Treasury Minutes on the Seventeenth to the Twenty Third and the Thirty First Reports from the Committee of Public Accounts Session 2008-2009

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TREASURY MINUTES DATED 21 JULY 2009 ON THE SEVENTEENTH TO THE TWENTY THIRD AND THE THIRTY FIRST REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2008-09

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Seventeenth Report

Office of Government Commerce (OGC)

Central Government's management of service contracts

1. In 2007-08, central Government spent over £12 billion on service contracts primarily in the areas of information and communication technology, facilities management and business process outsourcing and an estimated £240 million on managing these contracts.

2. In most cases central Government monitors the performance of its suppliers but it makes limited use of financial incentives to encourage suppliers to improve performance. Planning and governance is one of the weaker areas of contract management, although there are examples of good senior level engagement.

3. On the basis of a report from the Comptroller and Auditor General, the Committee examined how well central Government is managing service contracts and the effectiveness of the Office of Government Commerce in supporting central government to improve contract management.

PAC Conclusion (1): Achieving value for money depends on effective contract management but central Government does not accord contract management sufficient attention. The emphasis continues to be on the early stages of letting of a contract rather than on managing it afterwards. To help achieve a better balance, central government organisations should assign responsibility for contract management policy, practice and capability to a single individual, whose responsibilities should include ensuring that all major service contracts have appropriate governance arrangements and documented contract management plans.

4. The Government agrees with this conclusion. OGC has been working with departments to focus greater attention on the importance of contract management and its potential to deliver value for money savings. In 2008, OGC (in consultation with Departments) refreshed the definition for 'government procurement professional' to explicitly reference contract management. The OGC's recent publication *A Formula for Success*[1] reinforces the message that procurement does not end at contract award; encouraging departments to work with suppliers continuously to drive value from contracts during the lifetime of the contract.

5. OGC is working with departments to identify and engage with all procurement professionals (including contract managers) to build an active community that is incentivised and encouraged to build its professional capacity and capability. The joint National Audit Office (NAO) and OGC *Good Practice Contract Management Framework*[2] requires that "contract management ownership is clear with the budget holder and Senior Responsible Owner." OGC will work with departments to further improve access to appropriate learning and development opportunities by March 2010.

[1] 'A Formula for Success: procurement effectiveness in major project delivery' published March 2009 http://www.ogc.gov.uk/procurement_documents_complex_procurement_.asp

[2] NAO and OGC Good practice contract management framework, published December 2008, DP Ref: 008821-002

6. OGC will continue to raise awareness of the importance of good contract management through the 16 Departmental Procurement Capability Review (PCR) Improvement Plans and the work of the GPS. OGC will continue to use the Gateway process and the Major Project Review Group to review and assure programmes and projects across Government.

PAC Conclusion (2): Not all major service contracts include performance measures to manage the performance of suppliers. Without such measures, central government cannot effectively measure and drive supplier performance. Central government organisations should ensure that all their major service contracts have performance measures, and that these measures are updated as necessary to meet changing business requirements.

7. The Government agrees with this conclusion. The joint NAO and OGC Framework advise that "a performance management framework is in place when the contract is signed." Service Level Agreements (SLAs) should be established and linked to business needs, understood by the supplier and monitored by the contract manager and end users. Supplier performance will be assessed using clear, objective, and meaningful metrics, linked where appropriate to OGC's Common Assessment Framework (CAF) for monitoring suppliers.

8. OGC will use the new Self Assessment Procurement Capability Review process to ensure that departments use performance metrics in their assessment of key areas of their commercial capability, including stronger tests with regard to the effective management of major service contracts. The metrics have been designed to assist departments in their ongoing measurement and management of their commercial performance.

9. OGC makes available to the public sector a model contract and guidance for major Information Communication Technology (ICT) enabled services contracts. This guidance has an in-depth section that covers financial incentives and is regularly reviewed and updated (the next version is due for release in summer 2009). OGC has also integrated the effective use of key performance indicators into a contract management policy statement published on 16 April 2009[3]. The policy statement specifies that before a contract is let, departments must have plans in place to deploy appropriately skilled contract managers who will be guided by the joint NAO and OGC Framework.

10. In addition, OGC's general procurement *How to Buy Guide*[4] emphasises the requirement that key performance indicators are in place to monitor the effectiveness of the contract and that service delivery is assessed throughout the life of the contract.

[3] http://www.ogc.gov.uk/documents/Policy_principles_-_Contract_Management.pdf

[4] http://www.ogc.gov.uk/policy_and_standards_framework_general_-_contract_management.asp

PAC Conclusion (3): The failure to enforce financial penalties whenever suppliers under-perform increases the risk that relationships between central government and suppliers are too cosy. Central government organisations should apply financial penalties when contracts entitle them to do so unless there are very exceptional circumstances why they should not. The Office of Government Commerce should develop guidance to set out what these exceptional circumstances are, with a view to minimising the loss to the taxpayer.

11. The Government agrees with this conclusion. OGC agrees that where appropriate departments should apply financial penalties for supplier under performance, however this practice must be applied appropriately and proportionately. OGC's model contract terms and conditions provide clauses to help contract managers manage delays in the delivery of milestones and the use of service credits (payable for failure to meet service levels). OGC will promote the appropriate application of such measures via its work with Departments and learning and development providers of core procurement qualifications and other training products.

PAC Conclusion (4): Central government organisations do not routinely test the value for money of their service contracts. As a result, there is no assurance that the contracts concerned are providing value for money and that opportunities for savings are not being missed. The expectation should be that the value for money of ongoing services provided under major service contracts should be tested at least every three years. All significant changes to major service contracts should be tested as a matter of course.

