through competitive tender, and the quality of service to the patient must not diminish in any way.

Target implementation date

7.5 Ongoing.

Current Status

7.6 Work in progress.

Action being taken to implement recommendation

7.7 Following the publication of the *Payment by Results* package for 2012-13 in February 2012, work has begun on the 2013-14 arrangements in consultation with Monitor and the NHS Commissioning Board. The focus will remain on the progressive expansion of the tariff, increasingly aligning payments with the application of best clinical practice and continuing to develop those currencies and non-mandatory tariffs already introduced. During 2012-13, the transition of responsibility to Monitor and the NHS Commissioning Board will begin.

7.8 The Chairman of NHS Commissioning Board Authority, the Secretary of State, in his letter on 23 April 2012 to Professor Malcolm Grant, set out the Government's strategic objectives for the Board and the basis against which it will be held to account. The letter confirmed the Government's commitment to a major expansion and development of the current NHS pricing systems, which is likely to require investment by both the Board and Monitor in significant additional capacity and expertise.

Twenty Seventh Report

HM Revenue and Customs (HMRC)

Managing civil tax investigations

Summary of the Committee's findings

Some £15 billion of tax a year is lost through evasion, fraud and criminal attack. Civil investigations are an important element of HM Revenue and Customs (the Department's) work to tackle this serious non-compliance. They are targeted on the minority of taxpayers who deliberately seek to evade their obligations. Effective investigations bring in revenue both from tax recovered and financial penalties imposed. The Department has performed well and significantly increased the tax yield it generates on compliance and enforcement work in recent years.

The Department is committed to increasing its collection rate for debts from civil investigations to at least 95% which could help to convince potential fraudsters that evasion and fraud are not worthwhile. It has not yet set a timetable for achieving this improvement.

In reaching its findings, the Committee took evidence from HM Revenue and Customs on 26 January 2011. The Committee issued its report on 17 March 2011 and the Treasury Minute – the Government's formal response - was published on 16 May 2011.

PAC RECOMMENDATION 1

The Department faces a significant challenge over the next four years in reducing its costs while raising additional revenue of around £18 billion from increased efforts to tackle fraud, evasion and debt. A highly motivated workforce is crucial to its success. Strong leadership will, therefore, be needed to boost morale within the Department from its currently low ebb during this period of further change. The recommendations that follow are designed to help the Department strengthen its capability to achieve the higher levels of performance required.

1.1 The Government agreed with the Committee's conclusion.

1.2 The Department welcomes the Committee's acknowledgment of the progress it has made in managing its civil tax investigations. The Department will continue to focus on tackling those who seek to evade their tax obligations by deploying its resources to areas of highest risk and utilising the full range of its enforcement powers.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Department has now put in place its Senior Leadership team, following a rigorous selection exercise, designed to test them against the essential skills and behaviours required by the Department. A similar approach has been completed for the Department's key business and front-line managers. This will ensure that the Department has the right leaders with the rights skills to engage and motivate HMRC staff and ensure delivery of departmental key targets, including an additional £18 billion in revenue over the four years to 2014-15.

PAC RECOMMENDATION 2

The Department should identify the costs and returns of different activities and the point at which it would reach diminishing returns. It should base its decisions on enforcement work on this evidence.

2.1 The Government partially agreed with the Committee's recommendation

2.2 The Department has a variety of performance data and measures, which allowed it to assess progress against key targets and deliver improved performance year on year. However, the Department has recognised that more is needed to understand and manage performance effectively and has developed a more systematic approach to evaluating the full impact of interventions on the behaviour of taxpayers.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department published detailed delivery plans in April 2011 which set out how the Department will deploy compliance resources over the next four years to deliver an additional £7 billion a year by 2014-15. This plan has been developed using dedicated modelling tools, which assess the risk and relative return on investment of various compliance activities. It has allowed the Department to optimise resource usage by ensuring compliance activity is focused on areas of highest risk to deliver the maximum revenue and deterrent benefits.

2.5 The Department has improved its method for tracking and reporting reinvestment spend and benefit. This work has enabled the Department to track and monitor reinvestment activities in individual programmes and at Portfolio level.

2.6 The Department's Organisational Design sets out the principle of a commissioning relationship between Process and Product owners and Enforcement and Compliance (E&C). E&C is developing a process costing framework to link the intervention activity, risks, and customer group behaviour, to the processes and products, which will allow the Department to measure compliance activity.

PAC RECOMMENDATION 3

The Department should set more stretching operational targets for investigation teams, based on a better understanding of their performance and capability. The Department should also apply learning from the improvements achieved in the Local Compliance directorate, which has almost doubled its yield to cost ratio, to the Specialist Investigations directorate, where the return has remained broadly constant.

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

3.2 The Department recognises that it could do more to motivate performance. In 2010-11, it set hard and stretching targets for Local Compliance and Specialist Investigations Directorates designed to create both challenge and motivation for compliance staff. Indicators are that this has been successful and the Department will continue with this approach over the coming Spending Review (SR2010) period. For SR2010, the Department is committed to delivering additional revenue in each year rising to £7 billion a year by 2014-15. This represents a significant challenge and will require continued and sustained productivity improvements to deliver.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department has set targets to challenge and motivate its staff. For SR2010, the Department is committed to delivering additional revenues each year, rising to £7 billion a year by 2014-15. This is in addition to the baseline of £13 billion additional revenues. All parts of the Departments business will contribute towards the delivery of these additional revenues. E&C targets for SR2010 are extremely challenging, with an increase of 75% over the baseline of £8 billion. The Department has developed plans showing how E&C will deliver those targets and work is underway in all areas.

PAC RECOMMENDATION 4

The Department plans to re-launch the system with revised criteria to better identify serious fraud and evasion cases. It should set an expected adoption rate and monitor the system closely. The Department should also review what happens to cases which are rejected.

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

4.2 The Department recognises the need to refine the evasion referral process and improve the throughput and quality of cases referred. It has undertaken a thorough review of the operation of the evasion referral process in early 2010. Recommendations from that review have been accepted and work to implement changes has begun. Stage one, piloting the proposed changes, will be completed by June 2011. Stage two will be the launching of the new referral process to all Departmental compliance staff by July 2011.

Target implementation date

4.3 31 August 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 Following the piloting of new referral processes, the Department launched a new evasion referral process with new referral criteria. The Department has additionally established a formal governance forum with all key stakeholders represented. These activities have been further bolstered by collaborative work involving the specialist directorates, a clearing house to fast-track cases through the system; outreach activity to aid pre and post referral discussions; plus agreed turnaround times and protocols. A reason for rejection database has been implemented to capture the necessary feedback and data. A new improved evasion referral form and database is in development. The required activity to take this forward is awaiting approval and the Department will update the Committee in August 2012.

PAC RECOMMENDATION 5

The length of investigations will be influenced by the nature and complexity of the case but the Department should analyse the reasons for variation and set an objective to reduce the time taken to conclude civil investigations. It should consider setting target times for completing individual investigations and identify ways to streamline its approach.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department accepts that it should keep the average age of cases to a minimum but recognises there is balance to be struck. It is vital that reducing the age of cases is not carried out at the expense of cutting corners in fraud investigations, which would not only cause revenue yield to be lost, but would also send the wrong message to non-compliant taxpayers. It is also important to recognise that there are two parties to the process and it is subject to judicial supervision.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The two directorates involved in civil investigations are Specialist Investigations (SI) and Local Compliance (LC). The Contractual Disclosure Facility (CDF) was launched on 31 January 2012 and is used by SI and LC. Under CDF, the Department will contact a taxpayer in writing, to inform them that they are suspected of tax fraud, and offer them the opportunity to enter into a contract to disclose that fraud within 60 days. In return, the Department will agree not to criminally investigate the tax frauds disclosed. The Department expects CDF to reduce elapsed times significantly.

5.5 SI has tightened case management assurance and critically reviewed its oldest cases. 75% of Hansard cases notified to the Committee have now been resolved. The balance will be resolved by March 2013 subject to Tribunal availability. SI has also set a target to reduce the average age of open cases to 490 days by 31 March 2013. The SI target for Civil Investigation of Fraud (CIF) cases is to reduce the Average Elapsed Time (AET) of settled cases in 2011-12 to 740 days. In March 2012, the AET achievement was 581 days, an improvement of 29.5% on the 2010-11 outturns of 824 days. With the launch of CDF, CIF is now a legacy process and stretching hard targets will be used to support an objective of settling all CIF cases (save for those in litigation) by 31 March 2014. CDF cases will have a 2012-13 AET target of 365 days, but this will be treated as a bench-mark until the Department better understands how it works in practice.

5.6 LC monitors cases by age, updating data monthly. At 31 March 2012, 66% of the current stock was under 18 months old. The age data informed the 2012-13 targets with emphasis placed on the resolution of cases opened before 1 April 2010. Procedures for independent review of cases reaching two years and four years are being tightened. For 2012-13, LC are using hard targets to manage case progression rather than averaged elapsed times. LC aims to conclude the investigative progress in 90% of all case opened before 1 April 2010 and to conclude the investigative process in 40% of the current CIF caseload.

PAC RECOMMENDATION 6

The Department expects the new penalty regime to result in higher penalties as the minimum penalty for deliberate evasion and concealment is 50%. The Department should track the level of penalties imposed to ensure that it is applying the new regime rigorously.

6.1 The Government agreed the Committee's recommendation.

6.2 Penalties are set by legislation and the Department is satisfied that these have been applied correctly. The Department has processes and procedures in place to ensure the penalty levels are correct, consistent, and can be defended before a tribunal if necessary.

Target implementation date

6.3 Summer 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 SI have reviewed penalties' processes and taken action to further improve consistency. Process changes and written messages were issued in April 2012. Training to support the process also began in April and will be finalised at the end of July 2012. The Department will measure the effectiveness of these actions through a review of non-penalty cases (to be completed by summer 2013) and a cross-directorate moderation exercise. This exercise originated from a closer-working review between SI and LC and aims to ensure consistent and rigorous application of New Penalties across both directorates. The anticipated launch date is late summer 2012.

6.6 LC has made alterations to its penalty authorisation process to reflect the new streaming arrangements introduced across LC generally and has retained a safeguard for larger settlements. Penalty levels are being reported and monitored. The Department is working to improve the scope and consistency of reporting through the use of new case flow management system and National Penalty Process System.

PAC RECOMMENDATION 7

The Department should vigorously pursue the collection of debt and improve its systems so that it can track whether debts are paid. It should set a target date for achieving a 95% collection rate.

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

7.2 From 2011-12, the Department will develop new mechanisms for tracking its performance in collecting compliance liabilities and it will seek to continually improve that performance, using increasingly sophisticated debt analytics to inform its segmentation and design of collection strategies, and to evaluate its performance. The Department will also include cash collected as a performance measure and it is expected that this will drive improvements in the collection of compliance liabilities.

Target implementation date

7.3 2013 to set targets.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Department has set up a cross-cutting governance body, the Debt Planning Group. The group dovetails with the Departments main business forum, the campaigns Operating Group. It brings together senior managers from compliance directorates and the Debt Management Board (DMB) to prioritise, plan and communicate collection campaign activity on compliance debts, including civil investigations. The Department is creating specific compliance debts segments in all its major campaigns and also implementing a compliance settlement debt campaign to pursue and enforce compliance debts.

7.6 The Department therefore believes that it has made good progress in ensuring that compliance debts receive appropriate and expert attention. The Department has also made very significant improvements in its compliance and debt analytical capabilities. However the Department has not yet reached the point where it can routinely and systematically measure and track its performance in collecting all compliance debts as distinct from all other debts. The Department has work underway to deliver that capability, is making good progress, and expects to have substantially improved performance data available by 2013, at which point the Department intends to set appropriate operational targets.

PAC RECOMMENDATION 8

In assessing its performance, the Department should also improve its understanding of the impact of its work on taxpayer behaviours and levels of non-compliance, while keeping in view the broader objective to reduce the tax gap.

8.1 The Government agreed with the Committee's conclusion and recommendation.

8.2 The Department is addressing these criticisms in a new Performance Measurement Framework (PMF) implemented from April 2011. The new PMF has introduced a range of measures and targets to capture the full value of all the Department's compliance activities. It also provides incentives for staff to undertake work primarily intended to increase voluntary compliance and deterrence. Yield has been redefined into Cash Collected and Revenue Protected (Revenue Protected covers a broad range of activities designed to prevent losses from occurring). There are specific output measures and targets for number of business assurance events, number of evaders identified and criminally investigated, and error reduction through improved guidance and product and process redesign.

Target implementation date

8.3 2012-13.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 A new Performance Measurement Framework (PMF) was successfully implemented in April 2011. It includes a redefined yield measure that counts Cash Collected and Revenue Protected. This high level measure is underpinned by specific output measures – for example: number of evaders identified and criminally investigated, and error reduction through improved guidance and product and process redesign. The Department has put in place a systematic approach to evaluation that will provide more evidence of the full impact of interventions. This will involve statistical analysis of tax paid by those receiving interventions, the use of customer surveys that will ask about willingness to comply, perceptions of the probability of being caught if evading, and the sanctions if caught. The initial baseline results were published in December 2011.

Twenty Eighth Report

HM Treasury (HMT)

Accountability for public money

Summary of the Committee's findings

This Report addresses an issue at the core of the relationship between Parliament and government - accountability for public spending. The Committee recognises that this is just one dimension of the accountability framework that underpins its constitution: Ministers have a separate accountability to Parliament and the public for their policy choices and outcomes achieved; and local authorities are answerable directly to their own electorate. The Committee also recognises the inherent tensions between these different dimensions of accountability and that as government has evolved demarcation between them has become less clear. The Committee's concern is to ensure that regardless of what public money is spent on, or which bodies are spending it, it is spent properly with due regard to value for money, hence the Committee's focus on financial accountability.

In reaching its findings, the Committee took evidence from the Treasury and the Cabinet Office on 19 January 2011. The Committee issued its report on 5 April 2011 and the Treasury Minute – the Government's formal response - was published on 27 October 2011.

Since the publication of the 28th Report, the Committee took evidence from the Treasury and the Department for Communities and Local Government on 6 February 2012. The Committee issued its new report (79th report) on 17 April 2012 and the Treasury Minute – the Government's formal response – will be published on 16 July 2012. Recommendations made in the 28th Report are superseded by those made in the 79th Report.

PAC RECOMMENDATIONS 1-5

1: The Committee urges the Government to consider the fundamentals of effective accountability set out in this Report and consult fully with Parliament on how accountability will be delivered within the context of its reform agenda.

2: Parliament needs to be able to assure the public that value for money is obtained and the Government must put in place arrangements to enable Parliament to do its job.

3: The Government's review of accountability needs to consider the extent to which local accountability will act as an effective pressure to secure service improvements without due regard to value for money, particularly where there is no local financial incentive to keep costs down.

4: The Government's accountability review should map out the landscape of the different delivery models and proposed accountability arrangements for each form of reform and ensure they comply with the fundamentals the Committee has outlined.

5: The Government should specify what performance, financial and outcome information is needed to enable effective transfer of responsibility to local service providers.

6: For all major projects and programmes, the Accounting Officer should nominate a Senior Responsible Owner who is accountable to Parliament alongside the Departmental Accounting Officer. Steps should be taken to reduce the present turnover of staff, which undermines efficiency and effectiveness and makes nonsense of personal responsibility and accountability.

1.1 The Government noted the Committee's recommendations.

Current Status

1.2 The recommendations to this report have been superseded by the Committees 79th report. The Treasury Minute – the Government's formal response – to this report will be published on 16 July 2012, which will update these recommendations.

Twenty Ninth Report

Department for Culture, Media and Sport (DCMS)

BBC's management of its Digital Media Initiative

Summary of the Committee's findings

The Digital Media Initiative (the Programme) is designed to transform the way in which BBC staff create, use and share video and audio material. It involves the development of new technology to allow staff to manage content efficiently on their desktops, in order to give greater accessibility of digital content for audiences on TV, online and radio. The Comptroller and Auditor General told the Committee that he did not have full and unfettered access to all the information he required to carry out his review, delaying the start of his work. This is not satisfactory. The Committee expects the BBC and BBC Trust to ensure that full access is given promptly in the future.

In reaching its findings, the Committee took evidence from the BBC on 15 February 2011. The Committee issued its report on 7 April 2011 and the Treasury Minute – the Government's formal response - was published on 27 June 2011.

PAC RECOMMENDATION 6

The Office of Government Commerce should work with the BBC to identify practical lessons to be shared across the wider public sector.

6.1 The Government agreed with the Committee's recommendation.

Current Status

6.2 Implemented.

Action taken to implement recommendation

6.3 The Cabinet Office's focus remains to embed the efficiency and reform agenda within central Government. The Cabinet Office recognises that it can learn from best practice in the wider public sector, private and third sectors, and overseas, and that it has a role to play in disseminating this learning.

PAC RECOMMENDATION 7

The C&AG should have full and unfettered access to the information he considers necessary and discretion over what is published.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Government is committed to giving the National Audit Office (NAO) full access to the BBC's accounts to ensure transparency. In September 2010, the Government announced that the NAO was to have full access to the BBC accounts for the first time. The Secretary of State had agreed with the BBC Trust that the NAO can decide which value for money studies to undertake and when; and that the NAO would have rights of access to BBC information.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 In September 2011, the Secretary of State laid in Parliament an amended BBC Agreement, which provides for the NAO to have full access to the BBC's books. The new arrangements also give the NAO the authority to determine which areas of BBC expenditure it wishes to scrutinise. The new arrangements were agreed between the Secretary of State and the BBC, following consultation with the NAO.

Thirtieth Report

Ministry of Defence (MOD)

Management of the Typhoon Project

Summary of the Committee's findings

Typhoon is a multi-role aircraft capable of both air defence and ground attack. The Ministry of Defence (the Department) entered into a contract for the first 53 aircraft in 1998, and is buying Typhoon in collaboration with Germany, Italy and Spain. The total cost to the United Kingdom of buying the aircraft and supporting them in service over the next 20 years is estimated to be £37 billion.

To ensure good value from this expenditure, the Department will need to both reduce the cost and increase the timeliness of future collaborative spares and repairs contracts. At present, the contracts do little to incentivise better industry performance and to penalise failure. The Department has appointed a Senior Responsible Owner (SRO) to be the person accountable for delivering each major procurement project. However the SRO on Typhoon has limited decision making powers and merely co-ordinates activity.

In reaching its findings, the Committee took evidence from the Department on 9 March 2011. The Committee issued its report on 15 April 2011 and the Treasury Minute – the Government's formal response - was published on 27 June 2011.

PAC RECOMMENDATION 1

Good decisions are based on good information. If the Department is to make more realistic and achievable investment decisions in future, it needs to have a comprehensive understanding of the balance between costs; number of aircraft kept in service and the operational capability which the aircraft provide.

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

1.2 The cost data specified by the Committee was taken from the Major Projects Report 2010. A recent change to Government accounting policy, involving the removal of the cost of capital charge, together with a programming change, have led to the estimated cost of production and development reducing to £17.7 billion.

Current Status

1.3 Implemented.

Action taken to implement recommendation

1.4 The Department understands and acknowledges that good investment decisions are informed by good information, as demonstrated by the costing methodologies provided in its original response to the Committee, and is working to ensure this is the case for all investment decisions.

PAC RECOMMENDATION 2

In order to provide a full picture of costs and enable comparison across projects, the Department should calculate and report its unit cost on a basis that includes all expenditure, including development and production costs.

2.1 The Government disagreed with the Committee's recommendation.

2.2 The method and calculation of unit cost made by the Department has been reported within the Major Projects Report and validated by the National Audit Office for many years. Development costs are not related to the number of aircraft that the Department buys, and are therefore considered to be fixed, a point previously established with the National Audit Office. The unit price of the Typhoon aircraft, based on the method of calculation used within the Major Projects Report, has proven to be comparable with similar types of aircraft.

PAC RECOMMENDATION 3

The Department should treat decisions about major changes to the operational use of key equipment most seriously and conduct thorough cost-benefit analyses to ensure value for money is achieved.

3.1 The Government disagreed with the Committee's recommendation.

3.2 The investment decision went through the Department's budgetary process and was approved only after formal investment appraisal. Typhoon's ground attack capability was formally declared in 2008, since when both ground attack and air defence capabilities have been maintained at a level to meet operational requirements. Because a capability is not currently in use does not mean that it is not prudent to have it available. Indeed, the ground attack capability is being used successfully in operations over Libya. When the decision was taken to join this international operation, the Typhoon element was able to deploy against a wide spectrum of target sets from the tactical to strategic. Notably this included the first operational use by Typhoon of the Enhanced Paveway II bombs, four of which were released in a strike against a large military vehicle depot, with all hitting their intended target points.

PAC RECOMMENDATION 4

The Committee expects the Department to offer us a clearer explanation as to why it has reached such judgements on individual capabilities and for these judgements to be underpinned by robust cost and operational analyses.

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

4.2 The Department agreed that it has to take difficult judgements on the balance between affordability and operational risk. The investment decision for the third phase of acquisitions reflected the increased capability of the platform as a result of weapons and technology improvements – it will be more capable than originally foreseen, to meet operational requirements and to meet international commitments.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Department balanced its obligations to Partner Nations under the collaborative Memoranda of Understanding whilst procuring sufficient aircraft to meet its operational requirements.

PAC RECOMMENDATION 5

The Department needs to find ways to actively manage this risk to achieve best value for money. It should consider, for example, how to oblige contractors to manage the risk of obsolescence throughout the life of a project, which might include in-built flexibility for aircraft and other equipment to accommodate upgrades.

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

5.2 The nature of the threat and environment in which aircraft have to operate is continually changing and equipment is often at the cutting edge of technology in order to maintain operational advantage. Consequently, major military equipment projects are extremely technically challenging, with the inherent risk of time delays and cost increases. This is no different for other technologically advanced Nations with similar projects.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Department agreed that obsolescence is a risk that needs to be managed rigorously (as it does on any major high-technology project). Indeed, on the Typhoon project, the support contracts the Department has in place do require contractors to manage obsolescence risk on a through life basis.

PAC RECOMMENDATION 6

The Committee expects the Department to generate robust cost and performance data, potentially drawing on its independent United Kingdom support contracts with BAE Systems and Rolls Royce, to assess the value for money of future contracts.

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

6.2 The Department is alert to the risk of cost growth within non-competitive procurement, and in the air sector has developed a range of analytical tools, benchmarks and cost models to drive the continuous improvement and efficiency agendas.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 All non-competitive contracts follow the principles included in the 2010 General Review, a report of the Review Board for Government Contracts (also known as the Yellow Book), including application of the Government Profit Formula, used to determine the profit included in the price of non-competitive contracts. The Department is currently undertaking the first ever independent review of single source pricing under the Yellow Book to ensure it is still efficient, relevant to today's industrial landscape and represents value for money to the taxpayer. As a particularly high value project, Typhoon proposals are subject to scrutiny by the Department's Investment Approvals Committee and the Treasury prior to contractual commitments being made.

PAC RECOMMENDATION 7

a) The Department must negotiate future contracts so that industry delivers spare parts on time; and

b) The Department should undertake more robust analysis to determine the most cost effective balance between cannibalising aircraft, buying more spares and accepting increased operational risks.

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

7.2 Flying hours may not be achieved for a number of reasons, an example being the disruption caused by the volcanic ash cloud in 2010. It is also the case that the mix between live and synthetic training needs to be able to respond to changing requirements, including factors such as practicality and danger, where initially simulation may take precedence. Availability of spare parts is one reason why Typhoons have not flown as many hours as the Department would like. To give the impression that that is the sole reason would be wrong.

7.3 Some pilots will only be trained to operate in air defence, some pilots will also be ground attack qualified, i.e. multi-role. Whilst the Committee highlighted a perceived shortfall in the number of pilots trained for ground attack, it is important to recognise that the eight pilots trained in this role represented the operational need at that time. The mix of training by role has been sufficiently flexible to allow the Department to meet all operational requirements. This continues to be the case including operations over Libya.