12. The Government agrees with this conclusion. OGC has published extensive guidance on this in the ICT model contract. Regular value for money testing is recognised as a means to secure improvements in the provision of public services. The joint NAO and OGC Framework notes that price changes need to be managed fairly and effectively through mechanisms such as benchmarking, competitive tendering or open book pricing.

13. OGC reviews its guidance regularly to reflect lessons learned and market conditions. In addition, Partnerships UK (PUK) on behalf of HM Treasury publishes contract management guidance for operational Private Finance Initiatives (PFI) on their website. This covers the development of contract management strategies, benchmarking, market testing, and other issues that arise during the operational phase of a PFI contract.

PAC Conclusion (5): No central government organisation rated the level of resources devoted to managing their major service contracts as 'good'. As a result, opportunities for securing better value for money may be missed and risk may not be managed effectively. Central government organisations should undertake a review of the resourcing of contract management activities across their portfolio of major service contracts and take action where the review indicates that resources are not being used to best effect.

14. The Government agrees with this conclusion. Departments are responsible for ensuring that contract management is appropriately resourced. OGC's contract management policy statement emphasises the importance of having an appropriately skilled contract manager or management team in place. In addition, it emphasises that Senior Responsible Owners (SROs) of major procurement projects and programmes should establish appropriate contract management arrangements. Further guidance on resourcing, assessing value for money opportunities and the level of risk associated with individual contracts is offered in the joint NAO and OGC Framework, the contract management policy statements, and the OGC *How to Buy Guide*.

PAC Conclusion (6): Central government organisations are not providing adequate support to their contract managers. Organisations should improve the support available by providing contract management training where necessary to supplement the arrangements being put in place by the Office of Government Commerce and by establishing contract management communities to facilitate the sharing of best practice among contract managers.

15. The Government agrees with this conclusion. The improvement of central government capability in procurement, project and programme management and estates is an OGC corporate priority. OGC has established a cross-departmental contract management Special Interest Group (SIG) to develop and design contract management learning and development initiatives for the procurement profession (where there are gaps in provision) that meet current needs.

16. OGC will refresh its procurement qualification, the OGC Certificate of Competence in Purchasing and Supply by March 2010 to include more detailed content on contract management. OGC will also continue to work with the Chartered Institute of Purchasing and Supply (CIPS) to ensure the continued alignment of professional development agendas and to ensure that contract management continues to feature in core procurement qualifications.

PAC Conclusion (7): Risk management arrangements are inadequate for many contracts. Despite involving the delivery of critically important services, over half of contracts did not have a contingency plan in case of supplier failure. And even 30% of contracts where suppliers were dealing with personal or security information did not have a risk register. Central government organisations should review the risks associated with their major service contracts and put in place good practice risk management processes, including risk registers and contingency plans.

17. The Government agrees with this conclusion. In its guidance and training material, OGC emphasises that good risk management practice should be applied throughout the procurement lifecycle. OGC is helping departments improve their understanding of the importance of risk management through the PCR process and Gateway reviews. Risk management is a fundamental part of all Gateway reviews throughout a project's lifecycle – including post implementation assessments at Gate 5.

PAC Conclusion (8): The Office of Government Commerce has not previously provided sufficient contract management guidance or monitoring of major suppliers. During 2009, it plans to issue further guidance and develop new training on contract management, and extend its monitoring of the major suppliers to Government. These are important initiatives, which should help central Government secure better value for money from its service contracts, and the Office of Government Commerce must deliver on its plans. The National Audit Office estimated that between £160 million and £290 million a year could be saved through better contract management.

18. The Government agrees with this conclusion. In 2008, OGC launched the Procurement Policy and Standards Framework (PPSF), which contains best practice guidance on contract management in service contracts. OGC receives advice on the content of the PPSF from an external panel whose members include departments and supplier organisations.

19. The OGC already conducts extensive supplier monitoring of the top 14 ICT providers to government through the CAF. Over the coming year plans are in place to pilot and rollout similar processes for assessment of OGC's major suppliers into all existing categories of spend being considered under the auspices of OGC's collaborative procurement programme. OGC has published specific guidance on contract management for a number of collaborative procurement categories in its *How to Buy Guide*.

PAC Conclusion (9): The recent problems with SATS tests and Educational Maintenance Allowances have demonstrated that service failure by contractors can have a major impact on citizens. The outsourcing of services means central government's role becomes one of contract management, and every effort needs to be made to avoid similar difficulties arising on future contracts. The Office of Government Commerce should publish the lessons from the reviews it is carrying out into these two cases, including particular lessons on contract management.

20. The Government agrees with this conclusion. OGC has undertaken a lessons learned exercise in respect of the SATS issue and subsequent enquiry undertaken by Lord Sutherland. The findings from the OGC review have been outlined in annexes A-C and actions are underway to address the findings. OGC has also supported a lessons learned exercise on the EMA issue and the results were published on the Learning and Skills Council website on 11 June 2009 (one internal review and one management response).[5]

21. In addition to the specific reviews carried out on EMA and SATs, OGC is working with departments to help them put in place risk mitigation strategies to ensure the delivery of public services in the event of supplier failure.

[5] http://www.lsc.gov.uk/publications/latestdocuments/Summary.htm?page=5&order=date

ANNEX A

David Bell
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

15 January 2009

Dear David,

SUTHERLAND INQUIRY INTO NATIONAL CURRICULUM TESTS 2008

Thank you for your letter of 16 December. I agree that there is an opportunity to learn lessons from the application of Gateway to this procurement. Jonathan Simcock, Executive Director of Major Projects in OGC, has undertaken a review and produced a brief report which I have attached to this letter.

You will see that there were 3 Gateway reviews, rather than the 2 referred to in the Sutherland report. The first was led by OGC before the supplier was selected and the subsequent two were led by the Department.

I hope you will, in particular, note the conclusion that Departments should not rely exclusively on Gateway to ensure appropriate supplier selection. Gateway can and should help, but ultimately assurance of supplier selection decisions, like business investment decisions, need to be scrutinised and assured within Departments.

I am sure you will be looking at the wider governance and scrutiny lessons for the Department and would be happy to contribute to this should this be valuable.

I have accepted the recommendations of this review and will build the actions into the OGC work programme going forward.

Yours sincerely

Nigel Smith
Chief Executive

ANNEX B

To Nigel Smith
From Jonathan Simcock
Date 15 January 2009

OGC Gateway application to the procurement of National Curriculum Tests 2008 as investigated by the Sutherland Inquiry.

Dear Nigel,

I have examined the issues and lessons for the application of the Gateway process associated with the 2008 National Curriculum tests as investigated by the Sutherland Inquiry.

My detailed report is overleaf, but the main conclusions and recommendations are as follows:

Conclusions

1. Gateway, as applied in this case, did not help the project team to identify the supplier capacity and capability issues which contributed to the project failure.

2. Projects cannot rely on Gateway to fully assure supplier selection because:

   a) Gateway provides project management process assurance and is not a detailed project or commercial scrutiny tool.

   b) The formal timing of Gateway reviews is not conducive to such scrutiny. Gate 2 is too early and Gate 3 is too late.

3. The Gateway guidance can be improved on the procurement aspects of project delivery, including supplier selection, capacity and capability.

4. Given the nature and history of the National Curriculum Tests, this project was always going to be high risk. The application of the Risk Potential Assessment in this case led it to be treated as medium or low risk from a Gateway point of view. The Risk Potential Assessment process can be improved.

5. Delivery Confidence Assessment is more appropriate than the Gateway rating system in operation at the time of these reviews – but would not necessarily have predicted project failure in this case.

6. OGC has procurement guidance on supplier selection. However it would not have guided the project team to investigate independent sources of information about the supplier's performance or to probe more deeply into the supplier's track record given that they were new to the UK market.

Recommendations

1. OGC should reinforce to Departments that the Gateway Process provides a snapshot view of progress and delivery risks at a point in time and should be seen as complementary to departmental processes such as internal reviews, health checks and audits of programmes and projects, and not a replacement for them. Action: OGC by April 2009.

2. Gateway guidance should be improved at the next refresh to include more guidance on procurement aspects of project delivery including supplier selection, capacity and capability. Action: OGC at next Gateway refresh.

3. In the meantime Gateway reviewers should be advised to probe more deeply in this area, informed by experience in this project. Action: OGC by April 2009.

4. Experience from this project should inform the ongoing revision of the Gateway Risk Potential Assessment tool. Action: OGC by June 2009.

5. OGC is developing procurement guidance in the area of pre-qualification of potential suppliers. Experience from this project should inform this guidance. Action: OGC by June 2009.

Jonathan Simcock
Executive Director – Major Projects

ANNEX C

OGC Gateway application to the procurement of National Curriculum Tests 2008 as investigated by the Sutherland Inquiry.

1. This note describes the way Gateway was applied to this project so that lessons can be learnt for future projects.

2. The project was subject to the following Gateway reviews.

Date	Gate	Risk Assessment	By	Comment
Jun 2006	Gate 2 Procurement Strategy	Medium Risk	OGC	Carried out following Pre-Qualification. Outcome: GREEN
Dec 2006	Gate 3 Investment Decision	Low Risk	DCSF	Two bids had been received and evaluated. QCA were ready to make the investment decision. Outcome: AMBER
Sep 2007	Gate 4 Readiness for Service	Low Risk	DCSF	8 months after award to ETS Europe. Outcome: AMBER

3. This is a typical number of reviews for such a project. Ideally there would have been a Gate 1 at initiation stage but the lack of a Gate 1 has not contributed to the problems of this project.

Risk Assessment

4. The decision to treat the project from a Gateway point of view as medium and subsequently low risk was taken between DfES and OGC in 2006. Such judgements are informed by the completion of a Risk Potential Assessment (RPA), which is a spreadsheet questionnaire which results in a score. Scores greater than 40 indicate high risk and greater than 30 imply medium risk. The scores at Gate 3 and Gate 4 were 26 and 23 respectively. However the judgements on which the RPA is calculated are inevitably subjective and the score is only a guide.

5. It is clear from the Sutherland report that the project should have been regarded as high risk from the beginning. Delivery of National Curriculum tests had failed in the past and had been challenging in all previous years, even with incumbent suppliers. The project was clearly high on the risk agenda of both QCA and DCSF.

6. The risk assessment of the project as medium risk and subsequently low risk had implications for the duration, and therefore the depth, of the Gateway reviews as well as the size and experience of the team.

7. The Gate 2 medium risk review was undertaken in 3 days by 2 reviewers, one of whom was from outside the department. The Gate 3 and 4 low risk reviews were undertaken in 2 days by 2 reviewers, both from within the department. In practice low risk reviews involve interviewing only around 12 people. By contrast a high-risk review lasts 4 to 5 days with 3 to 4 reviewers and can typically involve interview of 25 to 40 people. Review team members are accredited to a level appropriate to the

reviews. Thus high-risk review team members are accredited to a higher level than medium and low risk members.

8. The direct interaction of the review teams with the supplier was limited to one interview with the ETS Operations Manager at Gate 4. It is likely that the extra time involved in a high risk reviews would have allowed deeper probing into supplier capacity and capability than occurred in the low risk reviews.

9. The RPA methodology is already under review in OGC and this example should be an input into this work.

Review Rating

10. These Gateway reviews pre-date the introduction of Delivery Confidence as the rating outcome of reviews. At that time the rating of a Gateway report indicated only how urgent the review team regarded the recommendations to be:

RAG	Criteria Description
Green	The programme is on target to succeed but may benefit from the uptake of recommendations.
Amber	The programme should go forward with actions on recommendations to be carried out before further key decisions are taken that affect the potential success of the programme, or next OGC Gateway Review.
Red	To achieve success the programme should take action immediately.