Current Status

7.4 Implemented.

Action taken to implement recommendation

7.5 There is a fine balance between the number of spares to be purchased and operational availability. The Department carries out extensive modelling and analysis to ensure purchase of the optimum number of spares to meet operational requirements. The Department accepted that two aircraft and a ground test rig had been used to supply spare parts, but that position was a snapshot in time, the aircraft were not part of the forward fleet, and it is not Departmental policy to keep aircraft on the ground unnecessarily. Cannibalisation to satisfy urgent requirements is however an accepted maintenance practice across all military aircraft fleets, and avoids holding large and expensive stockpiles of spares. It is also important to recognise that the Department's work with industry on critical spares has resulted in spares delivery targets largely being met.

PAC RECOMMENDATION 8

The Department should consider, as part of the work of the Defence Reform Unit, how to give SRO's the authority they need to manage the delivery of the equipment for which they are accountable.

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

8.2 It is the Department's policy that all programmes should have a Senior Responsible Owner. This role is accountable for realising the expected benefits of the programme, though it is acknowledged that in practice they do not always have the full authority needed to deliver their responsibilities. Nonetheless, for Typhoon the Senior Responsible Owner continues to be involved in all major decision making.

Target implementation date

8.3 April 2013.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 The Department has refreshed its SRO policy and, following an in depth review of the SRO role in Defence, is committed to ensuring that the issue of SROs authority, span of control and tenure is addressed in line with establishing the new devolved Operating Model under defence Reform. The Department will develop this new operating model and will consider ways to meet the concerns raised by the Committee.

PAC RECOMMENDATION 9

To enable it to make the most of on-going and potential new collaborative opportunities, the Department should evaluate its portfolio of collaborative projects to establish what has worked well, or failed, and why this has happened.

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

9.2 The Department fully recognises the significance of potential benefits from collaboration, and the need to learn lessons from current and past collaborations.

Current Status

9.3 Implemented.

Action taken to implement recommendation

9.4 The Department has conducted evaluations of a number of significant collaborative projects, and has already identified factors which can contribute to the success and failure of a project.

Thirty First Report

HM Treasury (HMT)

Asset Protection Scheme

Summary of the Committee's findings

In October 2008, the Government put in place measures to support UK banks, including purchases of shares in the Royal Bank of Scotland (RBS) and Lloyds Banking Group (Lloyds). The economic downturn continued to intensify, however, further undermining market confidence in the value of banks' assets. To restore confidence, the Government launched an Asset Protection Scheme (the Scheme) in January 2009 to protect banks against further exceptional losses on their assets. During negotiations to finalise the Scheme, the Treasury remained alert to developments in the market throughout 2009 and made changes to the Scheme to better protect the taxpayer. As part of the Scheme, Lloyds and RBS agreed to meet published targets for lending to households and businesses.

The Treasury now needs to make sure that it retains the knowledge and experience it has built up over the past three years so that it can act to protect the taxpayer if interventions to support UK banks are needed in the future.

In reaching its findings, the Committee took evidence from the Treasury on 2 February 2011 and from both RBS and Lloyds on 16 March 2011. The Committee issued its report on 20 April 2011 and the Treasury Minute – the Government's formal response - was published on 27 June 2011.

PAC RECOMMENDATIONS 1 and 2

1. By avoiding the huge economic and social consequences of the failure of a major bank, the Asset Protection Scheme (the Scheme) was an important part of a wider package of measures to support the UK's financial system.

2. The Treasury should take steps to ensure the banks address these gross deficiencies in basic data and, when considering the future role of financial services regulators, make sure that arrangements are in place to test whether this has been done.

1.1 The Government agreed with the Committee's recommendations.

1.2 The Financial Services Authority is responsible for ensuring that banks have the appropriate internal management systems in place. They have outlined their expectations that banks should have robust, complete and accurate data gathering across their organisations in order to comply with regulations. In addition, the Asset Protection Agency continues to verify losses and recoveries on assets covered by the Asset Protection Scheme.

Target implementation date

1.3 2013.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The lack of sufficient and appropriate data was part of the more general failure by some banks to understand and manage properly the risks that they were taking. The Financial Services Bill, which is currently before Parliament, will strengthen the regulatory and supervisory regime in order to address these, and other, weaknesses. The Bill provides for a more focused, judgement-led and forward-looking approach to regulation, including by giving the new Prudential Regulation Authority (PRA) an explicit 'duty to supervise', and broader powers to impose requirements on regulated firms.

These provisions make clear that the role of the prudential regulator is not just to monitor compliance with prudential rules, but to take an ongoing close interest in the way that firms are being run.

1.6 The APA has continued to operate the programme of verification of data reported by RBS to provide evidence to support losses claimed and loss forecasts. A key component of the programme of verification is reliance on the work of RBS' Group Internal Audit function.

PAC RECOMMENDATION 3

The Treasury should report back to the Committee within a year on specific actions to ensure that professional audit standards and practices are up to the task of providing robust assurance on the internal control and governance of financial institutions, and on the valuation of assets.

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

3.2 The Government agreed with the Committee on the need for robust assurance on internal controls, governance and asset valuation, and will continue to work with organisations in the banking sector to improve audit quality. However, the Government believes it is the responsibility of the auditing profession to ensure auditors robustly challenge banks' internal control and governance systems. In addition, the Financial Services Authority is responsible for supervisory oversight of the effectiveness of firms' risk management and governance, the Department for Business, Innovation and Skills (BIS) for audit policy, and the Financial Reporting Council (FRC) for the development of audit standards and practice, and oversight of auditor regulation.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 Stakeholders across Government have been working closely to improve the audit framework in light of the financial crisis. In addition to BIS, who lead on accountancy and audit policy for Government, the Treasury liaises with the Bank of England, the Financial Reporting Council (FRC) and the Financial Services Authority (FSA) to improve the audit framework post crisis. The work of the FRC is particularly relevant on the role of assurance; the adequacy, timeliness and reliability of information to monitor going concern and liquidity risks; and board accountability for systems and processes.

3.5 In January 2011 the FRC issued a discussion paper *Effective Company Stewardship – Enhancing Corporate Reporting and Audit*[13]. This has since led to a number of key recommendations that respond to lessons from the financial crisis including revising the UK Corporate Governance Code, and the introduction of the Stewardship Code for institutional investors. In March 2011, the FRC announced the launch of an Inquiry, led by Lord Sharman, to identify lessons for companies and auditors. The final report[14] is due to be published shortly.

PAC RECOMMENDATION 4

Under the lending commitment the Treasury considered a range of sanctions against RBS and Lloyds, should the second year target be missed, but decided that each sanction had a downside that outweighed the benefits. This is not satisfactory, and the Treasury should consider the precise mechanisms by which it will exert influence, including assessing progress and the application of appropriate sanctions. In giving the lending commitment, the banks wanted to highlight the constraints of demand and risk. Nevertheless there appears to be a reduction in the supply of credit, and we expect the lending commitment to be met, and a determination to achieve it to be shown by the banks.

[13] www.frc.org.uk/about/effcompsteward.cfm
[14] www.frc.org.uk/about/sharmaninquiry.cfm

4.1 The Government agreed with the Committee's recommendation.

4.2 The Chancellor has stated that he will use every means available to him to hold these banks to their published lending commitments under Project Merlin. The Government reserves the right to return to this issue and take further measures if the banks fail to meet their commitments.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 Project Merlin has been completed and the Bank of England published the final results on 13 February 2012. In 2011, UK banks loaned £214.9 billion to British businesses – a 20% increase compared with 2010, exceeding the overall Merlin lending target by £24 billion. SME lending rose to £74.9 billion, a 13% increase year on year.

4.5 Whilst the agreement was successful in increasing lending to UK businesses, permanent lending targets can never be a feature of a modern market economy. This is why the Government launched the National Loan Guarantee Scheme (NLGS), on 20 March 2012, to provide cheaper bank finance for smaller businesses. Businesses that take out an NLGS loan will receive a discount on their loan of one percentage point compared with the interest rate that they would have been charged by a bank outside the scheme. NLGS loans are available to businesses that have annual group turnover not exceeding £50 million.

4.6 Alongside the NLGS, the Government is working with the Bank of England on a new 'funding for lending' scheme, which will support credit for the whole economy. It will work by assisting bank funding pressures, which are increasing because of instability in the international markets, in return for additional lending across the economy as a whole. The Bank of England and Government will announce the details of this scheme in the coming weeks.

PAC RECOMMENDATION 5

The Treasury accepted that more could have been done to analyse the range of possible fees. However, the Treasury considered that such an analysis would not have resulted in a higher fee as that could have risked the viability of the scheme in providing assurance to the financial markets. Given the huge sums at stake, however, it remains unsatisfactory that a comprehensive analysis was not undertaken and the Committee expects to see such analyses in the future where there is a significant exposure to the taxpayer.

5.1 The Government agreed with the Committee's recommendation.

5.2 The APS achieved its objective to achieve financial stability, and part of that success was the terms and conditions including the price charged to RBS for the insurance. The Treasury did a very considerable amount of careful analysis of the different aspects of the terms, including the due diligence that determined the first loss amounts and overall asset pool.

Target implementation date

5.3 Ongoing.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 As part of its regular engagement with the Asset Protection Agency (APA), the Treasury assesses how successful it has been and whether it might have been possible to refine the terms of the scheme. Building on this experience, the Treasury will conduct further analysis if there should ever be another scheme involving large Government exposures.

PAC RECOMMENDATION 6

Reviewing decisions in the context of changing circumstances was good practice and the Treasury should ensure its guidance to departments requires this in all cases.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Treasury did monitor developments in the market and allowed Lloyds to withdraw from the APS due to improving market sentiment to the bank and in order to minimise the Government's overall fiscal exposure to financial institutions. However, Lloyds Banking Group did still pay £2.5 billion in fees for the coverage that the Scheme gave them between January and November 2009.

Current Status

6.3 Implemented.

Action taken to implement recommendation

6.4 *Managing Public Money* requires departments to take stock and continuously evaluate projects and policies that they undertake to ensure that they are appropriate and represent value for money.

PAC RECOMMENDATION 7

The Treasury, through the Asset Protection Agency, must make sure that RBS properly prioritises and complies with the requirements of the Scheme to maximise the returns on the insured assets in the interests of the taxpayer, its largest shareholder. The interests of the taxpayer must not in any way be sacrificed for the interests of the bank.

7.1 The Government agreed with the Committee's recommendation.

7.2 The Asset Protection Agency's published framework document outlines its key responsibilities to protect the taxpayer's interest by ensuring that RBS complies with the terms and conditions attaching to its participation in the APS and that the objectives of the APS are achieved by exercising the Treasury's rights in such a way as to maximise the net present value of the assets in the APS and to reduce the probability of payouts. The Government is bearing the advice of the Committee in mind whilst managing the APS.

Target implementation date

7.3 Ongoing.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Treasury, through established governance processes with the APA, assesses, in a way that is proportionate to the to the level of the risk in the Scheme, the administration of the APS to ensure that taxpayers' interests are being maintained and to ensure that RBS continues to comply with the terms and conditions of the scheme.

PAC RECOMMENDATION 8

The involvement of public funds will require the Treasury's prior approval. The Treasury will therefore need to make sure that in reducing its staffing it retains sufficient capability to understand and challenge proposed interventions should its approval be sought in the future.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Treasury, like all other central Government Departments, has had to make budget cuts in the light of the tight departmental settlements outlined at Spending Review 2010. The Department undertook a strategic review to identify the key areas where it would need to maintain resources and expertise in future. A new Financial Stability Group has been established to retain knowledge captured during the recent crisis and to provide expertise and challenge in any future interventions in the financial sector. As with any other policy area the department is active in, the Treasury will continue to review its staffing levels and capabilities as the policy and financial environment changes.

Target implementation date

8.3 2013-14.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 The Review of the Treasury's management response to the financial crisis recommends that the Treasury retains the skills and experience needed to manage interventions in the banking sector: financial sector and markets expertise; and project and crisis management. The Review also recommends that the Treasury reports publicly on progress against the recommendations by 2013-14.

8.6 As part of the Financial Services Bill, the Government has published a draft Memorandum of Understanding (MOU) on crisis management, which makes clear that the Chancellor has the sole responsibility for any decision on when and how to use public funds. The MOU is also clear that while the Bank will be responsible for day to day management of any future banking crisis, it will need to cooperate closely with the Treasury following any notification of a risk to public funds.

Thirty Second Report

HM Treasury (HMT)

Maintaining financial stability of UK banks: update on the support schemes

Summary of the Committee's findings

In 2007, following a period of instability in the financial markets, the Treasury intervened to protect depositors and stop instability spreading. This included nationalisation and lending to troubled institutions and to the Financial Services Compensation Scheme, the purchase of a large number of shares in RBS and Lloyds, establishing sector-wide schemes to guarantee banks' debt-funding and protect their assets, and indemnifying the Bank of England against losses for providing temporary liquidity. This was justified at the time to protect taxpayers. However, the Government believes that banks must not remain dependent on taxpayer support indefinitely.

The scale of the Government shareholding is far greater than in previous share sales and will require extraordinarily careful handling. When developing its strategy for the sale, the Treasury will need to balance the legitimate desire to maximise proceeds against its other objectives of preserving financial stability and enhancing competition. Considerable regulatory and political uncertainty over the Government's intentions for the banking sector will remain until the Government has responded to the recommendations from the Independent Commission on Banking, expected to report in September 2011.

In reaching its findings, the Committee took evidence from the Treasury and Bank of England on 8 February 2011. The Committee issued its report on 20 April 2011 and the Treasury Minute – the Government's formal response - was published on 27 June 2011.

PAC RECOMMENDATION 1

The Treasury must continue to manage down the explicit support and work towards a financial system where risk is borne solely by investors.

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

1.2 The previous Government intervened to avoid a collapse of the financial sector. The various measures, such as recapitalisation of RBS and LBG, the interventions relating to Northern Rock or the Credit Guarantee Scheme, were temporary and are not intended to be permanent. The Treasury regularly evaluates the interventions made during the crisis and has been developing exit plans for the various schemes.

Target implementation date

1.3 Ongoing.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The total amount of explicit support to the financial sector continues to decrease. As at end March 2011, the figure has decreased from over £1.2 trillion at peak to £456 billion and the total continues to fall. For example: the Special Liquidity Scheme (SLS) has now closed, with no losses incurred; the total amount outstanding in the Credit Guarantee Scheme (CGS) stands at £47.1 billion, down from a peak of £140 billion in 2009 and the contingent liability from the Asset Protection Scheme (APS) is £54.7 billion, down from £200 billion at peak.

1.6 UK Financial Investments (UKFI) is responsible for developing strategies to dispose of the Government's investments in financial institutions in an orderly and active manner, within the context of protecting and creating value for the taxpayer, paying due regard to financial stability and to acting in a way that promotes competition. UKFI will look at the full range of alternatives for investment, and will make its recommendations based on market conditions, an assessment of investor demand and on value for money considerations. The ultimate decision to proceed with any transaction will rest with the Chancellor of the Exchequer

PAC RECOMMENDATION 2

Although the risk of such a failure has reduced since 2008, the Treasury must maintain momentum for international reform in this area. It should also continue to work with the Bank of England to develop a credible resolution regime capable of handling the failure of a systemically important bank.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Government supports the ongoing work by the G20 and the Financial Stability Board to develop a robust, internationally consistent policy framework to address the risks posed by systemically important financial institutions (SIFIs), while taking into account the cumulative impact of reform on the economy. An internationally consistent approach is crucial to ensure level playing field and it will be important that G20 countries support the FSB in fleshing out and ensuring consistent implementation of its recommendations.

Target implementation date

2.3 ICB legislation in place by 2015 / backstop implementation date 2019.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 At the G20 summit in Cannes in November 2011, the Government committed itself to ensuring that no financial firm is "too big to fail" and that taxpayers should not bear the costs of resolution. To this end, the Government, along with other G20 members, endorsed the FSB comprehensive policy framework. The Framework comprises a new international standard for resolution regimes, more intensive and effective supervision, and requirements for cross-border cooperation and recovery, and resolution planning. In addition, from 2016, global systemically important financial institutions (G-SIFIs), as identified using the Basel Committee's methodology, will be required to hold additional loss absorbency to reflect the risk they pose to the global financial system.

2.6 The Government committed to implementing the FSB standards and recommendations within the agreed timelines and agreed to undertake the necessary legislative changes, step-up cooperation amongst authorities and strengthen supervisory mandates and powers where necessary. For example, the Bank of England and the Treasury are contributing to the FSB's development of an assessment methodology with regard to progress being made in implementing the international standard for resolution regimes (i.e. the Key Attributes to effective resolution regimes).

2.7 On recovery and resolution planning, systemically important UK banks have been involved in a pilot to develop Recovery and Resolution Plans (RRPs), and in August 2011, the FSA consulted on rules and guidance for extending RRP requirements to all deposit-taking banks and significant investment firms. Final rules for all deposit-taking banks and significant investment firms will be publish in Autumn 2012.

2.8 Within Europe, the Government welcomes the European Commission's recently published legislative proposal for an EU Bank Recovery and Resolution Directive. The proposed Directive will require Member States to ensure that their national supervisory and resolution authorities have a set of common tools and powers which will enable them to avert and, where necessary, manage the failure of a financial institution. The proposal seeks to prevent the systemic damage caused by the disorderly failure of such institutions, limiting public sector exposure and preventing wider economic damage. It also seeks to strengthen market discipline and to reduce moral hazard. The Government will continue to engage constructively with its Member State partners, the European Council and the European Parliament to deliver a credible and robust recovery and resolution framework.

2.9 Domestically, and in line with efforts to pursue international reform, the Government published its White Paper on banking reform on 14 June 2012 setting out how it is implementing the ICB's recommendations. The white paper sets out the Government's proposals, explains the plans for primary legislation and lays out the framework for full implementation.

PAC RECOMMENDATION 3

The Treasury should look for ways to ensure that banks are not paying bonuses or dividends at the expense of repaying the subsidy. The fees for the Credit Guarantee Scheme should be reassessed and revised upwards where necessary.

3.1 The Government agreed with the Committee's recommendation that the taxpayer must be adequately compensated for the support provided.

3.2 Under the state aid term sheets, Lloyds Banking Group (LBG) and Royal Bank of Scotland (RBS), the major banks which were recapitalised during the crisis, are not allowed to pay dividends until January and April 2012 respectively. Banks are already beginning to reduce their reliance on the Credit Guarantee Scheme (CGS). The Government recently announced a buyback facility, where participating institutions can smooth their refinancing profile over the next 12-18 months by replacing short maturity government- guaranteed debt with private unguaranteed funding. This change to the CGS will reduce the public exposure to the banks as well strengthening the funding of these institutions as they begin move away from public support.

Target implementation date

3.3 Ongoing.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Government has consistently indicated that banks need to show responsibility and restraint on remuneration. This is delivering results – as indicated by the significant reduction in overall bonus pools year-on-year; and by the increased transparency on remuneration by banks. However, given the huge public stake in RBS and LBG, it is essential that value for money is achieved for the taxpayer. As a major shareholder the Government has made clear that both RBS and LBG should be industry backmarkers when it comes to bonuses.

3.6 The Government has been clear that neither RBS nor LBG should pay more than the minimum remuneration necessary. As a result, the overall bonus pool for RBS in 2012 has fallen by 40% compared with 2011; bonuses at the investment bank are less than half what they were last year; and less than a third of what they were in 2009. In addition, RBS and LBG have introduced a £2,000 limit on cash variable remuneration.

3.7 Banks' use of the Government's Credit Guarantee Scheme (CGS) has fallen considerably over the last year, with exposure now reduced to £47.1bn (as at end-January 2012) with the remaining debt due to mature by the end of 2012. CGS fees received to date from participating banks have exceeded £4 billion.

3.8 The Government announced a CGS buyback facility last year, where participating institutions can smooth their refinancing profile by cancelling debt under the CGS before it matures. This change to the CGS, which is voluntary to banks, may reduce the public exposure to the banks as well as strengthening the funding position of these institutions as they move away from public support. The institutions involved are be charged a fee for this buyback facility, design to ensure the taxpayer received a return for support given through the CGS.

PAC RECOMMENDATION 4

The Treasury, working with the Bank of England, must continue to encourage a smooth and timely run-down of the Credit Guarantee and Special Liquidity Schemes. In addition it should continue to develop its contingency plans for managing an orderly transition to full private funding.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Government is continuing to plan for the exit of banks from support schemes. In addition to the voluntary Special Liquidity Scheme repayment plans a number of banks have agreed with Bank of England, the Government has recently amended the Rules of the Credit Guarantee Scheme to allow early repayment of debt guaranteed under the Scheme. The authorities are already monitoring funding plans of users of the SLS and CGS at an aggregate and individual level.

Target implementation date

4.3 End of 2012.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 Measures were taken to allow for debt under the SLS and CGS to be run down early. All debt under the SLS has now been repaid, with the SLS closing in January 2012. The total stock of debt guaranteed under the CGS continues to fall as this debt matures. In January, there was £47.1 billion of outstanding debt guaranteed by the CGS, from a peak of just under £140 billion in 2009. This remaining debt will mature by the end of 2012.

PAC RECOMMENDATION 5

Despite the Committee's previous recommendations, the Treasury has not yet captured the experience and lessons they have learned from the interventions. The Treasury should therefore conduct an interim lessons learned exercise now, to ensure that institutional knowledge is retained.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Treasury will conduct an interim lessons learned exercise on the various financial interventions made during the crisis and will report in due course.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Treasury commissioned a report into its management response to the financial crisis in late 2011. *The Financial Crisis Management Review* was published in April 2012. The report has made a recommendation that the Treasury retain the skills and experience needed to manage interventions in the banking sector: financial sector and markets expertise; and project and crisis management.

PAC RECOMMENDATION 6

The value for money of removing the explicit taxpayer support will be highly dependent on the Treasury's handling of the sale of the shares in RBS and Lloyds, a sale far greater than any previous privatisation. The Treasury also has to balance the need to make a profit for the taxpayer with its wider responsibilities for financial stability and promoting competition. The Treasury has not yet set out its plans for the sale, but should continue to work with UK Financial Investments to ensure an orderly programme of disposals.

6.1 The Government agreed with the Committee's analysis.

6.2 As set out in the UKFI Framework Document, representatives of the Treasury and UKFI meet regularly to review the strategic options available for managing the investments and devising and executing a disposal strategy. The Chancellor of the Exchequer has announced that the sale process for Northern Rock has begun.

Target implementation date

6.3 Ongoing.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 UKFI remains responsible for developing and executing a disposal strategy for the Government's investments in financial institutions, and continues to look at all options. Representatives of the Treasury and UKFI continue to meet regularly to review the strategic options available, considering value for money alongside financial stability and competition.

PAC RECOMMENDATION 7

The Treasury must explore all avenues to ensure that the remuneration packages for the part-nationalised banks provide value for money for the taxpayer, and properly reflect the burden on the taxpayer of continuing support.

7.1 The Government agreed with the Committee's recommendation.

7.2 As the majority shareholder in the RBS and the largest shareholder in LBG, the Government has made clear that it expects these banks to be back-markers and not market leaders on bonuses. The Government is determined that the taxpayers' investment in the banking system is recovered and therefore RBS and LBG must be able to attract and retain staff in order to protect and create value for the taxpayer. The Government believes that these banks' remuneration policies strike the right balance.

Target implementation date

7.3 Ongoing.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The Government has consistently indicated that banks need to show responsibility and restraint on remuneration. This is delivering results – as indicated by the significant reduction in overall bonus pools year-on-year; and by the increased transparency on remuneration by banks. However, given the huge public stake in RBS and LBG, it is essential that value for money is achieved for the taxpayer.

7.6 The Government has been clear that neither RBS nor LBG should pay more than the minimum remuneration necessary. As a result, the overall bonus pool for RBS in 2012 has fallen by 40% compared with 2011; bonuses at the investment bank are less than half what they were last year; and less than a third of what they were in 2009. In addition, RBS and LBG have introduced a £2,000 limit on cash variable remuneration.

PAC RECOMMENDATION 8

Until the Government has responded to the Independent Commission on Banking, this uncertainty will remain. In formulating its response to the Commission, the Treasury will need an explicit framework for how it will manage these competing objectives. It should analyse the costs and benefits of options for the size and shape of the banking industry, and quantify the value it places on each of its objectives.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Government agreed that it will be important to consider all competing objectives such as maintaining financial stability, competition and ensuring value for money of taxpayer interventions. However, it may not be possible to quantify every element of the various options available for the size and shape of the banking industry as the Committee suggests.

Target implementation date

8.3 Spring 2012.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 The Government published its White Paper on banking reform on 14 June 2012 setting out how it is implementing the ICB's recommendations. The white paper sets out the Government's proposals, explains the plans for primary legislation and lays out the framework for full implementation.

PAC RECOMMENDATION 9

The taxpayer will have to pay £5 billion a year in interest on the money borrowed to finance the support. This is a material amount, and should be reflected in future assessments of the total cost of the interventions.

9.1 The Government agreed with the Committee's recommendation.

9.2 The Government takes into account financing costs when making policy decisions, including those in the financial sector. The Office for Budget Responsibility has certified the Treasury's methodology for estimating the expected direct costs of the financial stability interventions. The OBR now publish the official estimate of the total cost of these interventions twice yearly in their Economic and Fiscal Outlook. The methodology they use is a matter for them.

Current Status

9.3 Implemented.

Action taken to implement recommendation

9.4 The OBR has now published two estimates of the likely eventual cost of the financial sector interventions which include an estimate of the debt interest payments made assuming all the interventions were financed by borrowing. The latest estimate, provided by the Treasury to the OBR, from March 2012 showed a debt interest cost of £12.5 billion over 43 months.

Thirty Third Report

Department for Health (DH)

NHS Landscape Review

Summary of the Committee's findings

The Health and Social Care Bill[15], published on 19 January 2011, proposes a new model for the NHS focusing on patient outcomes. The proposals are intended to transform the NHS in England into a highly devolved, market-based model in which local commissioners and providers of health services are freed from central control, with an increased say for local authorities, patients and the public. The two significant structural changes proposed in the Bill are the abolition of the current structure of commissioners of health services and the regional organisations that oversee them (Primary Care Trusts and Strategic Health Authorities), and the creation of the NHS Commissioning Board and GP commissioning consortia to make commissioning more clinically led. The Government also expects all health service provider trusts to become Foundation Trusts by 2014.

High quality risk management will be crucial if the change programme is to be delivered to time and budget and to realise its intended benefits, especially during the transition stage. The cost implications of the programme to deliver the reforms are clearly set out. The Department estimates the initial cost of the reforms will be a total of £1.4 billion, mainly redundancy costs, to be offset by a 33% (£1.7 billion) reduction in administrative spending by 2014-15. At this stage there is scope for these cost and savings estimates to change, for example, if GP consortia are reluctant to employ staff from existing NHS commissioning bodies. It was unusual for the Committee to examine the progress of reforms at such an early stage, but given the scale of the changes and its ongoing interest in health spending, the Committee thought it important to gain a greater insight into the accountability and value for money issues raised by the reform proposals.

In reaching its findings, the Committee took evidence from the Department and the NHS on 25 January 2011 and from the King's Fund, the Royal College of General Practitioners, and Ramsay Healthcare UK on 1 March 2011. The Committee issued its report on 27 April 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATIONS 1 to 3

1. The Committee's focus in respect of the health reform programme is on accountability for taxpayers' money. With the health reforms still at an early stage, there are some aspects of the accountability arrangements which have yet to be resolved. There are also a number of risks during the three-year transition period which need to be managed.

2. Parliament, and this Committee in particular, needs certainty about who to hold accountable for health spending once the reforms are complete. The different accountability arrangements for commissioners and providers are complex. The Department should provide detailed answers to the following questions:

- **i. Who will be accountable to Parliament for protecting the interest of taxpayers in a devolved health system?**
- **ii. To what extent will health bodies having a 'duty to engage' locally with, for example: Health and Wellbeing Boards and Local HealthWatch, lead to accountability?**
- **iii. What structures will link local GP consortia and the national NHS Commissioning Board, to which they are accountable?**
- **iv. What information will be available to decision makers, the health regulators and the public on the cost and quality of services?**

[15] The Health and Social Care Act 2012 received Royal Assent on 27 March 2012.

3. There are a number of practical aspects of the proposed reforms which require clarification. This will help us to identify and focus our future hearings on the issues which present the greatest risks to value for money. The Department should lay out in detail the answers to the following questions:

- **i. How will the treatment of patients with rare and expensive conditions be funded?**
- **ii. How will continuity of services be safeguarded when a GP consortium or Foundation Trust hospital is failing or has failed?**
- **iii. How will commissioners and providers contract with each other to drive value for money in the system?**
- **iv. How will the NHS Commissioning Board work with GP consortia to redesign primary care services?**
- **v. How will the NHS Commissioning Board work with GP consortia to ensure the proper configuration of acute services so that value for money for the taxpayer and effective quality of healthcare for the patient is secured?**
- **vi. How will providers secure capital funding in future?**
- **vii. How will legacy debts from Primary Care Trusts be handled?**
- **viii. How will the reforms affect existing health inequalities and performance variations for some NHS services?**

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

1.2 The Department provided the Committee with responses to each of its questions to recommendations 2 and 3 in the Treasury Minute – the Government's formal response - published on 15 September 2011.

PAC RECOMMENDATION 4

The Department said that 40% of the savings were controlled nationally, through pay freezes, central budgets and management cost savings, and it was confident it could deliver these. A further 40% would come from efficiency gains in providers, delivered through setting the tariff. The final 20% would be due to service change such as shifting services from hospitals into the community and these would be the most difficult to achieve. The Department needs to monitor the savings and report regularly on progress against the target.

4.1 The Government agreed with the Committee's recommendation and savings made by the NHS will be monitored quarterly.

4.2 The Department will compare these savings against plan, and report these forecast savings to assess progress against the target. The Department also intends to collect data on the actual savings later in the year, which will also be reported through the processes the Department has put in place to report on the Integrated Performance Measures.

Target implementation date

4.3 March 2015.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 Quality, Innovation, Productivity and Prevention (QIPP) is not a formal national programme, but a locally led initiative to identify local plans that will deliver efficiencies and allow them to be reinvested in high quality care. QIPP delivery has now been mainstreamed into 'business as usual', with progress monitored and tracked.

4.6 The Department will use Integrated Performance Measures (IPM), covering quality, resources and reform as laid out in the Operating Framework for 2012-13. This will ensure that the NHS is on track to deliver the QIPP challenge and maintain quality. These IPMs are published regularly in *The Quarter*, the quarterly update available on the Department's website, and outline the NHS financial position, alongside progress made in health services. The Department is now collecting data on the actual QIPP savings made by the NHS', and will report this in *The Quarter*. The Department also compares NHS performance data against Spending Review planning assumptions and reports this progress quarterly to the Departmental Board and the Treasury.

PAC RECOMMENDATION 5

The Department needs to regularly review the emerging costs of the transition and have contingency arrangements in place if costs exceed expectation. The Committee will monitor the progress and costs of the reforms, beginning later in 2011.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Government recognised this risk and has been preparing mitigating actions so that costs are managed and constrained. The Department has a range of practical actions to help manage these risks. These include:

- developing a comprehensive suite of HR Frameworks and policies to provide the over-arching guiding standards relating to the movement of employees to the new and changed bodies set out in the Health and Social Care Act 2012;

- minimising the difference between the geographical distribution of the old and new systems;

- assessing the scope to transfer some of this risk to those most able to manage it, for example by providing local incentives to minimise redundancy costs; and

- providing clear messaging around the priority to minimise costs.

Target implementation date

5.3 April 2013.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 A key aim is to deliver a one third real-terms reduction in administrative spend, to release resources to frontline services. Current information indicates that administrative spending has reduced at a faster pace than forecast, so the total benefits across the Spending Review period will increase. The accounts for 2011-12 will help quantify this impact. The Department continues to seek to maximise the savings, and minimise the costs.

5.6 In relation to redundancy costs, all NHS organisations have a duty to ensure value for money and to live within their budgets. Processes are in place to monitor and manage the financial performance of commissioning organisations. HR Transition Framework guidance, introduced in September 2011, will ensure consistency during transition and to encourage best practice. The Department has also developed a set of national HR policies and processes to support implementation. These were published on 28 June 2012 on the HR transition website[16] and reflect the standards, principles and key content of the HR Transition Framework.

5.7 The Department has appointed HR leads to work with Clinical Commissioning Groups (CCGs) to support corporate services transition and jointly develop an HR guide to support CCGs as they move toward establishment and authorisation. A system-wide reporting and monitoring of people transition[17] has been implemented, along with continued and stronger messaging around minimising people costs, such as redundancy and the benefits of employing staff already in the system.

5.8 Monthly national workshops and conferences have been organised for HR and design leads from receiver and sender organisations and Trade Unions. These are supported by monthly HR newsletters to HR practitioners and open conference calls have also been used as a means of sharing progress and advice. Partnership working with Trades Unions has been strengthened through partnership forum events. The Department has encouraged CCGs to work together with PCTs to ensure that staff with valuable skills are not lost from the NHS.

PAC RECOMMENDATION 6

The Department should set out its contingency arrangements to ensure the supply of services in areas where trusts cannot meet the criteria to become Foundation Trusts. This should include clarifying the roles of Monitor and the Care Quality Commission in such cases. The Department will need to make arrangements for handling PFI debt in a way that allows all Foundation Trusts to operate on equal terms in the marketplace.

6.1 The Government agreed with the Committee's recommendation.

6.2 In the Government's response to the Future Forum's report, the Department made clear that it expects the majority of remaining NHS trusts to be authorised as Foundation Trusts by April 2014. The NHS Trust Development Authority will support this process and maintain the momentum, which will be essential for overall delivery. It is no longer an option to stay as an NHS trust, but equally there is no blanket deadline in legislation for abolishing NHS trusts as legal entities. The stringent tests set by Monitor will remain, and Monitor will continue to obtain assurance from CQC as part of the authorisation process.

Target implementation date

6.3 June 2012.

Current Status

6.4 Work in progress.

Action taken to implement recommendation

6.5 The vast majority of NHS trusts are expected to achieve Foundation Trust (FT) status by 2014, either in the same organisational form, as part of an existing FT or in another organisational form. Any NHS Trusts existing beyond 2014 will have a clear plan and agreed deadline to achieve FT status. It will not be an option for an NHS trust to remain in its current legal form in perpetuity and the Health and Social Care Act 2012 clearly signals this by allowing the Government to repeal NHS trust legislation when all NHS Trusts have made the transition to FT status. The rigorous standards set by Monitor for achieving FT status will remain. The Act also reinforces current arrangements from the Care Quality Commission that the services of NHS trusts are meeting the appropriate standards of quality and safety.

6.6 The NHS Trust Development Authority will provide governance and accountability for NHS trusts in England and for the delivery of the FT pipeline. It will bring together a number of functions that are currently carried out within the Department, Strategic Health Authorities and the Appointments

[16] http://www.hrtransition.co.uk

[17] The movement of employees from 'Sender' (current) to 'Receiver' (new or changed) organisations at national and sub-national level, as a result of the health and social care reforms set out in the Health and Social Care Act 2012.

Commission. Its objective is to support NHS trusts, ensuring that services to patients are of the highest standard.

6.7 The Department has considered a number of solutions to PFI issues. The Department's will provide direct funding to the relevant NHS Trusts and Foundation Trusts (assuming the Secretary of State's four tests[18] have been met). The Secretary of State has accepted this recommendation and work continues on implementation, with the aim of finalising the policy by July 2012. Any support for NHS Trusts will be provided thereafter on an ongoing basis.

6.8 Advice to Secretary of State also recommended that further work be undertaken in conjunction with HM Treasury to examine whether buying of senior debt may represent better value for money for some of the schemes. The Secretary of State has asked that further work be undertaken on this issue. This work is ongoing and the outcome will be discussed as part of the implementation of the overall PFI project.

PAC RECOMMENDATION 7

The Committee will take a close interest in the efficiency of the system in this regard and the Department should take steps to ensure that the level of administrative funding for consortia of different sizes is adequate but not generous, and does not introduce perverse incentives.

7.1 The Government agreed with the Committee's recommendation.

7.2 The NHS Commissioning Board (NHSCB) will be responsible for making allocations, including running cost funding, to Clinical Commissioning Groups (CCGs) in line with the needs of their populations. CCGs of different sizes will be expected to identify the most efficient ways for them to deliver their functions, which may include sharing services and overheads where appropriate. Clearly, the process of making allocations will need to consider the appropriate rate for funding CCGs to ensure best value for the taxpayer. Both the NHSCB and CCGs will be under a statutory obligation to exercise their functions effectively, efficiently and economically, and be bound by specific statutory duties relating to financial control, including a duty to ensure expenditure on administration does not exceed a set amount.

Target implementation date

7.3 April 2013.

Current Status

7.4 Work in progress.

Action being taken to implement recommendation

7.5 The vast majority of emerging CCGs have agreed their proposed configuration and are looking to take account of how they will manage any risks associated with their proposed size.

7.6 The Department understands that the NHS Commissioning Board (NHSCB) Authority approved details of the proposed configuration of CCGs at its Board meeting on 31 May 2012. It will be the role of the NHSCB to determine whether or not CCGs can be authorised. As agreed at the NHSCB Authority Board meeting on 13 April 2012, the process for authorisation of CCGs will be done in waves, with the first wave of CCG applications expected in July 2012 and the fourth and final wave

[18] Department of Health four tests for support for Trusts with PFI contracts:

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

of applications in October 2012. The NHSCB will formally begin authorising CCGs in October 2012, concluding in January 2013. This will enable CCGs to take up their responsibilities from April 2013.

7.7 The Operating Framework 2012-13 states that for 2013-14, the running cost allowance for CCGs is expected to be £25 per head of population per annum - this is before any entitlement to a quality premium.

PAC RECOMMENDATION 8

The NHS Commissioning Board will be formally established in April 2012, which will provide limited time for it to learn the lessons of the GP pathfinder consortia, for example, at what scale efficient commissioning decisions should be made for different services. The Committee will expect to see the proposals refined where appropriate to respond to lessons arising from the pathfinders. The Department should set out in detail how and when it will appraise the pathfinder consortia and when those results will be made public.

8.1 The Government agreed with the Committee's recommendation.

8.2 The NHS Commissioning Board Authority was established in shadow form as a Special Health Authority on 31 October 2011. The Board will be established formally as an independent statutory body in October 2012, to establish CCGs and carry out preparatory functions. It will take on its full responsibilities from 1 April 2013.

Current Status

8.3 Implemented.

Action taken to implement recommendation

8.4 The Health and Social Care Bill received Royal Assent on 27 March 2012, putting in place the legislative basis for clinical commissioning.

8.5 The Department's expectation is that CCGs will begin to be established soon after the establishment of the Board. PCTs will be abolished in April 2013. Where a group is not ready, at this point, to assume full commissioning responsibility, the Board (or another CCG at the Board's request) will commission services on its behalf. The Department also expects that most of the remaining NHS trusts will be authorised as Foundation Trusts (FT) by April 2014. If any trust is not ready by then, it will continue to work towards FT status under new management arrangements provided by the NHS Trust Development Authority.

8.6 The Health and Social Care Act maintained that until 2016 (or until two years after the date of authorisation of those FTs authorised after 31 March 2014), Monitor will retain specific intervention powers over FTs to deal with failure of governance which could lead to a breach of licensing conditions and an inability to provide NHS services. These powers will be reviewed in 2016.

8.7 GP pathfinder consortia were involved at every stage of preparing the authorisation framework, published by the NHS Commissioning Board Authority.[19] An independent evaluation of the pathfinder programme is underway. Initial informal findings informed the design of the full research evaluation phase (undertaken in April and May 2012) and the final report for the NHS Commissioning Board Authority will be available by July 2012.

[19] Developing clinical commissioning groups: towards authorisation.

Thirty Fourth Report

Home Office

Immigration: the Points Based System – work routes

Summary of the Committee's findings

The Government's policy is to allow the migration of skilled workers to the UK to support economic growth and better public services. The Home Office (the Department) has overall responsibility for immigration policy and securing the UK's border, which it discharges through the UK Border Agency (the Agency). The Agency has the hugely difficult task of designing and operating an immigration system which enables the UK to get the skills it needs, while protecting the interests of workers already resident in this country.

The Agency currently lacks the management information to manage migrant numbers effectively and ensure compliance with the Immigration Rules. The Committee welcomes plans to introduce an integrated casework system which should provide the information necessary for dealing with these issues, and expect to see improved performance once the new casework system is fully operational from 2013.

In reaching its findings, the Committee took evidence from the Department and the UK Border Agency on 28 March 2011. The Committee issued its report on 17 May 2011 and the Treasury Minute – the Government's formal response - was published on 18 July 2011.

PAC RECOMMENDATIONS 1 and 7

1. The System is more transparent to those applying and more adaptable to changing migration needs. It provides an objective basis for decisions, which are reached more quickly than under the previous system. It therefore provides a useful base on which to build. However, the Agency needs to make significant improvements, particularly to encourage greater compliance and improve management information, so that the System works more effectively to meet its objectives. The following recommendations are designed to help meet this end.

7. Over the next two years, while it rolls out the new integrated immigration casework system, the Agency should establish performance measures and determine what management information it needs to manage compliance better across both migrant and sponsor management and ensure that the new systems are able to support these.

1.1 The Government agreed with the Committee's recommendations.

1.2 Work underway as part of the Immigration Casework (ICW) programme includes a strategy to deliver reliable, accurate and readily accessible management information for the System. This will be rolled-out incrementally for all migrant applications made in the UK or overseas, and will provide a solid platform to underpin the management of compliance by migrants and sponsors and inform operational targets and broader objectives at local, regional and national levels.

Target implementation date

1.3 Summer 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 The Agency is improving its Management Information as part of the roll-out of new IT systems and enhancing existing systems, such as the Sponsor Management System (SMS). The enhanced

SMS provides more granular management information and provides more structured information on notifications. This includes more detail on the reasons for non-attendance. In April 2012, the Agency provided a more structured format for sponsors to indicate changes to their licence. Updated Confirmations of Acceptance for Studies (CAS) will provide a greater level of detail on course information to support the capture of management information.

1.6 There are a number of other initiatives in progress which are intended to improve the Agency's understanding of potential non compliance. These include:

- an on-line checking service to allow employers to make right to work checks will launch at the end of 2012;

- in Q2 2012, the Agency plans, subject to financial approval, to put in place a central data management system. This will record the contribution that allegations make to the prevention and detection of immigration and customs offences. The management information from this new database will help to inform the Agency's understanding of how both sponsors and migrants are not complying with the rules, particularly in respect of areas where illegal working is prevalent and where students maybe working excess hours;

- the existing National Operations Database (NOD) is being enhanced to provide greater understanding of intelligence tasking for enforcement activity to enable more focussed performance standards in that area. This is alongside a rolling programme of improving the tool used to increase data quality; and

- the use of targeted enforcement activity to send a signal to those who are not complying with Immigration Rules

1.7 The Agency is preparing an intelligence enforcement improvement plan, one element of which will be to ensure performance measurements are in line with its priorities. The Agency will get a more accurate picture of how compliant employers and migrants are with the Immigration Rules.

PAC RECOMMENDATION 2

The Agency should not use the lack of exit controls as an excuse to ignore thousands of people who overstay in this country illegally. It should develop a strategy to identify and deal with those overstaying, including students, workers, and others who are in the UK illegally, and report publicly at least once a year on progress in reducing their numbers.
The Committee will return to this topic to evaluate progress.

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

2.2 The Agency will further enhance its enforcement strategy, setting out how it will identify and deal with those individuals who have stayed in the UK after their permission to remain has expired, and will report publicly against that strategy on an annual basis.

Target implementation date

2.3 Summer 2012.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 The Department is committed to the reintroduction of exit checks by 2015. These will allow the Department to track people out of the country, in the same way that they are tracked in. Through the e-Borders system, the Department currently checks electronically in excess of 60% of all departures, supporting the Agency's ability to conduct effective embarkation checks and enabling the law enforcement agencies to target harmful individuals, where necessary.

2.6 The Government is committed to the e-Borders programme and to increasing its coverage. Once exit checks have been fully rolled out, the Department will have the capacity to check who has complied with the conditions of their leave and left the country as required, and who has not. The Department will then be able to focus on enforcement actions more effectively and, as part of that, is enhancing the enforcement strategy. This will set out how the Department will deal with those individuals who have stayed in the UK after their permission to remain has expired, and will report publicly against that strategy on an annual basis.

2.7 The Agency prefers that people leave the UK voluntarily. However, if this option is refused, then removal will be enforced, including arresting and detaining those who refuse to comply. In 2011, 36,970 illegal migrants in the UK were removed or voluntarily departed. The Agency undertakes approximately 60 charter flights per year and last year removed over 2000 individuals on charter flights.

2.8 The Agency continues to develop an enforcement strategy aimed at addressing all those without lawful permission to remain in the UK and has plans in place to increase the volume of removals during this financial year. This includes illegal migrants, over stayers, failed asylum seekers and foreign national offenders

2.9 Improvement will be driven through a number of actions which include, using our enhanced ability to monitor departures from the UK to develop better management information on those who are still in the country; developing and implementing better processes and performance management for enforcement teams; and development of the hostile environment in-country ensuring that a clear compliance message is communicated to the illegal migrant population.

2.10 The Agency will also deliver commercial solutions for increasing removals and is currently undertaking a tender for a four-year contract to provide contact management and casework services from September 2012. The successful contractor will contact refused migration applicants, establishing their current circumstances where possible, and for appropriate cases, inform them of the requirement to leave the UK. Where individuals with no leave do not leave the UK voluntarily, the team will deal with specific barriers to removal such as obtaining travel documentation and will pass cases to Local Immigration Teams to enforce removal. This will build on the work already begun by teams across the country, and by Serco in London at no charge to the Agency.

2.11 In parallel, the Agency has been developing casework capacity to deal with notifications from sponsors, and to take curtailment action where necessary. Since February 2012, the Agency has processed over 120,000 student notifications, and completed curtailment action on over 23,000 non-compliant students by May 2012. In Tier 2, the Agency has received 4,500 notifications from sponsors. 1,400 have already been reviewed and curtailment action completed on the 400 which needed action. The Agency will be up to date with curtailment, across all tiers, by the end of summer 2012.

PAC RECOMMENDATION 3

The Agency should improve its ability to assess and address the risk of employers failing to comply with immigration rules by developing better systems and placing greater priority on compliance. It should review its system of incentives and penalties to encourage better compliance, and consider what incentives it could offer to employers to guarantee their employees' adherence to immigration rules, in particular leaving the country when the visa has expired.

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

3.2 The Agency already has a risk based approach which focuses on sponsors deemed to be high risk rather than those who have a proven track record of compliance. Since the System was introduced, the Agency has revoked the licences of more than 660 Tier 2 and Tier 5 sponsors.

Target implementation date

3.3 2012-13.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Agency now follows a documented visit strategy. The Agency has overhauled how visits to sponsors are prioritised and organised using a new national framework that uses specific intelligence and risk factors. To improve the focus on tackling non-compliant sponsors, the Agency has restructured and relabelled the Visiting Officer role to become 'Points Based System (PBS) Compliance Officers'. The Agency has also implemented new reporting methods and guidance.