11. This practice was poorly understood and could give a false impression to the report recipient. A project with a low likelihood of delivery could receive a Green or Amber rating and a project with a high likelihood of delivery could receive a Red rating. Such confusion had the potential to weaken the leadership response to Gateway reviews.

12. During 2008 Delivery Confidence rating has been introduced such that the rating of Gateway reviews has been determined on the basis of the review team's opinion on the likelihood that the project will delivery its benefits to time and budget. This has since become almost universal Gateway practice:

RAG	Criteria Description
Green	Successful delivery of the project / programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery significantly
Amber/ Green	Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery
Amber	Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly, should not present a cost / schedule overrun
Amber/ Red	Successful delivery of the project / programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and whether resolution is feasible
Red	Successful delivery of the project / programme appears to be unachievable. There are major issues on project/programme definition, schedule, budget required quality or benefits delivery, which at this stage do not appear to be manageable or resolvable. The Project / Programme may need re-baselining and / or overall viability re-assessed

13. This is a good innovation, but the text of these Gateway reports would probably have supported Amber or better Delivery Confidence ratings. The review teams seem to have been convinced that the challenges were under control. Hence introduction of Delivery Confidence rating per se would not have prevented project failure. It is not possible to say whether high risk review teams with more time would have had the same confidence.

Review of supplier capability and capacity

14. Typically Gate 2 occurs when the procurement strategy is developed but before the pre-qualification of potential bidders. This is too early for anything more than broad examination of whether a suitable supplier market exists. In the case of this project the fact that the project had a stated objective to attract new suppliers to the market could have sounded warning bells with the project team, but does not seem to have done so.

15. Gate 3 is generally at the point of investment decision, after the preferred bidder has been selected and the contract is close to signature. This is the first time a review team can investigate capacity and capability of a particular supplier. The review team did so in this case and accepted that “the preferred supplier has a good track record in the area of educational testing”. Given the time availability during a low risk review the investigation would not have been extensive and the preferred supplier was not interviewed.

16. Even a high risk review undertaken by an experienced high risk team may not have probed much more deeply into supplier capacity and capability unless their attention was drawn to the subject by evidence of an issue. Teams are unlikely to scrutinise pre-qualification or bid evaluation documentation in any detail and will rely on the views of those interviewed. This is because Gateway is essentially an exercise of process assurance and not detailed project scrutiny. Experience suggests that even the much deeper assessment undertaken in support of the Major Projects Review Group (typically lasting 4 weeks) would not explore supplier capacity and capability in circumstances where the project team appear to have undertaken a thorough process.

17. Had the review identified a problem with the supplier at this point it would have left the project in a difficult position. Pre-qualification, rather than investment decision is the time to question the capability and capacity of the potential supplier. By Gate 3 the supplier will have invested heavily in bidding the contract and there will be procurement law issues with ruling out a supplier on these grounds. There is therefore an intrinsic problem with relying on gateway to assure supplier selection. Gate 2 is too early and Gate 3 is too late.

18. Gate 3 is however the last point before contract award to raise the issue and Gateway review teams should probe more deeply in this area. Gateway documentation does not set expectations clearly enough in this area and the depth of focus on commercial matters is dependent on the skills and experience of the Gateway team deployed. Guidance should be strengthened in the next documentation refresh.

19. Pre-award issues raised by a Gateway team at Gate 3 (investment decision) are particularly difficult for a project team in the case of time critical projects such as this one. OGC is encouraging more flexibility in the timing of Gateway reviews so that, for example, a Gate 3 review can be carried out sufficiently early that corrective action can be taken before contract award without delaying a project.

20. Gate 4 occurs before the developed solution enters service. At this stage the supplier has been engaged for some time and capacity and capability issues should be evident. In this case performance issues were identified by the team but they appear to have reached the conclusion that these were teething issues and that the project was ready to move to the next phase.

21. A high risk review with a more experienced team and more time may have been less optimistic and proposed earlier corrective action.

Gateway vis-à-vis other assurance activities

22. It is clear that the Gateway process will not necessarily prevent an inadequate supplier getting through pre-qualification and being awarded a contract. Gateway is not a scrutiny process in which the decisions of the project team on supplier selection will be examined in detail against documentary evidence. Rather it is an assurance for the SRO that the processes the project team are using are appropriate, leading to an opinion from the review team as to the likelihood of successful delivery.

23. OGC guidance is clear that Departments should not rely exclusively on Gateway reviews for their project assurance regime.

OGC Gateway Reviews as part of the assurance framework
http://www.ogc.gov.uk/ogc_gateway_review_for_programmes___projects_ogc_gateway_reviews_as_ part_of_the_assurance_framework.asp Every public sector body will have its own structures and resources for carrying out internal reviews, healthchecks and audits of its activities, including programmes and projects. The OGC Gateway Process provides a snapshot view of progress, at a point in time and, therefore should be seen as complementary to these internal processes, and not a replacement for them. Organisations should have in place an effective framework to provide a suitable level of assurance for their portfolio of programmes and projects. This requires management to map their assurance needs and identify the potential sources for providing them. Public sector bodies are encouraged to ensure adequate and timely coordination and sharing of information, including plans, between the various internal review functions. In addition, SROs should be aware of the extent and limitation of the various review processes - for example the fact that an OGC Gateway Review had taken place does not replace the need for a full audit opinion on the effectiveness of risk management, control and governance in the audited area. Further, none of these review processes is a substitute for a rigorous governance framework in the organisation to management key processes including business planning, investment appraisal and business case management (including benefits management) programme and project portfolio management, risk management, procurement/acquisition and service and contract management.