3.6 As a result, between 1 April 2011 and 31 March 2012 the Agency has undertaken 6048 Tier 2 visits, downgraded 212 Tier 2 sponsors, suspended approximately 470 Tier 2 sponsors and revoked 335. The Agency is working to allow its PBS Compliance Officers to issue penalties for illegal working as part of their remit. There is currently a pilot in the North West Region to add this function to the duties of the Compliance Officer. If successful, this will be considered for national roll-out in 2012-13. The Agency will continue to work closely with the Police and prosecute where appropriate.

PAC RECOMMENDATION 4

The Agency must ensure that it can verify all salaries accurately and should consider excluding allowances from salaries. Furthermore, the Committee expects the Home Office to monitor this scheme and whether controls are operating adequately, to provide the assurance that it does protect the interests of resident workers.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Agency has already significantly tightened the Intra Company Transfer (ICT) route under Tier 2 of the System. The policy regarding allowances has been designed to ensure that companies do not circumvent the salary benchmarks or the requirement to pay the appropriate UK rate for the type of job recruited to. Where there is a doubt on the authenticity of the information provided regarding salary and allowances paid, the Agency will undertake checks with the overseas employer to establish their validity.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 The Department asked the Migration Advisory Committee (MAC) to review the inclusion of non-salary remuneration for Intra-Company Transfers as part of their review of the Tier 2 limits and associated policies. The MAC published its report in February 2012. On allowances, the MAC reported: *'On balance we believe that, while scope for using allowances for the purposes of undercutting does theoretically exist, it is generally the case that in practice such incentives would not exist because employing an intra-company transferee represents a significant cost to a UK employer'.*

4.5 The Department has no plans to make any changes to the allowances regime for intra company transfers. Rising numbers of Intra-company transferees (ICTs) were an issue, but the measures introduced, such as the introduction of minimum salary thresholds and a five year limit on leave, have ensured that the numbers have stabilised. There were 29,171 ICTs in 2010 and in 2011 this figure stood at 29,677.

4.6 In the summer of 2011, the Agency undertook a national operation, which was specifically targeted on sponsors who use the Intra Company Transfer (ICT) route, visiting 78 ICT sponsors across the UK as part of this operation. Particular attention was paid to the assessment of the roles, salaries and allowances of those migrants who had arrived under the ICT route. The operation found that the sponsors were largely compliant – only 6% of the sponsors visited were found to be non-compliant.

4.7 More generally a fundamental part of the PBS Compliance Officer role is checking the Resident Labour Market Test, salaries and allowances of migrants during their visits to sponsors. Where the sponsor has been non-compliant, the Agency will take action against its licence.

PAC RECOMMENDATION 5

The Agency should investigate known areas of difference in productivity and focus greater effort on ensuring staff in all locations work as productively as possible.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Agency will ensure that best practice is shared across the organisation to maximise productivity levels. For example: an ongoing initiative to improve the efficiency and productivity of applications decided in the UK - FrontRunner - is committed to raising productivity throughout its case working teams. We are working towards closing the productivity gap between cases decided in the UK and those decided overseas. The application process in the UK is moving closer to that of International Group — using a commercial partner to handle the customer-facing front-end of case processing and, soon, new online application processes.

Target implementation date

5.3 2012-13.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 The Agency will ensure that best practice is shared across the organisation to maximise productivity levels. However, there are a number of significant differences between the processing of cases in the UK and overseas that can make a direct comparison of respective productivity levels misleading. In particular, on applications made overseas, administrative staff undertake a significant amount of preliminary work prior to the Entry Clearance Officer's decision This is not the case for applications made in the UK. Similarly, for applications made in the UK, additional processing time is often required to support the in-country appeal process. These differences, coupled with the high proportion of generally straightforward visitor applications, means that overseas applications can often be processed more quickly than those made in the UK.

5.6 While the introduction of the ICW programme between 2012 and 2014 will provide a platform for making further efficiencies in the application process, the Agency envisages that it will still be necessary to tailor its approach to reflect the inherent differences between the processing of overseas and in-country applications. Overseas processing levels can also vary significantly due to the different challenges faced from region to region.

5.7 The Agency has taken a number of steps to improve sponsor visit productivity. The role of the PBS Compliance Officers will focus on delivery of a robust visit regime, supported by new guidance, reporting and tasking. This has resulted in an increase in productivity, with the national average of visits by compliance officers at 12 per month - as at March 2012 - with a target of reaching 16 visits per officer by December 2012. The Agency has scheduled the visits required in 2012-13 for Sponsor Licence Renewals, Premium Service, Pre and Post licence visits and Sponsor health checks.

PAC RECOMMENDATION 6

The Agency should:

- ***ensure that its staff take a consistent and proactive approach to correcting minor errors and omissions;***
- ***extend the principle of evidential flexibility to applications from employers; and***
- ***explore options for improving the service provided to sponsors who are willing to pay for it, for example by providing a single caseworker contact.***

6.1 The Government agreed with the Committee's recommendation.

6.2 The Agency has already made changes to its evidential flexibility policy. Revised instructions have been circulated to ensure a consistent approach in decision making is adopted across all the case working units both in the UK and overseas. The revised arrangements mean that where minor omissions have been made and applicants have been asked to provide the information needed to determine their application, they will be given seven days to provide the information requested where this is necessary. This same evidential flexibility approach has also been introduced to sponsor licence applications.

Current Status

6.3 Summer 2012.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The Agency, on average per month, receives approximately 15,000 calls on the Sponsorship and Employer Helpline of which 30% (approx 5,000 calls per month) relate to Sponsor / employer enquiries. For example: calls and emails on the SMS and website navigation issues. On the Agency's contact centre strategy, improvements to the Agency website will provide an enhanced online enquiry service, which will benefit customers and reduce the number of avoidable errors.

6.6 On 6 April 2012, the Agency launched the Premium Customer Service (PCS) for sponsors under Tiers 2 and 5 of the PBS. PCS is available to all Tier 2 and Tier 5 A-rated sponsors at a cost of £25,000 (£8,000 for small sponsors) per annum. Sponsors are able to apply for PCS through their online account and those who are successful will be designated as 'premium sponsors'. PCS offers sponsors a range of benefits, but the key offering is that each premium sponsor will have a dedicated licence manager and support team to work on a one-to-one basis. Each licence manager will have the resources and knowledge to resolve issues and queries across the complete migration spectrum – whether these relate to the sponsor themselves or their sponsored worker's visa application.

6.7 The Agency has attended several sponsor events to promote the Premium Customer Service. The first application was approved at the end of May.

6.8 The Agency has embedded the evidential flexibility policy. The evidential flexibility policy was included in all published PBS guidance in April 2012.

Thirty Fifth Report

Department of Health (DH)

Procurement of consumables by NHS acute and Foundation Trusts

Summary of the Committee’s findings

The 165 NHS acute and Foundation hospital Trusts in England spend over £4.6 billion a year on the procurement of medical supplies and other types of consumable goods, dealing with thousands of supplier companies ranging from large multinational corporations to smaller specialist firms. Each Trust controls its own purchasing, in line with the Government’s strategy to give NHS organisations increasing freedom to operate independently. Foundation Trusts, which now account for more than half of hospital Trusts, are independent of the Department of Health’s control and all Trusts are intended to become Foundation Trusts by 2014.

There has not been a culture of efficient procurement in the NHS. The lack of data makes it difficult for Trust boards to challenge managers on the efficiency of procurement and there has not been sufficient control over procurement practices. At a time when all Trusts are required to make efficiency savings - 4% in 2011-12 alone - they should seek to achieve as much of these as possible from improvements in procurement. Without such improvements, there is a risk that Trusts will make cuts elsewhere, while at the same time continuing to waste money on inefficient procurement.

In reaching its findings, the Committee took evidence from the Department and the NHS on 15 March 2011. The Committee issued its report on 19 May 2011 and the Treasury Minute – the Government’s formal response - was published on 18 July 2011.

PAC CONCLUSION AND RECOMMENDATION 1 AND 6

1. The Department acknowledged, when the Committee recently considered the NHS reform proposals, that it would still be accountable for the performance of the NHS as a whole system. The Department therefore has the responsibility to strengthen Trusts' accountability to their boards and to the regulators so that they have the necessary challenge and incentives to secure value for money in procurement. The Department should also strengthen the way hospital procurement is supported by national and regional organisations, so it is easier for Trusts to make use of this support and so the benefits of doing so are clearer. The Department should also spell out clearly how it would deal with outstanding debts to suppliers should a Foundation Trust be declared insolvent.

6. *More efficient procurement has the potential to save money without damaging patient care. Trusts’ boards should set aggressive targets for savings from procurement and should require Trusts to demonstrate to their boards, staff and patients that they have delivered the optimum savings from procurement, before front-line staff cuts are considered. Information enabling their performance on procurement to be monitored should be a requirement for all Trusts.*

1.1 The Government agreed with the Committee’s recommendations.

1.2 It is expected that the majority of remaining NHS Trusts will achieve Foundation Trust status by 2014 and accountability for effective procurement will sit primarily with Trust boards. However, the Department agrees that it should seek ways to strengthen Trusts’ accountability and will explore with Monitor, National Audit Office and any emerging NHS Provider support functions in the system, ways in which this can be achieved. This will include the drafting and agreement of Key Performance Indicators (KPI) which can successfully measure improvements made by Trusts in the management of their non-pay spend, by April 2012.

1.3 The Department is working with the Foundation Trust Network (FTN) to raise the importance of good procurement with Trust Chief Executives Officers (CEOs), and launched a ‘procurement diagnostic tool' through the network to help CEOs ask themselves the right questions. This was followed up by a workshop with over 40 Trust leaders in July 2011, facilitated by the NHS Institute for Innovation and Improvement and led by the NHS Chief Executive, Sir David Nicholson, to begin the process of agreeing with the system the need for systemic change at a significant pace for procurement in the system. This was followed in April 2012 by the launch of a joint Department and NHS procurement strategy, which will include actions for all following further engagement and consultation.

Target implementation date

1.4 December 2012.

Current Status

1.5 Work in progress.

Action being taken to implement recommendation

1.6 In July 2011, a workshop with Trust CEOs began informing the development of the NHS procurement strategy, with additional engagement with the FTN, procurement professional associations, Chartered Institute of Purchasing and Supply (CIPS) and Healthcare Supply Association (HCSA), industry associations and NHS procurement leaders, as well as the National Procurement Council (NPC).

1.7 In May 2012 the Department of Health published: *NHS Procurement Raising our Game,* which sets out steps that the NHS should take immediately to start the journey of improvement in procurement. *Raising Our Game* recommends key actions for improvement which include:

- the NHS must share data, so that the prices being paid for the same goods and services can be seen by different organisations;
- Trusts should publish all tender and contract information for tenders over £10,000;
- good procurement practice should spread quickly and effectively, in particular the use of GS1 coding;
- a dashboard of procurement indicators to allow easier benchmarking will be created by the Department; and
- an independent diagnosis and accreditation system to allow NHS organisations to assess their procurement capability.

1.8 In parallel, the NHS Standards of Procurement were launched to set out the characteristics of efficient and effective procurement. This includes the steps to be taken to improve quality – through different levels of maturity – and provide the measures to be used at a local level to monitor performance. Standards for leadership and accountability of NHS Trust boards, as well as standards for the use of collaborative procurement organisations, are included.

1.9 In December 2011, the NHS Chief Executive published his Review of Innovation NHS: *Innovation Health and Wealth, accelerating adoption and diffusion in the NHS,* which highlighted procurement as an important lever for economic growth, potential driver for better public service and a means of stimulating innovation. Recognising that the NHS can go further to develop a procurement function that is internationally recognised, the NHS Chief Executive has asked Sir Ian Carruthers OBE, Chief Executive of NHS South of England, to lead a Review of NHS Procurement. Conducted in the same manner as the Review of Innovation, an Open Call for Evidence and Ideas has been published, to engage with the widest possible range of stakeholders. In December 2012 the NHS Chief Executive will publish a report that will inform the strategic approach to procurement in the modernised NHS.

PAC CONCLUSION AND RECOMMENDATION 2

The Department has no control over Foundation Trusts, but has set a savings target which can only be delivered by the Trusts themselves. The Department should spell out how the target will be delivered and measured, and who will be accountable for it in the new NHS model.

2.1 The Government agreed with the Committee's recommendation.

2.2 Trust Boards are accountable for their procurement, including delivery of Quality, Innovation, Prevention and Productivity initiative (QIPP) efficiencies. The Department believes that increasing financial pressures, such as the requirement to deliver 4% efficiency gain in 2011-12, will be the main incentive for Trusts to deliver the £1.2 billion savings required under QIPP. The Department will continue to collect and monitor QIPP savings at a national level through primary care Trusts' financial reporting, although these will be locally set and driven targets. The Department will include financial savings as a recommended key performance indicator in order to meet this gap in reporting.

Current status

2.3 Implemented.

Action taken to implement recommendation

2.4 QIPP delivery has now been mainstreamed into 'business as usual' and progress continues to be monitored at a national level. Integrated performance measures, covering quality, resources and reform as laid out in the Operating Framework for 2012-13 are used by the Department to ensure that the NHS is on track to deliver the QIPP challenge, and maintain quality. The Department has started to collect data on the actual QIPP savings made by the NHS. Both of these elements are published in *The Quarter*[20], which outlines the NHS financial position and progress made in health and care services on a quarterly basis.

2.5 Financial savings is one of the recommended indicators included in the "NHS Standards of Procurement", launched in May 2012. In addition, procurement is included as a category of efficiency reporting required by the Audit Commission for Trusts to report cost improvement programme progress.

PAC CONCLUSION AND RECOMMENDATION 3

The Department should require all NHS purchasers and suppliers to make use of a standard, comprehensive product bar-coding system so that price comparisons can easily be made and savings opportunities identified. It should ensure that product bar-coding is in place by April 2014, by which time all Trusts are expected to have achieved Foundation Trust status and the NHS reform plans are expected to take full effect.

The Department has no control over Foundation Trusts, but has set a savings target which can only be delivered by the Trusts themselves. The Department should spell out how the target will be delivered and measured, and who will be accountable for it in the new NHS model.

3.1 The Government agreed with the Committee's recommendations.

3.2 Health Ministers announced on the 10 June 2011 that GS1 (bar coding on products) was to be adopted as the standard product coding system used by the NHS. The Department cannot mandate the use of the standard, but it is, by a significant margin, the dominant code in use in all business sectors. The main thrust of the Department's activity is to raise awareness within the NHS and the supplier community of the advantages and opportunities that employing standard coding systems

[20] A series of quarterly updates from David Flory, Deputy NHS Chief Executive, that outline the NHS financial position alongside progress made in health and health services

brings to deliver efficiency and savings. The Department is supporting the implementation of framework arrangements that will promote improved understanding and lower the cost of acquiring software solutions which allow the NHS to interrogate their spend information and facilitate price sharing with other Trusts.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 Purchasing routes for Trusts to acquire solutions to improve spend analysis, product cataloguing, and inventory management have been launched. A price benchmarking pilot with 20 Trusts for 12 products was undertaken with support from the FTN and the results were published in September 2011 along with guidance to Trusts on using the analysis to understand how they can undertake more benchmarking.

3.5 Through working with the markets that provide systems and technologies for procurement, the Department has developed and published a GS1 reference model for the NHS to use to allow a better understanding of the benefits, as well as guidance on how to implement improved coding and technology in their supply chains.

3.6 The NHS supply chain pilot for using web-based systems, which allow them to be more transparent on their offer, is underway, with progress monitored by the Department. Additionally, benchmarking has been included as a workstream of the NHS Supply Chain Customer Board to determine how the NHS can best make use of NHS supply chain's data to achieve efficiencies through comparison with other NHS organisations.

PAC CONCLUSION AND RECOMMENDATION 4

The Department should:

- ***review NHS Supply Chain's operations and if necessary revise its contract to provide the incentives to capture aggregated NHS demand;***
- ***develop plans to make NHS Supply Chain's offer more attractive for Trusts; and***
- ***assess regularly whether NHS Supply Chain is subject to the right level of competitive pressure and monitor this as other intermediary bodies, such as Collaborative Procurement Hubs, develop, rationalise and reform.***

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

4.2 The Department has already invested some considerable time in ensuring that the NHS supply chain's offer is attractive and competitive for Trusts and does not accept that the supply chain is not demonstrating its value to the NHS. The Department believes that supply chain does represent good value and that merely comparing the prices they charge does not represent a true picture of the total costs of the service they provide. That said, the Department does accept that more needs to be done to improve value.

4.3 The Department, in conjunction with NHS Business Services Authority, undertook a review of how the organisation can be incentivised to aggregate NHS demand in 2011 as well as an exercise in benchmarking supply chain prices.

Target implementation date

4.4 April 2013.

Current Status

4.5 Work in progress.

Action being taken to implement recommendation

4.6 In reviewing NHS Supply Chain's incentives to offer aggregation to the NHS, it is unlikely this will be achieved though any changes to the Department's contractual relationship alone. It requires the whole system to be incentivised, including NHS organisations. The Department has therefore explored the possibility of pump priming aggregation by lending NHS Supply Chain £300 million to manage as a fund to bulk buy medical equipment in return for significant discounts from suppliers. Trusts are then able to buy from NHS Supply Chain at much lower prices. NHS Supply Chain are already achieving discounts of up to 20% through this initiative. Additionally, a programme called: *commit to save* has been launched by NHS Supply Chain, which gives Trusts the opportunity to identify where they can make savings through aggregation and leverage.

4.7 The NHS Supply Chain Customer Board was established in November 2011, chaired by a former NHS Foundation Trust CEO. Both the Customer Board and NHS Supply Chain are reporting this as a significant impact on how Supply Chains go about their business, now that the voice of the customer is being heard. The process of deciding if the NHS Supply Chain will be extended or re-tendered will commence in 2013, which will also consider all options for performing the current function.

PAC CONCLUSION AND RECOMMENDATION 5

Given its need to achieve QIPP savings, the Department should work with Foundation Trusts to ensure Hubs add value and avoid duplication.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Department acknowledged that regional purchasing structures are confused and lack transparency but agrees with the Committee that it cannot control these organisations directly, but should work with Foundation Trusts to ensure they are used wisely, adding value and avoiding duplication. The Department has already been working with the FTN to begin this process, and has begun to put in place a programme of raising engagement and awareness at Trust level. The intention is to educate trust executive teams to understand what collaborative procurement services are on offer and support them in making informed decisions about their use. This will include advice on how to ensure these organisations provide value with clear performance measures.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 Research was undertaken in September 2011, by the Department, in conjunction with the National Procurement Council on the potential to develop a trade association for collaborative procurement organisations. It concluded that there would be limited benefit at this time, as this is still a relatively immature market. This is a mixed economy of commercial and NHS owned organisations, so the Department's power to shape this market is limited.

5.5 The emphasis in the NHS procurement strategy will be on NHS Trusts to understand and manage their relationships within this competitive market to ensure that they are achieving best value. The Department continues to use opportunities to communicate with the NHS on the potential for collaboration and how to achieve value from working together.

Thirty Sixth Report

Department for Business, Innovation and Skills (BIS)

Regulating financial sustainability in higher education

Summary of the Committee's findings

The regulated higher education sector in England comprises 129 Higher Education Institutions (institutions), which are autonomous, not-for-profit bodies that received nearly half of their £22 billion income in the 2009-10 academic year from public sources. The Higher Education Funding Council for England (the Funding Council) provides a third of the sector's income and oversees the financial sustainability of institutions. It is accountable to the Department for Business, Innovation and Skills (the Department).

Institutions are in the process of declaring their fees for new students in 2012-13, and initial declarations have been higher than the Department had anticipated, with the majority proposing to charge the maximum fee of £9,000 a year. Nevertheless, any proposal to charge fees of more than £6,000 a year is subject to the approval of the Office for Fair Access. Having to provide student loans to meet this level of fee could create a funding gap of several hundred million pounds for the taxpayer.

In reaching its findings, the Committee took evidence from the Department and the Funding Council on 30 March 2011. The Committee issued its report on 7 June 2011 and the Treasury Minute – the Government's formal response - was published on 18 July 2011.

PAC RECOMMENDATION 1

The Department will need to design and implement a new system of regulation. It will also need to provide new powers to regulate institutions that receive little or no direct public funding but whose students have access to publicly-provided loans.

1.1 The Government agreed with the Committee's recommendation. The Funding Council has provided value for money in delivering their regulatory role.

1.2 The Department has already set out in the Grant Letter to the Funding Council (published 20 December 2010) that managing the transition to a new funding framework will be a priority for HEFCE for the 2011-12 financial year.

Target Implementation Date

1.3 Autumn 2013.

Current Status

1.4 Work in progress.

Action taken to implement recommendation

1.5 On 11 June 2012 the Department published its response to the Business, Innovation and Skills Select Committee report *Government Reforms to Higher Education* and to the consultation on the Higher Education White Paper *Students at the Heart of the System* and associated Technical Consultation. The Department set out its intention to work within existing powers rather than bring forward new legislation to reform the regulatory framework at this stage. It will be consulting later in the year on proposals to bring alternative providers and Further Education Colleges designated for student support purposes but not funded by HEFCE into the student number control system alongside other providers.

PAC RECOMMENDATION 2

If the funding Council is to ensure there is a smooth transition to the new funding environment, it will need to closely monitor risks as they emerge. It must also strengthen its monitoring arrangements so that it has early warning of any institutions that are struggling to manage these risks to their financial health. The Department should write to the Committee by March 2012 to set out how well institutions are coping with the transition and what it is doing to manage the risks.

2.1 The Government agreed with the Committee's recommendation.

2.2 The Funding Council is closely monitoring the potential risks facing higher education in its transition to the new funding system. They will provide advice to the Department in early 2012 to allow it to respond to the Committee by March 2012.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Departmental Permanent Secretary, Martin Donnelly, wrote to the Committee on 29 March 2012 with the information requested.

PAC RECOMMENDATION 3

The Department should assure itself that the Funding Council is able to fulfil its regulatory function in the new environment.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Funding Council has reduced its administrative costs in line with Government requirements, and is confident that it has the requisite capacity and resources to fulfil its current statutory responsibilities. The Funding Council's ability to fulfil its regulatory functions in the new environment will depend not only on the financial position of the sector, but also on the range of duties and responsibilities required by the new regulatory framework. The Department will work with the Funding Council to ensure that it is appropriately resourced to deliver any new regulatory functions that arise from the White Paper consultation and / or future legislation.

Current Status

3.3 Implemented.

Action taken to implement recommendation

3.4 The Department has confirmed the Funding Council's administration budget for 2012-13 at £24,740,000 and provisionally allocated £21,869,000 for 2013-14. These amounts take into account changes to the Funding Council's role and represent an increase over initial plans set out in the 2010 Spending Review.

PAC RECOMMENDATION 4

The Department and the Funding Council assured the Committee that well-managed institutions will have ample warning of problems. Nevertheless, the Department and the Funding Council must, by the start of the 2011-12 academic year, develop contingency plans for protecting students, and the taxpayer, should unexpected failure occur.

4.1 The Government agreed with the Committee's recommendation.

4.2 The Funding Council will work with the Department to develop the Committee's recommendation, which builds on work already under way. The key aim will be to protect the interests of students. The change in funding regime, with more tuition funding following the student, will not affect the route of funding to institutions until the start of academic year 2012-13. However, overall, the Funding Council will still be providing direct funding for teaching of around £2 billion by financial year 2014-15.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 No institution has failed in a disorderly manner - for example: leaving creditors unpaid or students unable to complete their course, since the Funding Council was set up in 1993. The current financial health of the sector shows strong performance. No institutions are presently at risk of insolvency. The Funding Council has announced a new Catalyst Fund, which will operate from August 2012. It will have two major goals, both focused on delivering the public and collective student interests in higher education. One of these goals will be to manage transition to and through the new finance arrangements. This will ensure that the Funding Council protects and sustains important activities that might be destabilised, and in the longer term address any unintended and undesirable consequences.