OGC guidance on supplier selection

24. OGC has published guidance on supplier selection.
http://www.ogc.gov.uk/policy_and_standards_framework_general_-_supplier_selection.asp
http://www.ogc.gov.uk/documents/cp0082.pdf

25. The guidance refers to the need to “analyse the candidates’ former conduct, and financial standing and technical capability to deliver the requirements”. It also advises on requesting that suppliers provide information about their capability and capacity. However the guidance does not draw attention to the risk based nature of the exercise, which could be tackled by making appropriate use of independent sources of information on suppliers, and the need to make particular efforts in the case of new market entrants.

26. There is an opportunity to strengthen this guidance.

Eighteenth Report

Department for International Development (DFID)

Investing for Development: Department for International Development's oversight of CDC Group Plc

1. CDC Group Plc (CDC), formerly the Commonwealth Development Corporation, is the United Kingdom's Development Finance Institution. It is wholly owned by the Department for International Development (DFID – the Department), and is but one of many strategies that DFID uses to help combat poverty. CDC is self-financing, having received no Government funding since 1995.

2. CDC does not donate aid. Rather, its job is to generate wealth by providing capital for sustainable private sector businesses in emerging markets, particularly in poorer countries. It does this both by investing its own risk capital to fuel the expansion and growth of private sector businesses in emerging markets and by using its experience and track record to attract other investors to co-invest alongside it. By adopting a fully commercial approach to its investment operations, CDC aims to show that it is possible to invest in private sector businesses in emerging markets both profitably and responsibly, thereby encouraging additional private sector investment into poor countries.

3. Since being restructured in 2003, CDC has grown rapidly, more than doubling the value of its assets to £2.3 billion by end-2008. CDC invests largely in Africa and South Asia in sectors as diverse as retail, financial, agricultural and manufacturing. The Department does not get involved in individual CDC investment decisions but sets the overall policy and investment framework for CDC's operations. As a result, CDC invests over 70% of its resources in poor countries, a far higher proportion than for similar institutions in other donor nations. CDC now faces the new challenge of investing effectively during a global recession.

4. On the basis of a report from the Comptroller and Auditor General, the Committee examined how effectively DFID has exercised its oversight of CDC to maximise its development impact.

PAC Conclusion (1): CDC has performed well since it was restructured by DFID in 2004, outperforming the market while investing in poor countries. However, DFID has not been able to assess CDC's financial performance satisfactorily due to weak medium-term targets. The efficiency of CDC and its business model are questionable given that administrative costs have been rising as a proportion of portfolio value. DFID should set medium-term financial targets for CDC relative to relevant market indices, clarify its attitude to risk in investments, and define measures of efficiency which capture all the costs of the business model that CDC uses.

5. The Department agrees that CDC has performed well since 2004. The Department also agrees that more clarity is needed to distinguish between illustrative projections and firm medium-term targets against which to hold the CDC Board accountable. CDC will include such targets in the 2009-2013 Business Plan.

6. The Department does not agree that CDC's efficiency and business model are questionable. Though administrative costs including profit share attributable to fund managers have risen slightly as a proportion of portfolio value, the Department believes that profit-sharing arrangements for fund managers have been an important ingredient in achieving CDC's improved financial performance. Before the restructuring, CDC was loss-making. Since 2003 CDC has committed over £2.7 billion to funds investing in poor developing countries and has generated £2.5 billion of further investment by third parties. The value of CDC has increased from £1 billion in 2003 to £2.3 billion at end 2008. This represents an excellent turnaround and excellent value for money to UK taxpayers. When profit share is excluded, CDC administrative costs have decreased as a proportion of portfolio value, falling from 4.8% in 2002 to 3.6% in 2007. DFID accepts the need to monitor CDC's administrative costs closely, and will agree clear targets in this regard in CDC's Business Plan for 2009-2013.

7. CDC is currently preparing a new five year Business Plan which is expected to be finalised shortly. The Department will ensure that the plan includes clear medium-term financial targets, including a target financial rate of return by reference to regional market indices. The Department will also ensure that the plan clarifies CDC's approach to risk in its investments and includes measures of administrative efficiency to be monitored over the five year plan period.

PAC Conclusion (2): CDC accumulated £1.4 billion in cash by mid-2008 due to higher than expected profits and difficulty reinvesting the proceeds. The cash is now committed to future investments but outside ranges agreed in CDC's 2004 Business Plan. DFID was not fully involved in the strategic choices being made. DFID should routinely be consulted on the nature and scale of major CDC commitments and on their effect on cash balances.

8. The Department agrees with the Committees conclusion that cash balances were higher than expected. This was a direct consequence of CDC's superior performance in recent years which led to a greater than expected level of realisations, including the one-off impact of the sale of CDC's investment in Globeleq (a large power utility company) in 2007.

9. CDC cash of £1.4 billion is fully committed to new investments with Fund Managers. These investments are fully within the target ranges specified in the 2004 Investment Policy. These target ranges were defined as proportions:- at least 70% in countries with annual GNI per capita of less than U$1,750 and at least 50% in sub-Saharan Africa and South Asia. The present cash balance is forecast to be used rapidly over the next two years as Fund Managers draw down the cash as required. In the meantime, CDC cash is on deposit with the Government's Office of Debt Management.

10. The Department agrees that it should be consulted by CDC in advance on any major strategic options not covered in CDC's Business Plan, including in relation to their effect on CDC's cash balances. CDC's obligations in this regard are set out in the Memorandum of Understanding (MOU) with DFID signed in June 2009. The MOU forms part of the overall governance arrangements for CDC that DFID has strengthened so that they provide a strong framework within which CDC managers take day-to-day operational decisions under the supervision of the CDC Board. The Department will continue to monitor the levels of cash held by CDC to ensure that they are not excessive and will discuss corrective action with CDC if needed.

PAC Conclusion (3): Steep increases in remuneration for CDC executives since 2004 reflected CDC's exceptional financial performance, but CDC did not properly consult DFID as required under the agreed remuneration policy. DFID failed to ensure that the governance arrangements worked as intended. DFID and CDC must recognise that high levels of pay, however merited, must be subject to effective oversight, particularly if the organisation has not had significant problems in recruiting and retaining high calibre staff.

11. The Department agrees with the Committee conclusion. The Department has put in place a strengthened remuneration framework for CDC. This sets out clear responsibilities for CDC's Remuneration Committee, degrees of flexibility and ways in which the Department will provide increased oversight.

12. The Department has additionally strengthened the overall governance arrangements for CDC. A revised Chairman's Letter sets out roles and responsibilities more clearly and provides for both stronger risk management reporting and for higher level and more frequent formal discussions between the Department and CDC, including meetings with CDC management, CDC's non-Executive Directors and CDC's external auditors.

PAC Conclusion (4): The remuneration arrangements led to extraordinary levels of pay in a small publicly-owned organisation charged with fighting poverty, with the Chief Executive receiving £970,000 in 2007. Part of that pay reflects market-beating financial results, but it also reflects a dubious comparison with private sector 'fund of funds' businesses. Besides enjoying the security of working in a publicly owned body, CDC executives do not have to compete for money to invest. And the pay arrangements take too narrow a view of performance, with too much emphasis on financial performance and too little on poverty reduction.

13. The Department has noted the Committee's comments. More than three quarters of the CDC Chief Executives pay in 2007 was performance-related and, as the Committee has acknowledged, reflects market-beating performance by CDC.

14. The Department disagrees that the comparison with private sector Fund of Funds is dubious. The Department's independent advisers on remuneration, the Hay Group, have endorsed private equity Fund of Funds and the private equity market as the appropriate remuneration comparators for CDC. All payments to CDC executives, including the Chief Executive, were below median pay levels in the private equity fund of funds sector.

15. In November 2008 the Department put in place a revised Remuneration Framework for CDC. This sets pay levels which reflect CDC's recruitment and retention needs and also links CDC executive remuneration more tightly to the delivery of the Departments objectives. Good financial performance is a critical step in the impact chain from CDC investment to growth and poverty reduction. For comparison, 85% of the World Bank's IFC-supported projects in 2008 showed a direct correlation between project development results and IFC investment returns. Financial performance is therefore a good proxy for the likely impact that CDC investment will have on the Department's objective of poverty reduction.

PAC Conclusion (5): Compliance by businesses and fund managers with CDC's ethical business principles is not independently verified. Reporting on these principles represents a contractual obligation on fund managers, but CDC depends largely on their objectivity and honesty to assess and report compliance accurately. CDC staff earn bonuses if the assessment of compliance is favourable. DFID now accepts that it must work with CDC to strengthen the governance of business principles. It should ensure that assurance and assessment are independent of CDC and fund managers, and that the assessments cover the portfolio as a whole, with an agreed format for reports.

16. The Department agrees with the Committee conclusion that independent verification of compliance is desirable. It is the view of both the Department and of CDC that it is neither practical nor cost-effective to audit compliance with the Business Principles in 100% of CDC's investee companies, given that these now number in excess of six hundred. In 2009 CDC will commission an independent audit of compliance of a representative sample of CDC's overall portfolio of investments.

17. The new CDC Investment Code (Business Principles) approved in 2008 is in line with international best practice. The Code requires CDC Fund Managers to report to CDC on implementation of the Code and for CDC to report quarterly to the Department on any issues arising from the application of the Code. In addition, from 2009 CDC will provide the Department annually with an independent audit of its implementation processes in relation to the Investment Code.

PAC Conclusion (6): Since 2004, CDC has increased the proportion of its portfolio in countries such as China and India, which are already successful in attracting foreign investors. A key DFID objective for CDC has been to demonstrate the possibility of good returns in less well-known and developed markets. New CDC commitments in China will now be limited to small and medium-sized companies. DFID should ensure that CDC concentrates its resources in deprived areas and markets. And it needs to improve the way that CDC measures and reports its effectiveness in mobilising additional investment in such markets in order to help guide future CDC Investment Policy.

18. The Department agrees with the Committee conclusion. The new CDC Investment Policy announced in late 2008 and which took effect in January 2009 sets the framework for the next five years. The Investment Policy will focus CDC investment operations even more tightly on the poorer countries of sub-Saharan Africa and South Asia. Going forward, 50% of all new CDC investments by Funds to which it commits after 1 January 2009 must be in sub-Saharan Africa and 75% of new investments in Low Income Countries (those with annual gross national income per capita of less than US$905 in 2006). CDC's plans for implementing the new Investment Policy will be elaborated in the company's new five year Business Plan.

19. The Department agrees that greater attention needs to be given to assessing and measuring CDC's effectiveness in mobilising additional investments. The Department and CDC will work together to develop improved methods of measuring and reporting on this.

PAC Conclusion (7): DFID has encouraged CDC to look for ways in which it can invest more in low income countries, which may require CDC to increase its use of financing instruments other than equity. Instruments such as loan finance may imply different balances of risk, reward and administrative cost. DFID needs to make sure that CDC's financial targets, business model and incentives do not restrict such changes where they represent an appropriate response to the needs of poor countries. CDC's reporting should clearly distinguish results achieved from different types of business.

20. The Department agrees with the Committee conclusion. CDC's plans for introducing new financing instruments will be elaborated in the five-year Business Plan. Going forward, CDC reporting, including its new annual development impact report, will distinguish where feasible between the results achieved from different types of business.