PAC RECOMMENDATION 5

The Department must ensure that students are provide with relevant and reliable information which is accessible and easy to use and which will allow them to make informed judgements in time for applications from 2012-13 academic year.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Funding Council recently consulted on the information requirements of current and potential students and published its outcomes in June 2011 (*Provision of information about higher education*, HEFCE 2011-18). The report sets out how the higher education sector intends to improve the accessibility and usefulness of information about higher education courses, from September 2012. It also sets out how the National Student Survey will be developed, and what wider information should be made available by universities and colleges.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 The Department has agreed with the Funding Council that, that by September 2012, they will improve the Unistats student information website and all university websites will include a standard set of key information for each undergraduate course. The Government initiated a marketing campaign which ran May-June and October 2011 – *University: Make your future happen*. This was earlier in the application cycle than any previous Higher Education campaign, in recognition of the importance of potential students understanding the full range of financial support available and of the potential impact on recruitment of mis-information in the media.

5.5 As part of this campaign, a Student Finance Tour made over 2,000 visits to schools and colleges in England, reaching over 150,000 students and 8400 parents. The evaluation of the tour showed 94% of students understood the new student finance package better after the visit, while 98% of parents found the tour helpful, 86% saying they now felt confident they had enough information to support their child through the student finance process.

PAC RECOMMENDATION 6

The Funding Council needs to strike a different and better balance between the interests of institutions and those of prospective students. The review should consider the introduction of a more graduated scale that distinguishes institutions facing insolvency from those that face higher risks for other reasons, and ensures earlier public disclose where students' investment and education is at risk.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Department has agreed with the Funding Council that, in the new regulatory system, consideration should be given to a more graduated risk assessment system. Following the Higher Education White Paper, there will be a consultation on the new regulatory system. The publication of information relating to risk assessments needs to take into account the interests of current students as well as prospective students. At present, the Funding Council does release information about institutions at higher risk if they judge it to be in the public's interest to do so.

Target implementation date

6.3 Autumn 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 The Funding Council will be consulting on a revised Financial Memorandum with institutions, now that the Department has announced its response to the Higher Education White Paper. This consultation will include proposed revisions to the existing risk assessment system to enable it to operate with a broader range of institutions, including alternative providers, and a wider set of risk criteria.

PAC RECOMMENDATION 7

The Department needs to develop a financial model which will allow it to test the impact of the decisions being made across the sector, and to assess the options available, which might range from finding more money through to reducing university places.

7.1 The Government agreed with the Committee's recommendation that BIS should build on existing work and continue to update the Department's financial model to allow us to test the impact of the decisions higher education institutions are making a across the sector on their tuition charges, and to assess the options available.

7.2 The Department expects there will be about 350,000 new full-time undergraduates arriving at English higher education institutions in autumn 2012 who will be eligible for tuition loans. The Department has been open in the assumptions it has used to model the future costs of student finance. The Department will closely monitor the situation, but currently expects the overall costs to be broadly within its Spending Review plans.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 The Department has used financial modelling techniques to produce a sensitivity analysis demonstrating how differing behaviours of students and institutions might result in different patterns of expenditure. Alongside this, the Department has also modelled appropriate responses that could be taken in response to patterns of expenditure above the budgets set in the Spending Review settlement. This analysis will continue to be refined and will take account of the latest data available on how the higher education funding system is bedding down.

Thirty Seventh Report

HM Treasury (HMT) and the Cabinet Office

Departmental Business Planning

Summary of the Committee's findings

The Spending Review 2010 set out the Government's policy and financial priorities, and a spending framework requiring significant cuts to most Departmental budgets. Subsequently, the Government published 17 Departmental Business Plans which focus on the priorities set out in the Coalition Agreement and are designed to provide a basis for accountability for delivery of those actions. The Plans do not cover all Departmental responsibilities or spending and must be supported by more detailed planning across all budgets within Departments.

The Committee examined the business planning process as a basis for managing reform, for reducing costs, and for Departmental strategic management and accountability. This report identifies a number of important areas that Departments should consider, that will aid them to: clarify accountability; support cost-effective implementation of Government policies; and secure effective performance management.

In reaching its findings, the Committee took evidence from the Treasury; the Cabinet Office; the Department for Business, Innovation and Skills, and the Home Office on 30 November 2010. The Committee took further evidence from Oliver Letwin MP, Minister of State, Cabinet Office, and Danny Alexander MP, Chief Secretary to the Treasury on 9 February 2011. The Committee issued its report on 24 May 2011 and the Treasury Minute – the Government's formal response - was published on 18 July 2011.

PAC RECOMMENDATIONS 1 to 6

1. The Business Plans do not, and are not designed to, cover the range of each Department's activities and spending and must therefore be supported by further planning to cover all areas of activity within the Department's remit.

2. The Committee's remit covers both the Coalition Agreement programme and the business-as-usual operations, and the Committee expects sufficient information to enable it to hold Departments to account on costs, outcomes, and value for money on both the Coalition agreement and across all of a Department's work.

3. While different Governments may adopt different approaches to business planning there are some essential elements which ensure effective accountability and good value for money which are set out below.

4. The ability to secure effective accountability for departmental expenditure depends on:

- ***Being clear and precise about objectives;***
- ***Establishing monitoring arrangements which align costs and results for all significant areas of Departmental activity and spending;***
- ***Providing reliable, timely, accessible data to support that monitoring;***
- ***Establishing robust processes for assessing assurance on propriety and value for services that are delivered locally; and***
- ***Putting in place mechanisms to deal with failure and continuity of services where appropriate.***

5. But the Committee's experience has been that high quality management of implementation is equally important. In the context of substantial cuts in Departmental budgets, combined with structural reforms, that highlights the need for:

- ***A robust assessment of the capability of Departments to deliver the reforms, and effective plans to deal with any gaps in skills, systems or relationships;***
- ***Strong governance arrangements to identify and manage risks, and secure effective partnership working, across Government and beyond Government;***
- ***Accurate costing of the transitional costs of reform and restructuring, to check on affordability and the impact of reform on service delivery budgets;***
- ***Monitoring arrangements to ensure that a reform in one area does not lead to increased expenditure in another and thus damage the value for money of the reform proposal;***
- ***Systems to track the benefits of reform and to ensure they are both sustainable and cost-effective and that they properly meet the policy intent set; and***
- ***All reform programmes to be sufficiently flexible to respond to changed circumstances and unexpected pressures. That is crucial for ensuring continued value for money.***

6. Key factors to address include:

- ***The qualification and capabilities of those charged with implementing the reforms;***
- ***Clear definitions of outcomes and standards, rigorous timelines and appropriate strategies to intervene when expectations are not met;***
- ***Effective incentives and sanctions to influence and drive performance;***
- ***Appropriate standardisation of relevant data and indicators to permit performance comparison, for local and central use; and***
- ***Regular reviews to test, assess and review whether the reforms are delivering intended outcomes. Arrangements to secure evaluation to understand what works and to secure changes if these are necessary.***

1.1 The Government agreed with the Committee's recommendations.

Current Status

1.2 Implemented.

Action taken to implement recommendation

<u>Business Plans and reporting</u>

1.3 The Government published updated Departmental Business Plans in May 2012. The form and structure of the Business Plans has been improved from the previous versions in the following ways:

- a new annex has been added showing each Department's contributions to cross-cutting agendas including growth, social mobility, sustainable development, efficiency, Open Public Services, the Red Tape Challenge and the Civil Society Compact.

- the Structural Reform Plan sections are more focussed on actions that contribute to the Government's reform agenda; activity representing 'business as usual' has been moved to an annex; and

- the Information Strategy section has been replaced by a summary of each Department's Open Data Strategy, which were published in full in June.

1.4 Business Plans were not designed to hold detailed information about all Departmental activity. They are intended for the general public and Parliament to hold the Government to account and for delivery of key reforms and commitments as set out in the Coalition Programme for Government.

1.5 Activities and spending should be supported by additional planning. The Government believes that operational management is the responsibility of each Department, which should have more detailed operational plans in addition to their Business Plan. Departments are encouraged to publish these plans on their websites.

1.6 Departments have been publishing Quarterly Data Summaries since July 2011, which include data on the cost and impact of structural reforms, as well as on common areas such as HR and Estates. Standard definitions have now been agreed across Government, and Departments are working towards reporting against these definitions. Once embedded these will allow valid cross-Government comparisons. The Government will work to continue to improve both the quality of this data and the ways in which it is presented.

1.7 For Departments that have published a Business Plan, their Annual Report and Accounts will now include outturn data for the year against Business Plan indicators in addition to other relevant performance information. The Annual Report and Accounts' breakdown of spend should also align with their Business Plans, but in a way that is not overly burdensome or bureaucratic.

Transparency and Open Data

1.8 Updated Business Plans now include a summary of Departments' Open Data Strategies, which were published in full in June 2012, building on the Government ICT Strategy[21]. These show how Departments will implement the Information Principles, which are designed to enhance the quality of data collection, management and publication. The release of this information should help the Committee, Parliament and the public to hold Departments to account on all areas of their business.

1.9 The Open Data Strategies also list forthcoming data to be released between 2012 and 2014-15, in anonymised form to the public (for example: public service outcomes data) or securely to relevant individuals (for example: personal access to GP health records online). Greater transparency of data at all levels of Government and public services will allow the public to hold local service providers to account and to choose alternatives where provision is not good enough with the objective of driving up standards at a national level.

Continuity of service

1.10 Ensuring continuity of service in the face of individual provider failure is of key importance. The Open Public Services White Paper set out five principles that Departments should consider when designing regimes to ensure continuity of service. The OPS 2012 update, published in March 2012, signalled the Government's commitment to ensuring robust continuity regimes across public services. Departments are working to ensure that their regimes reflect public service delivery reforms being undertaken and that they can robustly manage the risk of provider failure.

Spending risks

1.11 One of the Treasury's core functions is the identification and management of spending risks across Government and the Treasury is working collaboratively with Departments to implement Spending Review savings and reforms. The Chief Secretary to the Treasury is kept regularly informed of all spending risks and takes a view on progress across the board. This provides the opportunity to identify risks that cross Departmental boundaries. In addition, Business Plan impact indicators, and other published data, will allow Departments, the public and Parliament to see at a high level whether they are having the desired effect of improving public service outcomes. Non-Executive Directors and

[21] http://www.cabinetoffice.gov.uk/resource-library/uk-government-ict-strategy-resources

Departmental Boards may review the data to help identify any areas at risk of under-performing.

Capability and reform

1.12 Progress has also been made in strengthening the leadership of Government's major projects and programmes under the leadership of the Efficiency Reform Group (ERG), which is simultaneously improving the skills and capability of senior project team members who are tasked with implementing reforms.

1.13 The Government published an ICT Capability Strategy[22] in October 2011 and is implementing a cross-Government approach to development and management for ICT professionals, putting in place structures and processes to increase capability of ICT professionals at all levels. Steps have been taken to establish the size and capability of the ICT workforce. The *One Year on: Implementing the ICT Strategy*[23] progress report published in May 2012 set out key metrics reported by central government Departments which indicated a current ICT workforce of approximately 7,800 full time equivalent ICT professionals.

1.14 The Major Projects Authority launched the Major Projects Leadership Academy in February 2012, in partnership with Oxford Said Business School and Deloitte. It is running a one year development programme specifically targeted at Senior Responsible Owners and project directors of the top 208 projects and programmes. The curriculum addresses project leadership, including the role and accountability of the project leader, commercial capability and technical delivery for the full range of these projects. Academy alumni will subsequently mentor future project leaders and will disseminate what they have learned within their Department, and beyond.

1.15 The Civil Service Reform Plan sets out a range of proposals to strengthen the Civil Service. It focuses on the future size and shape of the Civil Service; improving policy making capability; implementing policy, delivering projects and sharpening accountability; strengthening skills and deploying talent across the Civil Service; and creating a modern offer for staff that encourages and rewards a productive, professional and engaged workforce.

[22] http://www.cabinetoffice.gov.uk/sites/default/files/resources/government-ict-capability-strategy.doc
[23] http://www.cabinetoffice.gov.uk/sites/default/files/resources/One-Year-On-ICT-Strategy-Progress.pdf

Thirty Eighth Report

HM Treasury (HMT)

Impact of the 2007-08 changes to public service pensions

Summary of the Committee's findings

In 2007-08, new pension schemes were introduced for civil servants, NHS staff and teachers. The changes were in response to Treasury requirements for savings in taxpayer costs to make public service pensions affordable.

Further changes to public service pensions are expected in the near future. In the 2011 Budget, the Government announced that it had accepted the Hutton Commission's recommendations for long-term structural reform of public service pensions as the basis for consultation with public sector workers, unions and other interested parties. Following this consultation, it will set out proposals in autumn 2011. This provides the opportunity for the Government to develop a clear strategic direction for public service pensions. The Committee looks forward to the Government's detailed proposals and, following their implementation, a period of much-needed stability and certainty for long-term public service pension's policy.

In reaching its findings, the Committee took evidence from the Treasury and the Department of Health on 2 March 2011. The Committee issued its report on 26 May 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATION 1

The Treasury expects the cost of pension payments to retired civil servants, NHS staff and teachers to stabilise over the next 50 years at around 1% of GDP, as a result of the 2007-08 changes. This would be a significant achievement. The exact range of savings is unclear because sensitivity analyses were not conducted on significant areas of uncertainty such as the size of the public service workforce. The Treasury acknowledged the need for more robust analysis in future, and the Committee welcomes its commitment to carry out deeper sensitivity analysis when considering further pension changes.

1.1 The Government agreed with the Committee's conclusion.

1.2 Projections of expenditure on public service pensions over the next fifty years are inherently uncertain, but sensitivity analysis can assist in understanding the extent of uncertainties and risks.

Target implementation date

1.3 2012.

Current Status

1.4 Work in progress

Action being taken to implement recommendation

1.5 As set out in the Government's response, the most recent assessment of the long-term costs of pension payments to public service pensioners was published by the independent Office for Budget Responsibility (OBR) on 13 July 2011, as part of their *Fiscal Sustainability Report*. The Report estimated that public service pensions would fall from 2% of GDP in 2010-11 to 1.4% of GDP by 2060-61.

1.6 These projections take into account the switch from the Retail Prices Index to the Consumer Prices Index (CPI) for the up-rating of pensions in payment, which was not part of the 2007-08 changes to public service pensions, but introduced by this Government. They include expenditure for all the unfunded public service pension schemes, as well as analysis of the sensitivity of the projections to longevity changes, earnings growth and workforce size assumptions.

1.7 The Government has now reached Proposed Final Agreements with the majority of unions on future scheme designs. The OBR will publish a forecast of estimated savings from these reforms, based on the agreements reached so far, in the July 2012 Fiscal Sustainability Report. This will include sensitivity analysis, as in the 2011 Report, and an assessment of the overall impact of all the changes to public service pension changes, implemented by this Government.

1.8 As announced in the Queen's Speech[24] on 9 May 2012, a Bill will be introduced in this parliamentary session to implement changes to public service pension provision, so they can be in place by 2015. Long-term forecasts of public service pension expenditure will continue to be included in the annual Fiscal Sustainability Report, supplemented by the OBR's biannual short-term Economic and Fiscal Outlook, which forecasts cash-expenditure over a five year period.

PAC RECOMMENDATION 2

The Treasury told the Committee that the existing discount rate was too high and, following a public consultation, the Government set a lower rate. At the same time the Government committed to reviewing the discount rate every five years. In order to maintain certainty for both employees and employers in the future, the Committee expect these reviews to be conducted promptly and transparently.

2.1 The Government agreed with the Committee's recommendation.

2.2 Lord Hutton concluded in the interim report of the Independent Public Service Pensions Commission[25] that the current discount rate used to set contribution rates in the public service schemes was at the high end of what is appropriate and should be reviewed.

2.3 In response to Lord Hutton's recommendation, the Government launched a full public consultation on 9 December 2010. The consultation closed on 3 March 2011. A number of roundtable stakeholder events were held and all responses were carefully considered before next steps were determined.

Current Status

2.4 Implemented.

Action taken to implement recommendation

2.5 The Government proposes to review the level of the discount rate every five years (first review due in 2016) and the methodology every ten years (first review due in 2021). The Government may also review the discount rate out of this cycle in the event of a significant change in circumstances.

PAC RECOMMENDATIONS 3 and 4

The Government will consult on the Hutton recommendations before setting out its proposals for further change in autumn 2011. As soon as possible following the consultation, the Treasury should publish its timetable for implementing cost sharing and capping or an alternative scheme, as well as the expected cost savings.

The Treasury reports on public service pension costs as a proportion of GDP, but has no criteria by which to judge their affordability. The Treasury should set out what it believes is an affordable level of spending so it can assess the cost of public service pensions against a clear benchmark.

3.1 The Government agreed with the Committee's recommendations.

[24] http://www.hm-treasury.gov.uk/queensspeech_2012.htm
[25] http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

3.2 In his interim report, Lord Hutton said of cap and share: "*these reforms have not fully addressed the underlying issues of sustainability and fairness... Cap and share cannot take account of the increases in cost of pensions over recent decades because people have been living longer*". Lord Hutton recommended that the Government, on behalf of the taxpayer, should set out a fixed cost cap that is *"the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term."* The Government has accepted this recommendation as a basis for consultation.

Target implementation date

3.3 6 April 2015.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 The Government set out its proposed reform of public service pensions (Cm8214) in November 2011. This followed discussions with the public service trades unions in March 2011. Subsequently, Proposed Final Agreements, based on the Heads of Agreement reached on 20 December 2011, were published on 9 March 2012 for the NHS Pension Scheme, the Principal Civil Service Pension Scheme and the Teachers' Pension Scheme. These Heads of Agreement set out the Government's intention to introduce an employer cost cap as a proportion of pensionable pay, and described the key features of the cost cap and broadly how it will operate. In particular, there will then be a symmetrical buffer mechanism, within each reformed pension scheme, with a floor and ceiling either side of the cost cap.

3.6 The Treasury is undertaking further work with Departments to finalise the detail of how the cost caps will operate. Detailed guidance for the operation of the cost caps will be provided in due course. These caps will come into effect from 6 April 2015, based on a full actuarial valuation of the relevant pension schemes, determining the long term level of cost the Government considers affordable as a proportion of pensionable pay.

PAC RECOMMENDATION 5

The Treasury should work with employers and pension schemes to ensure clear and relevant information is provided to employees on the value of their pensions, and that this information is regularly updated and its usefulness to staff assessed.

5.1 The Government agreed with the Committee's recommendation.

5.2 In his final report, Lord Hutton recommended that "*all public service pension schemes should issue regular benefit statements to active scheme members, at least annually and without being requested and promote the use of information technology for providing information to members and employers*".

5.3 The Government is committed to developing principles on best practice in scheme governance and administration, including in the provision of information to employees on the value of their pensions. The Government will be discussing these principles with the Trades Union Congress (TUC) and other representative bodies, and more widely on the appropriate standards for transparency and consistency across all areas of scheme administration, governance and information.

Target implementation date

5.4 6 April 2015.

Current Status

5.5 Work in progress

Action being taken to implement recommendation

5.6 A working group has been established by the Treasury and the Trades Union Congress to identify the priorities for implementing the Independent Public Service Pensions Commission's wider recommendations on governance, administration and data transparency. This includes the provision of pension information to scheme members. The working group will meet in summer 2012 to establish those elements that should apply to all public service pension schemes through a common framework. The common framework will be legislated for in the Public Service Pensions Bill, due to be introduced in this parliamentary session. Scheme level discussions will continue to take place to agree scheme-by-scheme implementation.

PAC RECOMMENDATION 6

The Treasury should clearly set out the costs and benefits of each measure of pension support, who benefits from each form of support, and how it judges the success of each measure.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Government acknowledges the importance of increasing workplace saving, and committed in 2010 to introducing automatic enrolment from October 2012. This places a duty on all employers to automatically enrol eligible jobholders into a qualifying workplace pension scheme, and is expected to result in 5-8 million individuals starting to save or saving more in a workplace pension scheme.

6.3 HM Revenue and Customs (HMRC) publish annual statistics on pensions tax relief on their website. In 2009-10, pensions tax relief cost £28.1 billion, while £8.4 billion in tax on pensions income was received, and so the net cost of tax relief was £19.7 billion. National Insurance relief for employers cost a further £8.3 billion. However, these figures do not account for the difference between cohorts of savers, since the current recipients of tax relief will pay tax later on their pension income. The Government has recently taken action to restrict pensions tax relief for the highest contributors, which will reduce the cost of pensions tax relief by approximately £4 billion per year in steady state, and help ensure that tax relief remains affordable and sustainable in the long term.

Current Status

6.4 Implemented.

Action taken to implement recommendation

6.5 The Government continues to monitor the cost of pensions tax relief across different forms of pension schemes and publishes the results in table PEN 6 in its national personal pension statistics.[26] The Government is also monitoring the effects of the FA11 reforms to the annual and lifetime restrictions on pensions tax relief which were introduced in April 2011 and April 2012 respectively.

6.6 HMRC provides estimates of the distributional impact of the relief and the Government has released a number of estimates in which the costs of pensions tax relief, and who benefits from the support, are clearly stated.

6.7 The Government will monitor and evaluate the effects of automatic enrolment following its introduction in October 2012, in line with the objectives of increasing pension saving and ensuring pensions tax relief remains affordable and sustainable.

PAC RECOMMENDATION 7

The Treasury should ensure that decisions to change public service pensions take into account the potential impact on spending on means-tested benefits.

[26] http://www.hmrc.gov.uk/stats/pensions/pensions-intro.pdf

7.1 The Government partially agreed with the Committee's recommendation that the Treasury should take into account the potential impact on means-tested benefits, however the Treasury considers that the impact will be minimal.

Current Status

7.2 Implemented.

Action taken to implement recommendation

7.3 Member contribution rates were increased in public service schemes on 1 April 2012. To deliver the Government's commitment to protect lower earnings, no one earning less that £15,000 (full time equivalent, FTE) saw any increase in contributions, and those earning up to £21,000 saw a maximum increase of 0.6 percentage points. For someone on £21,000 that means an increased contribution of £8 a month after tax relief in 2012-13. These measures mean that around a quarter of public servants (1.25 million people) will pay no increase at all. A similar number of people will have their total increase limited to 1.5 percentage points over three years, due to earning between £15,000 and £21,000. The Government will review the impact of the April 2012 contribution increases, including on opt-out, before taking final decisions on how future increases in 2013 and 2014 will be delivered.

7.4 The Government has also made a commitment that following reform public service workers will receive a good pension on retirement, with those on low and middle incomes who retire after a full career receiving a pension at least as good as they do now.

7.5 Budget 2012 confirmed that the Government will reform the state pension for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested guarantee credit. Changes will recognise contributions that people have made to the current system. The reformed state pension will further minimise any upwards pressure on means-tested benefits as a result of changes to public service pensions.

PAC RECOMMENDATION 8

The Treasury should set out clear objectives for any further changes to public service pensions, develop consensus around those changes and put in place arrangements to monitor progress. It should then aim for a period of stability so that employees' confidence in the value of their pensions is not undermined by fears that further changes will be made.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Government has set out its intention to reform pensions so that they are "*affordable, sustainable and fair to both the public sector workforce and the taxpayer*". The Chief Secretary to the Treasury has said that public service pensions reform should ensure "*that the costs of providing pensions to our workforce are affordable, not just now...but in the decades to come*"[27]. If pensions are reformed effectively now, to adapt to changes such as longevity before the situation worsens, the Government will be able to implement high-quality pension arrangements that are fair and stable.