PAC Conclusion (8): Although CDC invests more of its resources in poor countries than any other Development Finance Institution, there is limited evidence of CDC's effects on poverty reduction. CDC is working to collect improved information on the developmental effects of its investments, and DFID should require CDC to report the results systematically and in a way which fairly represents its portfolio. DFID should also commission an independent evaluation of CDC's impact, timed to inform the next five-yearly business review, and building on improved CDC fund evaluations.

21. The Department agrees with the Committee conclusion. The Department and CDC acknowledge that they need to do more to demonstrate the human development impact of CDC's investments, directly and indirectly. CDC has recently undertaken a major project to review and update its development impact policies, procedures and methodology, to ensure that they meet the needs of the business, are leading edge and reflect best practice in the market. CDC has strengthened its development impact recording methodology, which is informed by the International Finance Corporation's Development Outcome Tracking System.

22. In mid-2009 CDC will release, for the first time, an annual publication which will set out in detail the company's revised monitoring and evaluation methodology and set out the results of the development impact fund evaluations conducted in 2008. The value of this publication will increase each year as a time series of development impact data is built up.

23. The Department agrees that it should commission an independent evaluation of CDC's impact to inform the next five-yearly business review.

PAC Conclusion (9): By investing through private sector fund managers CDC has found it more challenging to collect and report non-financial information such as its contribution to reducing poverty. CDC and other investors look to moderate fund manager costs, and all parties have traditionally required that the performance and plans of the fund, and the companies in which it invests, remain confidential. These features have been built into the legal agreements surrounding the fund and its investments and changes to practice require commitments from both fund managers and any other investors. CDC will, however, have unusually high influence with fund managers in the downturn. As one of the few entities with money to invest, CDC should use that influence to promote greater transparency and openness.

24. The Department agrees with the Committee's conclusion. However, the Department and CDC must be careful to maintain a balance between the Government's commitment to openness and transparency on the one hand and the need to understand and respect commercial confidentiality on the other. Unless private investors believe that CDC will respect commercial confidentiality, they will not invest alongside CDC and CDC will fail to deliver its objective of mobilising private investment.

25. Nevertheless, the Department agrees that the current investment climate may present opportunities to advance openness and transparency. Some progress has already been made: CDC's July 2009 development impact report includes overall results of funds and companies evaluated in 2008. The Department will continue to work with CDC to influence fund managers through which CDC places its capital to provide further information on plans and performance.

Nineteenth Report

Department of Health (DH)

End of Life Care

1. In England approximately half a million people die each year. Around three quarters of deaths follow a period of chronic illness, such as cancer or heart disease, where people may need access to end of life care. End of life care services seek to support those with advanced, progressive, incurable illness to live as well as possible until they die.

2. The provision of end of life care is becoming increasingly complex, with people living longer and the incidence of frailty and multiple conditions in older people rising. People approaching the end of their life often require a complex mix of health and social care services provided in hospitals, care homes, hospices and their own home. End of life care is delivered by many people, including families and friends, specialist palliative care staff, and generalist staff such as doctors, nurses, and social workers, for whom end of life care represents a varying proportion of their role.

3. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department of Health and the NHS on the scale and quality of end of life care; the current and future approach to commissioning and funding of services; and the capability and capacity of NHS and social care staff to provide such care.

PAC conclusion (1): Most people express a preference to die at home but 60% die in an acute hospital, even where there is no clinical need for them to be there. People should have the right to die in the place of their choice. The End of Life Care Programme team should work with Primary Care Trusts and Strategic Health Authorities to develop the means to share information on patient preferences. In line with the Department's strategy, Trusts should agree plans with their Strategic Health Authorities for increasing the availability of community services, such as 24 hour district nursing, and access to advice and medication out of hours to help reduce the number of unnecessary hospital admissions. People in care homes should have equal access to these services.

4. The Department agrees that people should have their wishes respected about where they wish to be cared for, and die, as long as this is clinically appropriate. The implementation of the *End of Life Care Strategy* will ensure that services are put in place to support this choice, and in particular enable people who wish to, to die at home or in their care home.

5. The Department agrees about the importance of sharing information on patient preferences between organisations. The Department and the National End of Life Care Programme team have now begun a programme of work to pilot locality end of life care registers, which will explore how information on care for people at the end of life, including choices about where they would like to be cared for and die, can effectively be shared across agencies. Pilot sites will be selected in the summer 2009.

6. The Department agrees with the Committee on the need for improved availability of community services to support care delivery for people at home and in care homes. Primary Care Trusts have now developed their strategic plans for the next five years, which will support the realisation of the Strategic Health Authorities' (SHA) local visions for the eight pathways of care, including end of life care, identified in the NHS Next Stage Review. 69 Primary Care Trusts (PCT) have chosen end of life care as one of their top priorities, and it is also one of the top 10 priorities overall. Progress measured against the number of deaths that are supported to take place at home.

7. The development of Quality Markers for end of life care will also support improved community provision. The *Quality Markers and measures for end of life care* were published on 30 June 2009, and set out for commissioners key areas for commissioning based on the care pathway in the *End of Life Care Strategy*, including 24 hour community service provision for people at home or in a care home.

PAC conclusion (2): People who die in hospital are not always afforded the end of life care they deserve, including effective pain management and being treated with dignity and respect. Because someone is approaching the end of life it should not mean we abandon concern for their quality of life; end of life care should seek to sustain peoples' quality of life as a priority. Primary Care Trusts should seek assurance from the hospitals they commission services from that their staff have received sufficient education and training in end of life care. NHS hospitals that care for people who are approaching the end of their life, should employ a specialist palliative care team and promote the use of the Liverpool Care Pathway across relevant hospital wards.

8. The Department agrees that hospital care for people at the end of life is not always as good as it should be, and completely agrees that the quality of care should be optimised right up to death.