Target implementation date

8.3 April 2015.

Current Status

8.4 Work in progress.

[27] Chief Secretary speech to the IPPR, 17 June 2011: http://www.hm-treasury.gov.uk/press_61_11.htm

Action being taken to implement recommendation

8.5 The Government engaged in discussions with trades unions and other representative bodies throughout 2011. On 2 November 2011, the Government set out its preferred scheme design, as the basis on which scheme specific discussions could take place. Proposed Final Agreements, based on the Heads of Agreement reached on 20 December 2011, were published on 9 March 2012 for the NHS Pension Scheme, the Principal Civil Service Pension Scheme and the Teachers' Pension Scheme. A Proposed Final Agreement for the Firefighter's Pension Scheme was published on 24 May 2012. A proposed scheme design for informal consultation for the Local Government Pension Scheme was published on 31 May 2012. Discussions are ongoing in the remaining public service schemes.

8.6 The Chief Secretary to the Treasury set out to Parliament on 2 November 2011 that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary will also give a commitment to Parliament of no more reform for 25 years.

Thirty Ninth Report

Department for Transport (DFT)

InterCity East Coast passenger rail franchise

Summary of the Committee's findings

Since the mid 1990s, passenger rail services have been delivered through a system of franchises. Each franchise is a competitively procured contract, typically lasting seven to ten years, between the Department for Transport and a private train operating company. Companies bid for franchises on the basis of the amount of subsidy they require, or the premium they would be prepared to pay, to run services on a defined part of the rail network. Bids include each company's forecast of what revenue they can expect, based on assumptions about the number and type of passenger journeys and the prices they can charge.

Since the East Coast termination, other franchises have been in financial difficulty and their holding companies have not sought to hand them back. The Committee is, however, concerned that the Department created a moral hazard by allowing National Express to pay a lesser financial penalty through terminating a contract than it would have done by paying £150 million to exit consensually, and by choosing not to hold the termination against National Express in future bids. The Department has potentially incentivised other holding companies with loss-making franchises to terminate, rather than renegotiate, their contract with the Department, as they know doing so will cost them less and will not affect their ability to compete for other contracts.

In reaching its findings, the Committee took evidence from the Department on 9 May 2011. The Committee issued its report on 9 July 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATION 1

The Department should always test bids in future against different economic conditions.

The Department should improve its arrangements with franchisees to remove any incentive on bidders to make forecasts which are either too optimistic, thereby increasing the risk that the franchise might fail, or deliberately pessimistic, thereby increasing their expected profits. For instance, the Department should have been more rigorous in questioning National Express on its assessment that it could grow passenger revenue by 5%-12% per annum. By any measure, this appears to be an over-optimistic assessment of the business.

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

1.2 Whilst further work can be done to assess the potential risk of a franchise proposition, extensive work is already undertaken using informed sources (in this case the Department used independent information provided by Oxford Economics and Treasury forecasts). To undertake work on hypothetical scenarios could increase the risk of legal challenge on the validity of any source information used to create such scenarios, in turn adding potentially significant cost and risk of delay to the process.

Current Status

1.3 Implemented

Action taken to implement recommendation

1.4 The Department has developed a new pilot mechanism to share GDP-related risk. For new franchises this will remove the old Cap and Collar mechanism that provided perverse incentives for over-optimistic bid projections.

1.5 The Department will continue to risk-adjust projected revenues and costs included by bidders in their bids. The Department has additionally made significant changes to increase the reliability, accuracy and sensitivity of its revenue forecasts. For the InterCity West Coast franchise, the Department expanded the risk-adjustment process to ensure bids are robust in more adverse economic scenarios - not just the central case. Where a subordinated loan is required, it will, in future, need to be underpinned by a bank bond.

1.6 Each franchise will be considered individually. The Department will assess a range of options, and will aim to implement an appropriate way of ensuring the competition delivers a reasonable level of financial robustness. It remains the case that completely removing the risk of collapse is likely to be costly.

PAC RECOMMENDATION 2

The Department should in future take greater care when assessing the financial strength of a company to ensure it will be able to support any of its franchises that get into financial difficulty. Specifically, the Department should avoid letting franchises to heavily indebted holding companies.

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

2.2 Departmental officials routinely monitor the financial wellbeing of both the Franchise holders and their respective parent companies. Officials monitor financial interests of the holding companies by assessing debt levels and share prices. The financial stability of the actual franchise operator is routinely monitored on both the railway period performance and the long term ability to meet supplier costs.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 The Department is continuing with its policy of monitoring financial wellbeing of bidders, franchisees, and parents. At pre-qualification, and throughout the franchise term, bidders must be able to demonstrate that they are financially robust, and be able to provide the substantial bonds that the Department requires. Where additional parent group support may be required, in a downturn, in order to ensure the franchise remains viable, the Department prefers to pre-determine the amount of such support at the point of bid, and contract it via a subordinated loan facility. The Department now requires the parent to provide a bond for the full amount of the loan facility, thus ensuring that the loan can be called, regardless of the position of the parent company.

PAC RECOMMENDATION 3

After National Express sought changes to the terms of the contract, the Department offered a deal requiring a payment of £200 million and the surrender of the company’s other two franchises. However, legal advice indicated that the Department did not have a right to terminate the company’s other two franchises and so ended up leaving them in place. Contracts should give the Department a clear right to terminate a holding company’s other franchises.

3.1 The Government disagreed with the Committee’s recommendation.

3.2 Each franchise agreement has cross default provisions. Therefore the Department is satisfied that it has the power to terminate affiliate Franchise Agreements, in appropriate circumstances.

3.3 Whilst the Committee is correct that National Express East Coast attempted to negotiate a settlement to relinquish control of each of its Franchise Agreements, the Department did consider both the impact in respect of other Franchise Agreements and what this behaviour may do, as well as the Department’s contractual right to cross-default given the specific event of default that occurred under the National Express East Coast Franchise Agreement.

3.4 The Event of Default that arose in respect of the National Express East Coast Franchise Agreement did not demonstrate that the failure was one which was endemic and caused by the parent company, and as such did not indicate to the Department that this warranted the termination of the other two Franchise Agreements.

PAC RECOMMENDATION 4

The Department should ensure that there are stronger financial penalties in contracts for failure to meet contractual obligations.

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

4.2 The full potential cost of negotiating a compensation deal with National Express East Coast – which could have created a precedent for other franchise companies facing similar recessionary pressures - was far greater than the balancing payment between that amount proposed by National Express and the amount finally received through recovery of, inter alia, its Performance Bond.

4.3 Under the terms of each Franchise Agreement let since 2007, the Department has contracted the use of loan facilities from Parent Companies that provide additional financial comfort to the franchisee in the event that additional funds are required. This is in addition to the Performance Bond that the Department has in place with all Franchise Operators to provide recovery of costs to the Department in the event that the Franchise Agreement is terminated.

Current Status

4.4 Implemented.

Action taken to implement recommendation

4.5 The Department now requires that parental guarantees are bonded by a bank (or other appropriate provider). The appropriate level of the performance bond is considered for each franchise competition, and the Department strikes a balance between the premium value of the franchise, the costs of retendering / winding up the franchise and the countervailing costs of mandating a high bond. The level for any subordinated loan for ICWC will be determined during the bid assessment phase. A loan will be required if the bid is not robust in the required downturn scenarios.

PAC RECOMMENDATION 5

The Department should make it clear to holding companies that failure to deliver obligations will have serious lasting implications.

5.1 The Government disagreed with the Committee's recommendation.

5.2 Whilst National Express offered £150 million to walk away from the franchise on a 'no fault' basis, the offer was analysed carefully and was not taken up because it was based on an inflated value of the franchise assets.

5.3 The Department does not believe that it has incentivised other train operating companies to terminate franchises. There was a real danger that had the Department renegotiated the franchise, others who were feeling financial pressure would have asked for similar treatment. This carried a significant risk of exposure to the taxpayer and the Department's refusal to renegotiate mitigated that risk.

PAC RECOMMENDATION 6

The investment of taxpayers' money while the franchise has been in public ownership should help to secure a good deal when it is retendered to the private sector in 2012. The Committee expects the Department to ensure that this investment is fully recovered.

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

6.2 Performance on the line remains a concern and is the subject of scrutiny by the Office of Rail Regulation (ORR), Network Rail, East Coast and the Department. East Coast has made a number of improvements to the franchise since assuming control. These improvements are enhancing the value of the franchise, the costs of which will be recovered when the franchise is returned to the private sector. Performance had been affected by infrastructure failures and East Coast is working closely with Network Rail to improve performance on the route. Investments in rolling stock have made the fleet more reliable, improving its own performance and the impact on other operators.

Target implementation date

6.3 2013.

Current Status

6.4 Work in progress.

Action being taken to implement recommendation

6.5 East Coast achieved an increase of 3.3% in its PPM MAA (Moving Annual Average Passenger Performance Measure) to March 2012, making it the most improved train operating company on the UK rail network in 2012, and taking it from bottom position to fourth in the table of eight long distance train operators – in front of both Virgin and First Great Western. A two year Joint Performance Improvement Plan (JPIP) has been agreed between Network Rail and East Coast, to raise the current 86.4% PPM MAA to 87.0% PPM MAA by Mar'13 and 88.0% PPM MAA by March'14.

6.6 East Coast commenced operation of a new and more intensive timetable in May 2011, providing improved on-board service with faster and more frequent services for the majority of passengers using its services. However, this does mean that direct comparison between current and historical operational performance statistics is more difficult.

6.7 The franchise is due to be retendered in 2013, at which point the Department aims to secure value for money for the taxpayer as well as a high quality outcome for passengers. Under that new franchise, the government plans to introduce new InterCity Express (IEP) rolling stock in 2018, bringing further improvement in passenger service reliability. The financial return of the new franchise proposition will not be directly comparable with that of previous East Coast franchises due to IEP, a different franchise term and revised risk and reward profiles, as well as being let in a significantly different economic climate.

PAC RECOMMENDATION 7

As more sophisticated data on passenger journeys becomes available, the Department should validate the assumptions that lie behind passenger revenue forecasts for each franchise. These should feed this into its wider budgeting for the amount of support that may be required from the taxpayer.

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

7.2 The Department will continue to work with industry partners in order to develop more robust forecasts for both revenue and passenger volume growth. A large part of the research activity in this area is conducted through the Passenger Demand Forecasting Council (PDFC), which includes representatives from the Train Operating Companies (TOC), the Department, Network Rail, Transport for London (TFL), Transport Scotland, the Passenger Transport Executive Group (PTEG) and the Office of Rail Regulation (ORR). The outcome of the latest research is assessed by the Department on an on-going basis and, if deemed to be sufficiently robust, included in its forecasting methodology. The Department is also improving its dataset of actual train usage (passenger counts). This data is used by the Department to validate and improve its forecasts.

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 The Department annually updates its guidance on demand forecasting and appraisal as set out in WebTAG[28] once a year, under the Orderly Release Process. This covers all modes, including rail. Changes to WebTAG for 2012 were released on 4 May 2012 as ‘in draft’ and will become definitive in August 2012. The ‘in draft’ period gives scheme promoters sufficient notice to incorporate changes to their business cases, so that they are based on the best available guidance. Changes to WebTAG come from research commissioned by the Department or by other bodies, forecasts from other departments (such as energy prices from DECC and population forecasts from the ONS), and macroeconomic forecasts from the Office for Budget Responsibility (OBR).

[28] WebTAG is the Department’s Web based Transport Appraisal Guidance on the conduct of transport studies. The guidance provides advice on identifying transport problems and potential solutions, and creating models that can be used to conduct an appraisal which meets the Department’s requirements.

Fortieth Report

Cabinet Office

Information and Communications Technology in Government

Summary of the Committee's findings

Information and Communications Technology (ICT) has the power to transform public services and generate efficiencies. While the history of ICT in government has included some successful projects, there have been far too many expensive and regrettable failures. ICT is not well enough embedded in departments' business, and as a result not enough reform programmes have had ICT at the core. Problems have arisen where expectations for systems are too grand and the proposals from suppliers are unrealistic. Projects have been too big, too long, too ambitious and out of date by the time the ICT is implemented.

The Efficiency and Reform (ERG) has only a small team of experts to keep on top of more than 50 major projects. The Committee has concerns that ERG could not provide any detail on the nature or the number of its major projects. The Committee recognises that the Strategy is in its early stages and we will watch progress with interest. Ultimately, success will be shown when complex change programmes like the Department for Work and Pension's Universal Credit are delivered on time and to budget, and the Committee sees fewer critical NAO reports on projects like the NHS Programme for IT and the Rural Payments Agency's Single Payment Scheme.

In reaching its findings, the Committee took evidence from the Department on 16 May 2011. The Committee issued its report on 5 July 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATION 1

There is a long way to go before government can say it is living up to its claim that there is "no such thing as an IT project". This can only be achieved when ICT is embedded in departments' business and government reform programmes have ICT at the core - key objectives of the new Strategy. The following recommendations are intended to help Cabinet Office's Efficiency and Reform Group (ERG) to tackle some of the challenges that lie ahead.

1.1 The Government agreed with the Committee's recommendation.

1.2 The Strategic Implementation Plan (SIP), published in September 2011, set out the details of how the Government will deliver all of the strategy commitments. The Government had already made significant improvements to the management of IT projects including introducing new ICT controls, increasing transparency, creating robust governance arrangements and improving capability. The Government is committed to ensuring that policy and IT solutions are developed hand in hand. There is no such thing as an IT project; there are only business projects that involve IT.

Target implementation date

1.3 March 2015.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 Following extended consultation, the Government published the Strategic Implementation Plan (SIP) in October 2011. This provided an overview of the governance, the delivery timetable and the benefits and risks associated with delivery of the ICT strategy. The SIP also contained further details of the 19 delivery areas that together deliver the objectives of the ICT Strategy. The Government's Civil Service Reform Plan also sets out the importance of ICT as a key tenet of reform and cites a number of initiatives that will be implemented as part of the plan.

1.6 Work is developing on the master classes for senior civil servants, which includes the role of ICT in policy development and delivery. For ICT professionals, the capability delivery area is implementing a cross-government approach to development and management, putting in place structures and processes to increase capability of ICT professionals at all levels.

1.7 ICT spending controls have been in place since 2010-11 to ensure the strategy is being adhered to, and IT solutions are developed hand-in-hand with business requirements. Spending controls have saved £156.9 million on ICT contracts during the financial year 2011-12.

PAC RECOMMENDATION 2

The Strategy implementation plan, due to be published in August 2011, should include a small number of measurable business outcomes, or direct indicators, to enable government and this Committee to evaluate success and whether the Strategy is delivering value for money.

2.1 The Government agreed with the Committee's recommendation.

2.2 The SIP will wherever possible, set out measurable outcomes and performance indicators, which will be transparent and available for all to scrutinise. The Government has published Quarterly Data Summary (QDS) to provide a snapshot on how each Department is spending its budget, the results it has achieved and how it is deploying its workforce. Departments have now published 4 Quarterly Data Summaries – this has included total third party ICT costs and the cost of desktop provision per FTE.

Current Status

2.3 Implemented.

Action taken to implement recommendation

2.4 In addition to the data released via QDS, the SIP provides detail on the 19 Delivery Areas of the ICT Strategy, setting out the objectives, key milestones, risks and associated metrics. The metrics, in turn, set out measurable outcomes and performance indicators, both financial and non-financial, to measure the implementation across central government and the success of the ICT Strategy.

2.5 The Government published its report "*One Year On: Implementing the Government ICT Strategy*" in May 2012[29].The report provides a baseline on government ICT performance. The report has identified that since the implementation of the strategy, the government has achieved savings of £64.2 million from the implementation of the Public Services Network, in addition to the £156.9 million from spending controls during 2011-12.

PAC RECOMMENDATION 3

The Strategy envisages a small but powerful capability in the ERG, which can control and intervene in Departments' projects. To be effective and successfully deliver its strategy for ICT and major projects, ERG should use its new powers selectively and be able to demonstrate that it has achieved buy-in from Departments and suppliers.

3.1 The Government agreed with the Committee's recommendation.

3.2 The Government has established a Chief Information Officer Delivery Board (CIO BD), comprising the largest delivery Departments who will take responsibility for the delivery of specific

[29] One Year on Implementing the Government ICT Strategy:
http://www.cabinetoffice.gov.uk/resource-library/one-year-on-implementing-government-ict-strategy

strategy actions and will leverage their existing expertise and resources to drive implementation. The CIO Council led by the Government Chief Information Officer, other Government Departments, local Government representatives and suppliers will support the delivery of the strategy. The SIP will describe how the Government will deliver all of the strategy commitments, including accountability.

Target implementation date

3.3 December 2012.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 ERG has established a small central team, led by the Deputy Government CIO, reporting to the Government CIO, who are working with the senior responsible owners (SROs) and departments to jointly implement and assist in the delivery of the Strategy and ensure adherence to the ICT spending controls. ERG is currently developing a more rigorous programme management function for ICT Strategy Governance, and moving to a more consultancy-based approach to improve the assistance offered to departments in implementing the Strategy.

3.6 As part of this consultancy approach and to ensure buy-in, ERG has implemented an early engagement process to help departments to align their procurements to the ICT strategy from the very start of the procurement process (reducing the burden of revisions). The CIO Delivery Board is also currently refreshing the Strategy to include a series of User Views to provide departments with a clearer picture of how to comply with, and gain the most benefit from, implementing the Strategy.

PAC RECOMMENDATION 4

ERG is introducing 'starting gate reviews' for new ICT projects to test whether projects are small enough and deliverable. It should publish its 'starting gate reviews' and other significant reviews carried out over the life of the project.

4.1 The Government agreed with the Committee's recommendation.

4.2 As part of a sea change in the oversight of central Government's major projects, the new Major Projects Authority (MPA) was set up. The MPA is committed to publishing more data and work is currently underway on the publication, by December 2011, of an Annual Report on Government major projects. The Department is also considering what other information could be published.

Current Status

4.3 Implemented.

Action taken to implement recommendation

4.4 Starting Gate reviews have been mandatory since April 2011 for all new projects and programmes. In order to allow assessment reflecting a full year's data, the publication date of the annual report on the Government's major projects has been revised and is planned to be published before summer recess 2012.

PAC RECOMMENDATION 5

ERG now needs to set out what the Government will do to encourage more involvement by small and medium sized enterprises (SMEs), and how it will measure success.

5.1 The Government agreed with the Committee's recommendation.

5.2 The Government set out clearly, in announcements made by the Prime Minister and Minister for the Cabinet Office at the SME Strategic Supplier Summit on 11 February 2011 how it will encourage more SME involvement and transparency over the number of contracts awarded to SMEs, including the appointment of a Crown Representative to represent SMEs in government. Plans for further action have been developed and were announced by the Minister for the Cabinet Office on 9 March 2012. The Government's overall aspiration is for at least 25% of its procurement expenditure to go to SMEs by April 2015.

Current Status

5.3 Implemented.

Action taken to implement recommendation

5.4 Measures announced on 9 March 2012 include working alongside SME champions and sector leads in central government departments to drive up the percentage of business with SMEs directly, and in the supply chain, in key sectors by addressing the issue of contract size, either by cost or duration.

5.5 In March 2012 the Department published: "*Making government business more accessible to SMEs – One Year On*". The report showed that between 2009-10 and 2011-12 direct procurement spend with SMEs in central government was on track to double from 6.5% to 13.7% (£3 billion to £6 billion), in an environment where overall procurement spend was reducing. The Government Procurement Service has around 250 suppliers on its newly released second G-Cloud[30] procurement, providing 1,700 services, of which around three quarters are SMEs.

5.6 Information about opportunities to tender for government business has also been made more accessible and transparent through the Contracts Finder website and the Dynamic Marketplace e-sourcing solution. Institutional barriers and bureaucracy have been removed. For example, by eliminating pre-qualification questionnaires (PQQs) in all procurements under £100,000, except where security is an issue. The '*Mystery Shopper*' scheme allows suppliers to report bad procurement practice. Over 218 cases have been received and of the 178 cases closed to date, 80% have resulted in positive change.

PAC RECOMMENDATION 6

ERG and other relevant Departments should withhold sign-off of additional online services until they are satisfied that the service is designed for users. ERG should also continue to ensure that online services are accessible through libraries, post offices or other alternative means. When new services are launched, these alternatives should be well publicised.

6.1 The Government agreed with the Committee's recommendation.

6.2 The Government is committed to ensuring that online services are designed and focused on users. The Government has a duty to provide for all and therefore an appropriate "assisted digital" strategy will be developed for each service to ensure that people are supported to access information and services from Government. These services will be developed based on user requirements and will be delivered through appropriate channels, including libraries, the Post Office and other suitable intermediaries. No one will be excluded from accessing services by the move to digital as the default channel for service delivery.

Target implementation date

6.3 2015.

[30] The G-Cloud programme is the new Government system for ICT procurement which enables government to exploit commodity ICT services in a more flexible and agile way - http://gcloud.civilservice.gov.uk

Current Status

6.4 Work in Progress.

Action being taken to implement recommendation

6.5 Government is committed to making its services Digital by Default, user-focused and increasing levels of digital inclusion. The Department is committed to publish a digital strategy for Government and specific departmental digital strategies, which will include the provision of assisted digital services. The 2012 Budget Statement stated that the quality of digital public services would be transformed and that new online services would only go live if the responsible minister could demonstrate that they themselves could use the service successfully. It said that the Government would ensure that all information was published on a single GOV.UK domain name and that the Government will transform how it delivers information and transactional services to its users by taking a Digital by Default approach by 2015.

PAC RECOMMENDATION 7

The Government has committed to increase the use of new technologies and sharing of information, which rely on the Internet. ERG should clarify in its implementation plan how cyber-security will be integrated into its strategy for ICT.

7.1 The Government agreed with the Committee's recommendation.

7.2 Cyber security considerations are embedded into the design of the delivery of all elements of the Strategy. The SIP will set out key dependencies and risks to delivery, including cyber security and information and identity assurance, and Government's approach to mitigating and solving these issues.

Target implementation date

7.3 2015.

Current Status

7.4 Work in progress.

Action taken to implement recommendation

7.5 The need to address cyber risks to government networks is recognised in both the Cyber security and ICT strategies. Accordingly, the national Cyber Security programme is funding feasibility studies to investigate the potential for a government network security monitoring and incident response service; cross-public sector employee identification, registration and authentication scheme; and the establishment of survivable critical services. These would collectively deliver, by 2015, the situational awareness to understand who is doing what and the knowledge and tools to act instantly to address cyber attacks. To manage these capabilities enhanced governance structures for shared risk across Government are being implemented in mid 2012

7.6 The Department is reviewing the proportionality and effectiveness of security arrangements as part of the broader drive to modernise and transform the way that government does business. Proposals to rebase the way that the government values, classifies and protects information are being developed; a more straightforward approach will help to improve inter-departmental working, reduce burdens on departments and delivery partners and enable greater use of commercial-off-the-shelf ICT products. This will also allow departments to focus their security efforts more appropriately and robustly against on-line threats.'

PAC RECOMMENDATION 8

In preparing its Capability Strategy for ICT, ERG should establish the size and capability of the existing government ICT workforce, including the number of cyber-security professionals, and build a model to help predict future demand.

8.1 The Government agreed with the Committee's recommendation.

8.2 The Government published its ICT Capability Strategy by October 2011 [31] and the Committee's views were considered as part of the process in developing the strategy.

Target implementation date

8.3 March 2015.

Current Status

8.4 Work in progress.

Action being taken to implement recommendation

8.5 Steps have been taken to establish the size and capability of the ICT workforce. The *One Year on Implementing the ICT Strategy* progress report set out key metrics reported by central Government Departments, which indicated a current ICT workforce of approximately 7,800 full time equivalent ICT professionals. As a first step, a draft model for the functions required for retained ICT capability has been produced. The next steps are to work with Government Departments using the model to generate a clear view of any skills gaps.

8.6 There are approximately 170 non-technical cyber security roles across Government in policy development and analysis. Requirements for technical cyber security roles requiring advanced skill levels are still being determined. Departments are conducting training needs analyses, which will enable the Department to create a baseline, to ascertain future demand and cover any gaps identified. The Office of Cyber Security and Information Assurance (OCSIA), set up in October 2009, is taking forward work to ensure that requirements are pulled together and opportunities to join up delivery are taken where possible. It will be difficult to disclose actual figures required in some areas owing to the classification of the response, particularly as these will refer to operational capability.

8.7 CESG has launched the certification scheme for cyber security specialists, which the Department will use to start to build a picture of the numbers it has in the public sector. It has extended the remit of its information assurance professionalism project to bring together training for cyber defence roles to cover all national cyber security programme delivery partners.

PAC RECOMMENDATION 9

While the Committee recognises that shorter, more manageably-sized projects will help, the ERG should make proposals to keep SROs in post for longer where possible, and raise and maintain their level of skills, in line with the Government's advice on accountability. The identity of SROs should be available on departmental websites, along with their dates of appointment.

9.1 The Government agreed with the Committee's recommendation.

9.2 The Government is engaging with SROs to ensure that they are directly in contact with the Major Projects Authority (MPA). As the MPA work programme rolls out, this will include a specific work stream on SRO capability, which will set out detailed plans for managing the expectation that SROs will remain in post until a suitable break point in a major programme. To upgrade the project, programme and contract management skills across Government, the Department is also setting up a new project management academy.

Target implementation date

9.3 End of 2014.

[31] HM Government (October 2011) Government ICT Capability Strategy: http://www.cabinetoffice.gov.uk/sites/default/files/resources/government-ict-capability-strategy.doc

Current Status

9.4 Work in progress.

Action being taken to implement recommendation

9.5 The Major Projects Leadership Academy was launched in February 2012, in partnership with Oxford Saïd Business School and Deloitte. It is running a one year development programme specifically targeted at SROs and project directors (project leaders) of the top 208 projects and programmes, which make up the Government Major Projects Portfolio (GMPP). The curriculum addresses project leadership, including the role and accountability of the project leader, commercial capability and technical delivery for the full range of these projects.

9.6 All SROs and project directors leading the Government Major Projects Portfolio will have started the Academy programme by the end of 2014 and it is intended that in future only project leaders who have successfully completed this intensive development programme will be able to lead a major Government project. Academy alumni will subsequently mentor future project leaders and will disseminate what they have learned within their Department, and beyond. During the remainder of 2012, the MPA will in parallel, work with Departments to ensure there is systematic planning and clarity of roles, linking the post to milestones or key deliverables, and retaining key staff during critical phases of project delivery.

9.7 The Cabinet Office will support Departments to publish the names of SROs on their Departmental websites by the end of 2014.

Forty First Report

Office of Rail Regulation (ORR) and Department for Transport (DFT)

Regulating Network Rail's efficiency

Summary of the Committee's findings

The Office of Rail Regulation (the Regulator) is the independent economic and safety regulator of the rail industry in England, Scotland and Wales. The Regulator's duties include promoting economy and efficiency in the rail industry with much of its work focusing on Network Rail, the owner and monopoly provider of the national rail network, including track, signalling and stations.

Network Rail does not face normal commercial pressures from investors and lenders to improve efficiency as it is a not-for-dividend company without shareholders, financed by debt guaranteed by the Government. It is therefore the role of the Regulator to hold Network Rail to account for its performance and to incentivise it to become more efficient. To this end, the Regulator sets efficiency targets when it determines the limits on fees Network Rail can charge train operators for use of tracks, stations and depots. It can also impose financial penalties, although the usefulness of this sanction is questionable as, by taking money away from investment in the railways, its impact falls mainly on passengers.

Overall, the complex industry structure creates risks to value for money, with fragmentation, duplication of effort and misaligned incentives. This has been confirmed by Sir Roy McNulty's review. The Committee welcomes the Department's commitments to improve governance, transparency, and clarity of roles in the rail industry. The Committee nevertheless would have expected the Department to have a clearer idea of the priorities and issues to be addressed at this stage. The Committee look forward to the Department's response to Sir Roy McNulty's review, and will return to this issue when the Department decides on the changes required to improve efficiency.

In reaching its findings, the Committee took evidence from the Office of Rail Regulation and Network Rail on 11 May 2011, and from the Department on 7 June 2011. The Committee issued its report on 12 July 2011 and the Treasury Minute – the Government's formal response - was published on 15 September 2011.

PAC RECOMMENDATION 1

The Regulator should put in place a more robust performance management system and the Department should review the Regulator's powers. As part of this, the Regulator's assessment of Network Rail's performance should directly inform the level of bonuses paid to its executives. The high level of performance pay and bonuses enjoyed by previous rail executives is simply unacceptable given their inability to meet the efficiency target.

1.1 The Office of Rail Regulation (ORR) agreed in part with the Committee's recommendation.

1.2 ORR has evidence that the regulatory regime has had a substantial effect in driving Network Rail to make substantial improvements in efficiency. By the end of Control Period 4 (CP4), ORR expects Network Rail to have made more than £15 billion in savings compared to the situation in 2003-04 (immediately prior to CP3). Although Network Rail did not achieve the full 31% efficiency assumption in CP3, ORR reflected this in its assessment of the gap facing Network Rail and in the funding assumptions and efficiency performance requirements it set for CP4. These are challenging, but achievable, and are established as part of a wider set of demanding outputs and obligations on Network Rail that together are planned to deliver significant improvements in the performance of the railway by the end of CP4. The issues covered include: safety; train performance; network availability; and capacity.

Target implementation date

1.3 July 2012.

Current Status

1.4 Work in progress.

Action being taken to implement recommendation

1.5 In its annual assessment of Network Rail's finance and efficiency, published in September 2011, ORR did not accept the company's own reported assessment of its efficiency in 2010-11. The company considered it had achieved 12.8%. However, ORR was not satisfied with the evidence base for this and is doing further work to verify the efficiencies achieved, which it intends to conclude in July 2012.

1.6 Since establishing its three objectives for Network Rail's Management Incentive Plan (MIP) in March 2011, ORR has had a number of discussions with Network Rail to ensure that the MIP that the company was intending to put in place complied with these objectives.

1.7 From these discussions, Network Rail made a number of changes to its proposed MIP:

- to set out its value for money case for its remuneration arrangements;
- to sharpen the definition of the calculation of the long term bonus (gain share plan);
- to clarify that the company's remuneration committee will take account of ORR's annual assessment; and
- that a catastrophic safety failure could result in no bonus award.

1.8 A revised MIP was due to have been put to the Network Rail 'members' (who act in place of shareholders) for approval in February 2012, but the meeting was postponed to allow time to reconsider the MIP in light of widespread public concern about the scale and nature of executive remuneration schemes. ORR is working with Network Rail to ensure a revised MIP is put in place later this year.

1.9 The ORR agrees that having a robust performance management system in place for Network Rail is of crucial importance. It recognises that improvements can always be made and will look to continuously refine its approach to achieve this.

PAC RECOMMENDATION 2

The Regulator should adopt a more sophisticated and rigorous approach to setting inflation assumptions in its next financial settlement in 2013. In doing so, it should clearly demonstrate that it has taken account of National Rail's ability to control its costs.

2.1 ORR agreed with the Committee's recommendation and recognises the importance of being rigorous when setting inflation assumptions.

2.2 Extensive work on input prices specific to Network Rail's costs was undertaken in the 2008 Periodic Review. ORR's assessment did consider the extent to which Network Rail can control its own costs, for example its salary costs. At the time, there was good evidence to suggest that over the course of Control Period 3 (CP3), input prices had run ahead of general economy-wide input prices reflected in the Retail Price Index – and were likely to do so again over CP4. The decisions that ORR made on input prices were made as part of the overall set of judgements and decisions on the CP4 determination of Network Rail's funding and outputs.

Target implementation date

2.3 August 2012.

Current Status

2.4 Work in progress.

Action being taken to implement recommendation

2.5 In its Advice to the Secretary of State on Network Rail's costs and funding in CP5, published on 15 March 2012, ORR has confirmed that it would be consulting further on its approach to the treatment of inflation and input prices in August 2012, as part of the 2013 Periodic Review (PR13) process. PR13 determines Network Rail funding and what it is required to deliver in the Control Period between 2014-19 (CP5).

PAC RECOMMENDATION 3

The Regulator must work with Network Rail to obtain robust evidence, including data on track usage and condition, to enable it to judge whether deferring maintenance work on this scale is efficient, sustainable and safe. The Regulator should publish the evidence that supports its judgement.

3.1 ORR disagreed with the Committee's conclusion. However, ORR does recognise that the recommendations are sound and notes that these are already in operation as part of the regulatory regime.

3.2 Although it will always be difficult, and a degree of judgement will always be required, ORR undertakes annual assessments of Network Rail's expenditure and efficiency and makes a clear distinction between efficiency and deferral. It has made such assessments for many years. Reductions in renewal volumes which do not jeopardise the safe delivery of required outputs and the long term sustainable condition and performance of the railway infrastructure are a legitimate and important source of efficiency (scope efficiency). ORR assesses Network Rail's renewal levels against the company's asset policies (agreed with the regulator) in order to determine whether there has been deferral and the network is being managed in a sustainable way. Deferral is not counted as efficiency and ORR takes a very firm line on this. Where there are uncertainties, ORR adopts a cautious line in assessing efficiency.

Target implementation date

3.3 July 2012.

Current Status

3.4 Work in progress.

Action being taken to implement recommendation

3.5 In its annual assessment of Network Rail's finance and efficiency, published in September 2011, ORR did not accept the company's own reported assessment of its efficiency in 2010-11. The company considered it had achieved 12.8%. However, ORR was not satisfied with the evidence base for this and is doing further work to verify the efficiencies achieved, which it intends to conclude in July 2012.

PAC RECOMMENDATION 4

The Regulator should improve its understanding of how much is attributable to different factors. The Regulator should publish the results of this analysis in its next Periodic Review in 2013, setting out timescales and the extent to which it expects those factors can be addressed by Network Rail.

4.1 ORR partially agreed with the Committee's recommendation.

4.2 ORR agrees that the reasons for the gap are not known in full, though it is unlikely that it will ever be possible to explain every single difference. This is partly because it depends on exactly how differences, such as the size of network or number of trains, are allowed for. However, extensive work has been done and will be done to understand more fully the reasons for the gap. It is also worth noting that ORR is not aware of any other regulated sector which has done such comprehensive 'gap analysis' between companies / countries.

Target implementation date

4.3 October 2013.

Current Status

4.4 Work in progress.

Action being taken to implement recommendation

4.5 As part of the PR13 process, the ORR has commissioned further international comparisons, building on previous work, to better understand and explain the efficiency gap between Network Rail and European rail operators. Some of this work has informed the ORR's Advice to the Secretary of State on Network Rail's costs and outputs in CP5, published on 15 March 2012 – which highlighted that the ORR considers there is potential scope for greater efficiency improvement in CP5 than Network Rail considers possible at this stage of the PR13 process. Further international benchmarking is underway and this will help inform ORR's PR13 determinations in 2013.

PAC RECOMMENDATION 5

The Department, in preparing for the next regulatory settlement in 2013, should publish what it realistically expects can be achieved in terms of efficiency, capacity and punctuality, noting how it has assessed the trade-offs between them.

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

5.2 It is important to determine what can be realistically achieved in terms of efficiency, capacity and punctuality, and to understand the trade-off between them.

Target implementation date

5.3 July 2012.

Current Status

5.4 Work in progress.

Action being taken to implement recommendation

5.5 The Government will publish a High level Output Specification and a Statement of Funds Available by July 2012. This will set out the level of performance the Department expects the railway to achieve during the period 2014-19, and will take a view what can be achieved in terms of capacity, safety and reliability within a determined funding envelope. The Government's March 2012 Command Paper has already set out the level of savings it wants to see from the railway by 2019.

PAC RECOMMENDATION 6

The Regulator should strengthen arrangements to guarantee the independence of its Reporters, and should work with the Department and other funders to agree a protocol to ensure that work to assess and review Network Rail's efficiency is not duplicated.

6.1 ORR disagreed with the Committee's recommendation.

6.2 ORR's relationship with Network Rail is far from 'cosy'. ORR is clear that reporters play a valuable role and believes that all parties are clear about who is going to be held to account. They operate according to mandates set out by ORR, although they are funded by Network Rail. ORR would generally seek to agree mandates with Network Rail, so that both organisations can get value from the work. Ultimately, if necessary, ORR can determine both what reporters do and the content of the mandates if it considers that an issue needs assessing, even if Network Rail does not agree. Reporters are independent and must be seen to be as such, performing robust and professional work to retain the credibility of both ORR and Network Rail.

PAC RECOMMENDATION 7

In its response to Sir Roy McNulty's review the Department should be absolutely explicit about how any structural changes it proposes will improve efficiency. The Committee will return to this issue when the Department has made its decision.

7.1 The Government agreed with the Committee's recommendation that changes to the structure of the railway should be clearly aligned to efficiency gains.

7.2 Following the publication of Sir Roy McNulty's Rail Value for Money Study, the Government is working together with ORR and the rail industry to develop measures which will promote value for money. In recognition of the disruption that arises from major structural reform, the Government's intention is to achieve this without legislation. The Government will publish the details of its proposals later in the year

Current Status

7.3 Implemented.

Action taken to implement recommendation

7.4 In March 2012, Government published a Rail Reform Command Paper, setting out plans to reform the rail industry to incentivise stronger partnership working between train operators and the infrastructure manager. At the same time, and as highlighted in the Command Paper, Network Rail set out how it intends to reform itself to underpin improvements in efficiency, transparency and accountability.

7.5 The Command Paper set out the Government's view that the benefits of equity in driving efficiency and value for money were best achieved in Network Rail through reform measures the company is taking in a number of areas:

- partnership working and alliancing with private sector, commercially driven train operators;
- letting concessions to manage the infrastructure in particular geographic areas; and
- working to introduce greater competition in major enhancements and other work.

7.6 Collectively, these governance and structural measures will help Network Rail to achieve the level of infrastructure savings anticipated in the Command Paper by 2019.

PAC RECOMMENDATION 8

The Department should provide the Comptroller and Auditor General with full access to Network Rail so that Parliament can scrutinise Network Rail's value for money.

8.1 The Government disagreed with the Committee's recommendation.

8.2 Independent scrutiny and greater transparency of Network Rail are important, but Government is not currently persuaded that the best way to achieve this is through extending the role of the Comptroller and Auditor General (C&AG). ORR, which is itself open to audit by the C&AG, has access to the information it needs from Network Rail to scrutinise the company's performance and ensure that it is delivering value for money on the public subsidy it receives. Extending the role of the C&AG would therefore result in an unnecessary duplication of functions.

8.3 Furthermore, at a level of principle the Government believes the remit of the C&AG should not be extended to companies in the private sector. Network Rail's private sector status has been determined by the independent Office of National Statistics in accordance with international standards.

PAC RECOMMENDATION 9

The Committee believes that the Regulator should have full access to the direct agreements between Network Rail and funders.

9.1 The Government agreed with the Committee's recommendation.

9.2 The Government has previously ensured that the ORR has had full access to these agreements in any event.

Current Status

9.3 Implemented.

Action taken to implement recommendation

9.4 The Government continues to ensure that the ORR has full access to these agreements. This includes projects such as Thameslink and Crossrail, where ORR was fully consulted on the content of these documents and approved the protocols between the Department and Network Rail.

PAC RECOMMENDATION 10

The Department and the Regulator should ensure that Network Rail is subject to the same transparency requirements as public bodies, with full application of the provisions of the Freedom of Information Act.

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

10.2 The Government shares the Committee's concerns regarding the transparency of Network Rail, but is not currently convinced that formal inclusion within the scope of the Freedom of Information Act is the best means of securing an improvement. The Government notes that such an inclusion would not be compatible with Network Rail's private sector status, as determined by the independent Office of National Statistics. The Government further notes that as legal advice indicates that Network Rail is not classed as a public authority under the terms of the Freedom of Information Act, any moves to include the company within the scope of the Act would require primary legislation. This would not, therefore, be possible to implement quickly. However, the Government is working with NR to explore other options for enhancing the transparency of the company and will publish its detailed proposals on this issue in due course.

Target implementation date

10.3 Mid 2012.

Current Status

10.4 Work in progress.

Action being taken to implement recommendation

10.5 As set out in Government's March 2012 Rail Command Paper, Network Rail recognises the demand for more of its information and data, and will begin publication on its website from mid-2012.

PAC RECOMMENDATION 11

The Committee is concerned at the financial impact of cable thefts on the rail system. The Department should address the issue urgently and provide us with a detailed action plan within six months.

11.1 The Government agreed with the Committee's recommendation.

11.2 The Government and ORR fully appreciate the substantial and growing cost imposed by cable theft, not just to the rail industry but also a wide range of other sectors, and the consequent impact on businesses, communities and individuals around the country. For the rail industry, Network Rail, with the support of British Transport Police and the Association of Chief Police Officers, is already taking a wide range of steps to tackle the problem. In addition, given the cross-sectoral impact of the issue, which is exacerbated by the apparent ease with which stolen metal can be disposed of, the Government is considering whether further measures might be appropriate to update the legislative regime governing the scrap metal industry.

Current Status

11.3 Implemented.

Action taken to implement recommendation

11.4 As set out in Government's March 2012 Rail Reform Command Paper – *Reforming our Railways: Putting the Customer First,* the 2011 Growth Review provided £5 million to establish a dedicated taskforce to target metal theft through increased enforcement activity against thieves and those who deal in stolen metal. Alongside this Government has brought forward legislation to prohibit cash payments for scrap metal and to significantly increase the penalties to punish unscrupulous scrap metal dealers. These provisions are set out in the Legal Aid, Sentencing and Punishment of Offenders Act 2012, which recently received Royal Assent. The Department is committed to go further and modernise and reform the regulatory regime for scrap metal as soon as Parliamentary time permits.

Progress on implementing recommendations from 5 National Audit Office reports

HC 487	Progress in improving financial management in Government *(HM Treasury and Cabinet Office)*
HC 821	DCMS Financial Management *(Department for Culture, Media and Sport)*
HC 1030	Mortgage Rescue Scheme *(Department for Communities and Local Government)*
HC 1279	Managing front line delivery costs *(Department for Environment, Food and Rural Affairs)*
HC 1280	Pacesetter: HMRC's programme to improve business operations *(HM Revenue and Customs)*

HC 487

HM Treasury (HMT) and Cabinet Office

Progress in improving financial management in Government

Summary of the NAO findings

Despite good progress in improving the professional capability and capacity of government finance departments since the National Audit Office last reported in 2008, good financial management is still not embedded in the civil service culture, and financial matters do not have sufficient influence over departments' strategic decision making, according to the spending watchdog. In recent years, the NAO has reported extensively on financial management in government departments. Using this body of work, the spending watchdog concludes that departments have achieved a core level of competence in financial management, but that further improvement in financial management capacity and capability throughout their organisations is required to enable them to meet the challenge of delivering the savings set out in the Spending Review 2010.

Whitehall's central finance functions competently capture and report the transactions and financial position of the departments. Annual accounts are delivered before the July Parliamentary recess. The number of overall overspends against the amounts approved by Parliament is low. However, departments are generally weak at monitoring their balance sheets and at forecasting cash flow in the medium term.

The NAO issued its report on 3 March 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

Accounting Officers should:

- **consistently demonstrate through their leadership of departments their commitment to a clear vision incorporating what we have described as 'enterprise' financial management; and**
- **ensure that professionally qualified Finance Directors are involved in all aspects of Board-level decision-making, and influence decision-making throughout departments.**

1.1 The Government agrees with the NAO's recommendation.

Current Status

1.2 Implemented.

Action taken to implement recommendation

1.3 The essential standards for Accounting Officers and Finance Directors are set out in *Managing Public Money*. They require Accounting Officers to maintain high standards of ethical behaviour, including systematic evaluation of risks and opportunities. These standards are almost timeless and were most recently recast in April 2011.

1.4 Similarly, Finance Directors are required to be financially qualified and to be full members of corporate boards, participating in decision making and taking part in boards' evaluation of departmental activity. The corporate governance code for central government departments, updated in June 2011, brings out the importance of giving full weight to finance directors' essential input.

NAO RECOMMENDATION B

In developing further the capacity of the government's corporate centre', as set out in *Managing taxpayers' money wisely*, the Treasury and Cabinet Office should strategically position their financial management expertise to influence and communicate the vision set out in that document, and to publicise good practice examples and the value for money benefits to be gained.

The Treasury should continuously reinforce the key messages, through their Spending Teams' work with departments.

2.1 The Government agrees with the NAO's recommendation.

Current Status

2.2 Implemented.

Action taken to implement recommendation

2.3 The Finance Transformation Programme (FTP) takes forward the vision set out in *Managing taxpayers' money wisely.* The Head of the Government Finance profession, who sits on the FTP Board, convenes the Finance Leadership Group (FLG), comprised of the Director Generals of Finance from the top spending departments.

2.4 The FLG is leading a number of workstreams, working closely with the Treasury and the Cabinet Office, to:

- improve spending controls;
- further develop the capability of government finance professionals;
- introduce more cost effective finance functions;
- improve financial reporting, management information and underlying systems and processes; and
- raise the financial and commercial awareness of all civil servants.

2.5 Departments have provided information about their financial management improvement plans and initiatives, which have informed the FLG's focus, and is also providing a base for sharing good practice.

2.6 The Treasury published *Improving Spending Control,* in April 2012, detailing a new, more robust framework for strengthening and improving spending control. This document will provide the basis for spending teams' work on spending control with departments going forward, and references the importance of the FTP.

NAO RECOMMENDATION C

The NAO recognise the importance of in-year control in the current fiscal climate. Against this background, the Treasury should encourage flexible resource planning, and consider how to enable movement of resources between Departmental Expenditure Limits and Annually Managed Expenditure, and between years, where this improves value for money without jeopardising overall in-year spending control.

3.1 The Government agrees with the NAO's recommendation.

Current Status

3.2 Implemented.

Action taken to implement recommendation

3.3 It is essential that the Treasury ensures sustainable finances that support confidence in the economy. There are already in place sensible flexibilities within these constraints. For instance, where a programme slips, Departments are, under existing rules, allowed to move money between years through the Budget Exchange system. The *Improving Spending Control* document makes clear that Departments should not undertake low value spend at the end of the year, if they do have remaining budget. It is the Accounting Officer's responsibility to ensure that this is the case.

3.4 The Government does look at its spending across both DEL and AME. The 2010 Spending Review considered both elements, allowing trade-offs to be made between the two. However, by definition AME is inherently volatile. It would not always be appropriate to offset all volatility in AME within DEL. It would be inappropriate for Departments to be able to offset reductions in departmental AME levels that have materialised beyond their control through higher spending.

NAO RECOMMENDATION D

Accounting Officers should work with new departmental Boards and Finance Directors to drive improvements to the timeliness, clarity, quality and utility of financial management information, learning from good practice where it exists – this should not usually require major new IT systems.

4.1 The Government agrees with the NAO's recommendation.

Current Status

4.2 Implemented.

Action taken to implement recommendation

4.3 The Government published a refreshed version of the *Corporate Governance Code* for central Government Departments in June 2011. It builds on existing good practice in Departmental Boards and looks to a strong intake of new non-executives to bring effective management techniques to central Government, adapting them as necessary. Good quality management information is key to sound use of board resources, as many PAC reports have shown.

4.4 The Treasury encourages Departments to adopt a dashboard approach to board reporting. This should be designed to enable board members to assess departmental performance in the round from a single page of essential data, so that emerging problems can be identified and dealt with promptly.

4.5 There is always room for improvement in board activity. The code encourages Departments to adopt or adapt the best modern practice and to seek ever more effective ways of using the resources available to deliver the results ministers want.

NAO RECOMMENDATION E

The Cabinet Office and Treasury should review policy on recruitment, promotion, training and performance management and reward systems, which departments should then implement, to make financial management responsibilities central to all aspects of civil service thinking.

5.1 The Government agrees with the NAO's recommendation.

Current Status

5.2 Implemented.

Action taken to implement recommendation

5.3 The Civil Service Code was updated in 2010 to impress upon all civil servants the need to manage public funds prudently and ensure value for money. In addition, the Cabinet Office has amended performance management guidelines for all Senior Civil Servants across government to mandate objectives relating to fiduciary responsibility.

5.4 The Government has recently considered afresh how civil servants can most effectively assist Ministers in analysing, devising and implementing their policies. Reflecting this work, a plan for Civil Service reform is being published during summer 2012. The plan seeks to ensure that the Civil Service builds capability by strengthening skills, sourcing and deployment of talent and improving organisational performance across the Civil Service. This includes building commercial and financial skills in each of the areas highlighted by NAO.

HC 821

Department for Culture, Media and Sport (DCMS)

Department for Culture, Media and Sport - Financial Management

Summary of the NAO findings

The Department for Culture, Media and Sport (DCMS / the Department) has improved the maturity of its financial management in a number of areas, according to the National Audit Office (NAO). However, the spending watchdog has not been able to conclude that the Department is achieving value for money. The report also highlights the substantial challenge it faces in providing effective financial oversight of its arm's-length bodies which differ in size, influence and risk.

Although some received graduated reductions, the DCMS opted to apply a standard flat-rate cut to the budgets of the majority of its arm's-length bodies. While these cuts were moderated by potential access to other funding, the Department is not yet in a position to assess the ultimate impact of these cuts on frontline delivery. The Department did, however, prioritise quick decisions on budgets to allow arm's-length bodies to plan their cost reductions early. In addition, the Department's decision to close and merge a number of its arm's-length bodies was not informed by a financial analysis of the costs and benefits. It based its decisions on estimates which did not take account of the full costs of closure such as lease cancellation, redundancy and pension costs. The decision was not informed by estimation of future savings or of what the pay-back period would be.

The NAO issued its report on 10 March 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

The Department should:

- **provide the Board with more comprehensive performance and financial information, and facilitate the Board taking ownership of risk management; and**
- **enhance the Strategic Risk Register so that there is increased focus on control mitigation, the financial implications of risks are defined, and the escalation of operational risks operates appropriately.**

1.1 The Department agreed with the NAO's recommendation.

Current Status

1.2 Implemented.

Action taken to implement recommendation

1.3 The Board regularly receives a wide range of performance and financial information. This covers forecasts over a four year period; reporting on major capital projects and the capital programme; human resource; and other non-financial information. Over the past year, a renewed focus on risk management has revised the Department's risk management policy and framework to inform the level of engagement with arm's length bodies. The results are reported regularly to the Board.

NAO RECOMMENDATION B

The Department should:

- **determine the appropriate level of oversight it can commit to arm's-length bodies commensurate with the level of resources it has; and**
- **use its revised risk ratings to inform this relationship, and keep these ratings up to date.**

2.1 The Department agreed with the NAO's recommendation.

Current Status

2.2 Implemented

Action taken to implement recommendation

2.3 The Department has recently conducted a further internal exercise to determine the appropriate levels of engagement and reporting requirements for each of its arm's-length bodies and to reflect these requirements in individual management agreements, which will replace Framework Documents. This is intended as an annual exercise which will also feed into the risk management work described above and that is reviewed and reported to the Board on a regular basis.

NAO RECOMMENDATION C

The Department should establish a coherent information strategy that:

- **defines the information it needs to hold on its arm's-length bodies to inform decisions on budget allocations and facilitate effective monitoring;**
- **defines the quality assurance process that should be in place to challenge the information received from its sponsored bodies; and**
- **sets the minimum level of financial and performance information that will be reported to its Board and senior management.**

3.1 The Department agrees with the NAO's recommendation.

Current Status

3.2 Implemented.

Action taken to implement recommendation

3.3 On the basis of a recent internal risk and prioritisation exercise the Department has determined reporting and information requirements for each of its arm's length bodies. This has resulted in a clear rationale for the assurance that the Department receives from each body and the degree of oversight that it considers necessary. A minimum level of financial and performance information is being captured for each and this has been reported to the Board.

NAO RECOMMENDATION D

The Department should cease its practice of planning to overspend. If it chooses to over-programme, then it should have a clear plan of action should the over-programming crystallise, supported by accurate and timely monitoring.

4.1 The Department agreed with the NAO's recommendation.

Current Status

4.2 Implemented

Action taken to implement recommendation

4.3 While the Department agrees with the NAO's recommendation, it does not agree with its conclusion, as DCMS never plans to overspend. A risk-based approach is taken to over-programming, with active management across the full range of arm's length bodies' budgets to get the best value for the Department's sectors from the funding voted by Parliament, without spending more than the delegated limits. Monthly and intra-monthly monitoring of expenditure and risks enable the Department to react quickly, should risks crystallise.

NAO RECOMMENDATION E

The Department should:

- **stop applying standard flat rate cuts to budgets and make awards to arm's-length bodies that take further account of their differing cost bases and the differing impact that cuts may have on frontline delivery; and**

- **use a full analysis of costs, future savings, and pay-back periods when making decisions to merge or close arm's-length bodies and to cancel projects.**

5.1 The Department disagreed with the first part of the NAO's recommendation.

5.2 However, the Department does agree with the second NAO recommendation and will continue to analyse a range of options for Ministers.

Current Status

5.3 Implemented

Action taken to implement recommendation

5.4 In line with principles of good financial management, the Department's appraisal will take into account value for money considerations, including the costs and benefits of taking early and clear decisions. Ministers will make their decisions based on the Department's advice.

HC 1030

Department for Communities and Local Government (DCLG)

Mortgage Rescue Scheme

Summary of the NAO findings

The Mortgage Rescue Scheme, launched in January 2009 by the Department for Communities and Local Government, in two years achieved fewer than half of the rescues expected. The National Audit Office has reported that the Department directly helped 2,600 households avoid repossession and homelessness at a cost of in excess of £240 million - but it originally expected to help 6,000 households for £205 million.

The Department now has actions in place to reduce the cost of the Scheme to the taxpayer. It accepts the risk that these actions may reduce the local availability of the Scheme if fewer housing associations or lenders find offering it financially viable.

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

NAO RECOMMENDATION A

The Department should:

- **draw more thoroughly on existing evidence and data (including similar schemes operating elsewhere);**
- **wherever possible, pilot schemes fully prior to implementation, and assess the results objectively prior to rolling out;**
- **if a pilot is not possible because of time constraints, as in the case of the Scheme, then:**
    - **identify the gaps in knowledge that the absence of a pilot leaves; and**
    - **engage directly with, and conduct original research on, specific target groups (such as householders) if necessary to test key assumptions;**
- **routinely and consistently subject its business cases, projects and programmes to independent external scrutiny; and**
- **present sufficient sensitivity or scenario analyses in key business case submissions and Impact Assessments to provide a full and transparent account of how costs and benefits could differ under alternative sets of assumptions.**

1.1 The Department agrees with the NAO's recommendation.

Current Status

1.2 Implemented.

Action taken to implement recommendation

1.3 In devising the Department's NewBuy Guarantee Scheme, the experiences of designing and implementing the Mortgage Rescue Scheme were considered. The Department's Housing Strategy, published November 2011, made the case for Government intervention in boosting housing supply and demand through higher value mortgages. The NewBuy business case was cleared by the Department's Investment Sub-Committee and the Treasury.

1.4 The business case contains analysis, which models a range of possible scenarios to determine the risk profile of possible outcomes, and the potential financial liability and costs to Government. The business case also analyses the sensitivity of the Department's assumptions and the potential for increased costs; whether the Department's approach to the commercial fee, paid by lenders to the Department, is sufficiently flexible to ensure that the scheme can be expected to be self-financing; and cost neutral for UK taxpayers. The Department's detailed modelling and calculation of the commercial fee for lenders was tested and endorsed by the Treasury and the Exports Credit Guarantee Department.

1.5 In addition to time constraints, NewBuy was not piloted, in part, because the Housing Strategy, and its Impact Assessment, made the case for market intervention.

NAO RECOMMENDATION B

In the event of any material changes or proposed change to a policy instrument (such as changes to funding arrangements or eligibility criteria), whether before launch or in operation, the Department should:

- **conduct a thorough analysis of the impact on unit costs and compare this cost to the expected unit benefit to assess whether the value for money case still holds;**
- **amend the analysis underpinning its initial appraisal documentation and resubmit its proposals for fresh scrutiny by its Investment Sub-Committee;**
- **where changes are sufficient to render the transparency function of the original published Impact Assessment obsolete (for example because initial cost or budgetary estimates have changed significantly), assess the case for carrying out and publishing a new Impact Assessment; and**
- **build formal review points into its Schemes so that, even where there is no explicit driver (such as a Spending Review), the value for money case is regularly and thoroughly scrutinised. It would be sensible to have these reviews after six months' operation, and then annually:**
    - **where there is compelling evidence that value for money is at risk, the Department should bring forward the next scheduled review;**
    - **the resultant decisions should be scrutinised and challenged by the Investment Sub-Committee; and**
    - **interim and full evaluations should be timed to inform these reviews.**

2.1 The Department agrees with the NAO's recommendation.

Target implementation date

2.2 2014.

Current Status

2.3 Work in progress.

Action being taken to implement recommendation

2.4 The NewBuy Guarantee Scheme will be reviewed through a monthly internal Government Housing Programme Board, chaired by a Director General. The scheme is developing its own specific governance structure, involving external partners, who will monitor success measures, operations and whether any changes are required to the scheme design to ensure the programme meets its aims.

2.5 These aims are:

- a monthly operational monitoring group, chaired by Deputy Director, will review progress and resolve any issues. This group reports to a senior monitoring group.

- a quarterly senior monitoring group, chaired at director level, will have authority to make changes to the scheme design and legal documentation.

- an annual review on the commercial fee for lenders, for the first three years of the scheme, when the fee will be incurred by each transaction entering the scheme. The fee level can be revised following the annual review in order to make the scheme stay, in all probability, self-financing.

2.6 There will be a review of the scheme, in 2014, to assess the scheme and its impacts. This is in time to make changes, whilst the scheme is still open for new transactions. This review can be brought forward or the scheme can be referred back to the Investment Sub-Committee should any of the monthly, quarterly, or annual processes indicate any significant issues, any fundamental changes, or an alternation in value for money expectations.

NAO RECOMMENDATION C

The Department should identify cost-effective ways to collect sufficient data to validate and quantify this impact, doing so from the outset in future schemes.

3.1 The Department disagrees with the NAO's recommendation.

3.2 The Department will not be taking this forward as the costs and resource required would be disproportionate to the level of useful data that would be derived from it. Requiring Local Authorities to make detailed returns on outputs does not support the localism agenda.

NAO RECOMMENDATION D

To assess the value for money of its share of the investment, the Department should commission the Agency to:

- **develop, in consultation with housing associations, a standard financial model to benchmark housing association proposals for funding based on a set of standard assumptions; and**

- **use this information, as appropriate, to challenge any proposals if the returns do not appear reasonable.**

4.1 The Department disagrees with the NAO's recommendation.

4.2 The Department will not be pursuing these recommendations given that a standard investment model does not respond to the different business models held by Housing Associations of differing sizes. It also ignores the social policy aims of the scheme to house vulnerable households, with the better business decision not necessarily helping the most households. In addition, secondary value for money checks on investment decisions already take place within the regional HCA operating areas.

HC 1279

Department for Environment, Food and Rural Affairs (DEFRA)

Managing front line delivery costs

Summary of the NAO findings

The Department for Environment Food and Rural Affairs (the Department) needs to scrutinise and challenge its arm's length bodies so that it can oversee cost reductions with minimal disruption to frontline services. Those bodies understand their own costs reasonably well. However, the Department still has more to do to achieve the full understanding of the relationships between cost, outputs and outcomes needed to be confident that it is securing value for money.

The Department does not have comparable information about the unit costs of front-line work. This is partly a reflection of the diverse nature of the activities undertaken by its arm's length bodies. But the Department has not asked arm's length bodies to explain the basis of their cost calculations.

The NAO issued its report on 22 July 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

To act as an intelligent commissioner of services the Department needs to assure itself that the data and information delivery bodies supply, enables it to measure and track cost-performance. The Department should establish what key cost data, reported in a consistent and transparent way, it requires to better scrutinise arm's length bodies and make decisions about the allocation of resources. This should include agreed measures to help assess value for money, such as unit costs tracked over time and linked to relevant performance measures.

1.1 The Department agrees with the NAO's recommendation.

Target implementation date

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

Current Status

1.3 Work in progress.

Action being taken to implement recommendation

1.4 Revised business planning guidance was developed, with specific reference to the recommendations of the NAO report. The Department issued guidance identifying potential unit cost measures of performance, and supporting the production of activity based budgets linking performance measures to assigned budgets. The guidance was rolled out in September 2011 and discussions around the development of business plans were focused on the business planning requirements.

1.5 The Department is nearing completion of the network body business planning process. Although some entities have been unable to fully comply with the requirements of the guidance, progress has been made in improving the Department's ability to challenge performance against the network bodies' business plans.

1.6 Following approval of all business plans a lessons learned exercise will be commissioned to further enhance the business planning process, in advance of the 2013-14 business planning round. The revised business plans give more scope for corporate owners to hold to account their sponsored bodies on their performance. The early production of business plans has supported more effective dialogue and challenge at Ownership Board meetings. The Department is planning an integrated business plan process for 2013-14, which will implement lessons learned from the 2012-13 business planning round.

NAO RECOMMENDATION B

The Department needs to understand the different approaches to costing across its delivery network. The Department cannot adequately interrogate and challenge the data and information it receives without better understanding how its delivery bodies calculate their costs. The Department should ask its delivery bodies to justify how they measure and monitor costs.

2.1 The Department agreed with the NAO's recommendation.

Target implementation date

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

Current Status

2.3 Work in progress.

Action being taken to implement recommendation

2.4 Finalised business plans were approved in June 2012 to support improved challenge of costing basis. Examples of unit costs were sought to help bench mark activities across the network, which were fed into the 2012-13 Business Planning Guidance for network bodies. The role of the corporate owner and corporate customer will further challenge this work during the year. The Department has also under taken a specific challenge of the costing models within Animal Health and Veterinary Laboratories Agency (AHVLA) and the Food and Environmental Research Agency (FERA) as part of its wider review. This has involved significant challenge from senior management on the basis of their operating model. Particular progress has been made in driving efficiencies in both these organisations during the year.

NAO RECOMMENDATION C

There is a balance to be struck between obtaining adequate information to monitor costs and overburdening delivery bodies with increasing reporting requirements. The Department monitors the performance of delivery bodies. The Department should carry out a gap analysis between the information it routinely receives from delivery bodies and what is required to monitor performance and assess value for money. Data requirements should be rationalised and standardised.

3.1 The Department agreed with the NAO's recommendation.

Target implementation date

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

Current Status

3.3 Work in progress.

Action being taken to implement recommendation

3.4 The Management Information (MI) pack has been developed and continuously reviewed to amalgamate details of finance and performance as requirements have developed. Work in May 2012 looked to further increase transparency and to ensure completeness of coverage, when considered in tandem with the Quarterly Data Summary (QDS) reporting. The MI pack will feed into relevant

Strategic Advisory and Ownership boards to improve decision making and allow for better challenge of the network bodies' performance.

3.5 The corporate owners and sponsors will play a key role, in ensuring that performance indicators are meaningful and drive increased efficiency and improved performance. They will also be responsible for holding the network body to account for subsequent performance and delivery, against the performance indicators. The MI pack is a standard format across the network bodies and will be developed to ensure consistency and completeness for 2012-13 reporting requirements, in consultation with key stakeholders.

NAO RECOMMENDATION D

Resource allocation decisions need to be informed by a good understanding of the relationships between costs, outputs and outcomes. Transparency of front line delivery costs is increasingly important where budget reductions have to be carefully targeted to protect services. In line with the good practice in this respect that we found, for example in the Environment Agency, the Department and all its arm's length bodies should model the impact on front line services of budget reductions, and prioritise resources accordingly.

4.1 The Department agreed with the NAO's recommendation.

Target implementation date

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

Current Status

4.3 Work in progress.

Action being taken to implement recommendation

4.4 The business planning guidance for 2012-13 stipulated the need to explain outcomes and outputs and then link them to budget allocations. This is the first step by the Department to better understand the impacts of decisions when looking to restructure and reduce budget allocations. Further work will be undertaken to prioritise activities across the network. This will form part of the basis for developing a more integrated business planning process for 2013-14.

NAO RECOMMENDATION E

The Department has very little evidence by which to assess whether unit costs in its delivery bodies are as low as they might be. The Department should promote existing good practice provided by arm's length bodies which have carried out internal benchmarking exercises, and challenge all arm's length bodies to use internal and external benchmarking data as a way to drive down average costs and better evidence value for money.

5.1 The Department agreed with the NAO's recommendation.

Target implementation date

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

Current Status

5.3 Work in progress.

Action being taken to implement recommendation

5.4 The Department will have a more comprehensive record of unit cost measures, to be challenged by the respective corporate owners and policy Senior Responsible Officers (SROs), during 2012-13 as a result of supporting information to 2012-13 Business Plans. Once business plans are complete, a review will take place to attempt to bench mark areas and challenge performance. This will form part of ongoing discussions with the respective Ownership Boards. The restructure of the Department is also intended to add focus to the commercial and operational performance of the network bodies, through the appointment of a Chief Operating Officer (June 2012) who will take on the management of the Executive Agency portfolio.

HC 1280

HM Revenue and Customs (HMRC)

PaceSetter: HMRC's programme to improve business operations

Summary of the NAO findings

HM Revenue and Customs (the Department) PaceSetter Programme, aimed at streamlining business operations, has improved productivity through new ways of working and may have contributed to greater staff engagement. However, the NAO has concluded that the Programme is not yet value for money because the extent to which efficiency has improved is not clear; and some key principles of process improvement are not yet being applied strategically across the entire organisation and embedded into the Department's core processes.

The Department does not have a full understanding of the costs of PaceSetter. The Department decided to monitor only certain of the costs involved, and excluded, for example: the salary costs of its own PaceSetter experts. Analysis undertaken by the NAO shows that a more complete assessment of costs brings the total spent on PaceSetter from £55 million to at least £115 million between 2005-06 and 2010-11 on consultancy, equipment, staff and travel costs. To maximise the benefits of PaceSetter, the Department needs to use the Programme to help it streamline its business operations in a more strategic way, based on a clear understanding of processes in their entirety and of what its customers require.

The NAO issued its report on 15 July 2011. This report was not selected for a hearing or report by the Committee of Public Accounts (PAC).

NAO RECOMMENDATION A

The Department should:

- ***apply PaceSetter principles to its processes 'end to end', across the organisation, and bring a stronger customer perspective to the work; and***
- ***establish more structured ways to direct improvement efforts to areas that will gain most benefits.***

1.1 The Department agrees with the NAO's recommendation.

Target implementation date

1.2 31 March 2013.

Current Status

1.3 Work in progress.

Action being taken to implement recommendation

1.4 The Department recognises the need to integrate PaceSetter with its Business Process Re-Engineering Programme (the Programme) and has developed the capability of nine of the Department's most experienced PaceSetter practitioners. The Department has achieved this by providing the practitioners with the experience of working on end to end pilot process engineering projects. The pilots have enabled the Department to progress work on its methodology for enterprise level (end to end) re-engineering. This incorporates PaceSetter, tools, techniques and principles, adding a crucial 'voice of the customer' at the heart of this approach. The 2012-13 Programme will be led by the Departments senior PaceSetter staff.

NAO RECOMMENDATION B

The Department should:

- **set central priorities for the deployment of PaceSetter practitioners aligned to its new business plan and informed by the results of its end to end review of processes; and**

- **ensure that PaceSetter is appropriately aligned to its wider change programme.**

2.1 The Department agrees with the NAO's recommendation.

Target implementation date

2.2 31 December 2012.

Current Status

2.3 Work in progress.

Action being taken to implement recommendation

2.4 Reporting arrangements have been streamlined and improved with Line of Business Change Plans (which include PaceSetter plans) now assured by Change Assurance and Investment to ensure that activity is aligned to the wider Change programme. Key to this is the Department's Universal Coverage target that means all Departmental staff will be equipped with the core PaceSetter skills and techniques by 30 June 2013.

2.5 The Department is working with Change Directors to review the PaceSetter Governance arrangements. This will enable organisational priorities to be understood and deployment decisions to be made. Once established, this body will decide on organisational priorities for practitioner deployment. The group will also ratify the deployment of the Department's more experienced practitioners. The Department is considering centralising the management and deployment of the resource using an internal consultancy arrangement. Bids for resource from this pool will be approved by the decision making body and managed using an internal consultancy framework.

2.6 Decisions on the deployment of the remainder of the Department's practitioner resource will be determined by the same organisational priorities, but will continue to be managed by the Departments business Heads of Profession. This group currently deploy resource within Lines of Business, with their recent work to develop a new set of operating principles placing them in a better position to deploy corporately on a significant scale.

NAO RECOMMENDATION C

The Department should:

- **better track and validate the costs and benefits of changes in processes arising from the initial diagnostic phase of PaceSetter, and for significant changes arising from problem solving exercises;**

- **where PaceSetter is more established, track how business performance is changing; and**

- **carry out further pilots to more fully understand the costs and benefits of applying PaceSetter to 'considerative' parts of the organisation such as those dealing with policy and legislation.**

3.1 The Department agrees with the NAO's recommendation.

Target implementation date

3.2 31 March 2013.

Current Status

3.3 Work in progress.

Action being taken to implement recommendation

3.4 The Department is investing resources into tracking and validating costs and benefits in line with other change initiatives. The Department is working with key internal stakeholders to develop the assurance process.

3.5 Benefits and Credits is the area of business where PaceSetter is established. They have achieved 99% coverage across the Directorate, collating and utilising significant amounts of data to support their understanding of the costs and benefits of PaceSetter. Annual productivity gains in the mature areas are in line with industry standards of 5%+.

3.6 The Department is now beginning to scope further pilots to better understand the opportunities and impacts of implementing PaceSetter. Businesses within the Department are already implementing PaceSetter in areas which are referred to as considerative, as part of their ongoing plans. The Department will ensure that it continues to build on lessons and best practice from this work, particularly on its understanding of costs, benefits and measurement, sharing the knowledge and outcomes with practitioners and the business.

NAO RECOMMENDATION D

The Department should:

- **conduct further research into the key factors that affect staff engagement at sites with PaceSetter; and**
- **ensure frontline managers have a good understanding of how to apply the approach effectively.**

4.1 The Department agrees with the NAO's recommendation.

4.2 The Department expects to begin issuing updated messages to frontline managers from the beginning of quarter one, 2012-13. The messages will be delivered through PaceSetter implementations, assurance activity, departmental channels (Intranet) and practitioners.

Target implementation date

4.3 30 September 2012.

Current Status

4.4 Work in progress

Action being taken to implement recommendation

4.5 When analysing the 2011 staff survey results, the Department found that there seemed to be a positive association between the extent to which people think that their team work under PaceSetter practices and engagement. Further analysis of the results, with a view to acknowledging and base-lining the impact of PaceSetter on engagement, has been commissioned. The Department will undertake comparisons with previous years to help understand changes in engagement.

4.6 This data will be used to examine the elements of PaceSetter that have worked well and areas that have not worked as well in specific teams. The areas of best practice will inform updates to the Departments approach, communications and training. The Department will use existing knowledge-share channels (such as collaboration systems and regional learning groups) to ensure that front-line managers have access to this information in the most timely manner.

4.7 As this is a complex area of analysis, the impact and effects of these activities will take time to filter though. The Department is committed to continuous improvement and ensuring that its front line managers and users of PaceSetter tools and techniques continue to help shape the Departments approach.

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