9. The Department agrees that PCTs should seek assurance from hospitals through the commissioning process that staff have sufficient education and training in end of life care. The Quality Markers flag the importance of monitoring workforce development through the commissioning process. This will build on the workforce initiatives supporting the implementation of the Strategy. Core competences for end of life care have been commissioned from Skills for Health and Skills for Care, and the first phase of the work was launched in June 2009.

10. Communications skills training pilots have been established, and will report by December 2010, and a package of e-learning material is also being developed by e-Learning for Healthcare, which will be available from the beginning of 2010, and will be free at the point of access for appropriate health and social care staff.

11. The Department agrees that hospitals should employ specialist palliative care teams, and that the Liverpool Care Pathway (LCP), or equivalent, should be used in relevant wards to support the provision of quality care. The National Institute for Health and Clinical Excellence (NICE) guidance on supportive and palliative care[6] sets out the need for a specialist palliative care team to be in place in all settings where people require care at the end of life. The Cancer Action Team is monitoring the

[6] National Institute for Clinical Excellence, Guidance on Cancer Services, Improving Supportive and Palliative Care for Adults with Cancer, The Manual, 2004

implementation of this guidance. Currently, all areas report that a specialist palliative care team is place, though work is still underway to ensure that these teams are fully staffed and able to provide the full range of support required.

PAC conclusion (3): Lack of co-ordination between health and social care services mean that peoples' preferences for care are not always communicated effectively. People nearing the end of their life should be allocated a single health or social care professional contact to improve the co-ordination of care between services and providers. Primary Care Trusts should require providers to develop care plans for all those who wish to have one. The Department's planned survey of bereaved relatives should also include consideration of how a patient's care is co-ordinated across settings and between providers.

12. The Department agrees that lack of co-ordination between service providers can mean that care is not delivered effectively, but does not accept that people at the end of life should necessarily be allocated a single health or social care professional as a single point of contact. This would not always make effective use of the professional's time and expertise. Marie Curie Cancer Care's Delivering Choice Programme has explored another option via the development of a co-ordination centre, which had positive outcomes. This model involved non-clinical staff taking responsibility for coordinating packages of care, and acting as a point of contact for patients and carers.

13. The Department is exploring mechanisms to improve co-ordination through the piloting of end of life care registers, which would enable effective capture of information about patient preferences and care, and ensure that this was available to all organisations. The Department and the National End of Life Care Programme team will be selecting pilot sites in summer 2009.

14 The Department agrees that all people approaching the end of life, and their carers, should be entitled to a care plan, which is regularly reviewed. The final report of the NHS Next Stage Review, *High Quality Care For All*[7], re-affirms the Department's commitment that over the next two years, every one of the 15 million people with one or more long-term conditions should be offered a personalised care plan. Carers are already entitled to a carer's assessment from social services.

15. As part of the implementation of the *End of Life Care Strategy*, the Department is developing training in assessment, communication skills, advance care planning and symptom management. This will help staff feel more confident to have sensitive conversations about death and dying with patients and carers, and enable them to elicit care preferences and to plan care. A comprehensive package of e-learning training material will be available for health and social care staff from the beginning of 2010, and pilots for training in communications skills will report in December 2010. The National End of Life Care Programme also published an information guide for patients in April 2009 to help with planning future care.

16. The Department agrees with the Committee that the planned survey of bereaved relatives should include consideration of how well care is co-ordinated. It is intended that the survey will cover the whole care pathway identified in the Department's *End of Life Care Strategy*. A tendering process has been undertaken for a pilot project to inform the implementation of the national survey. The contract is expected to be awarded in July 2009.

[7] http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_085825

PAC conclusion (4): There is a lack of education and training in basic end of life care. Improving the skills of health and social care staff should be a priority. In particular, the Department should work with the relevant professional bodies to put in place appropriate training. Primary Care Trusts and local authorities should commission hospices and voluntary groups to provide education for community and care home staff by, for example, building on the work already being undertaken by Marie Curie and St Christopher's Hospice. The new Care Quality Commission should provide assurance about the skills level of staff in health and social care organisations, as part of the new registration, inspection and monitoring regime.

17. The Department accepts that many health and social care staff need improved training in end of life care. Competence frameworks and a suite of e-learning modules based on communications skills, assessment, advance care planning and symptom management, are being developed with a range of health and social care organisations. This work will be accessible to all levels of health and social care staff from 2010, and the e-learning will be free at the point of access. As part of the funding to support the *End of Life Care Strategy*, the Department has made funding available to SHAs to support training plans, and the Quality Markers for end of life care will reflect the need for organisations to ensure that workers have access to appropriate training.

18. The Department agrees that the hospice and voluntary sector can make a huge contribution to the training of the health and social care workforce. The National End of Life Care Programme is disseminating examples of effective joint working, like that of St Christopher's, ensuring that PCTs, Local Authorities, and SHAs, who are responsible for the commissioning of local services and workforce development, are able to build on this existing effective practice. However, it is up to PCTs to determine how they commission services to meet their local needs.

19. The Department agrees that the Care Quality Commission (CQC) has an important role to play in assuring that the workers have the appropriate skills. In Response to consultation on the framework for the registration of health and adult social care providers and consultation on draft Regulations[8], published in March 2009, the Department set out what organisations will need to do to register and remain registered with the Commission under the new framework to be introduced from April 2010.

20. It set out 16 registration requirements, which include checking the fitness of workers, ensuring they have the qualifications, skills and experience to fulfill their work, and supporting all workers through training, development, supervision and appraisal, regardless of the basis for their employment. The CQC is currently consulting on, and developing guidance about, compliance with the registration requirements[9].

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[8] http://www.dh.gov.uk/en/Consultations/Closedconsultations/DH_096991

[9] http://www.cqc.org.uk/getinvolved/consultations/consultationonnewregistrationstandards.cfm

PAC conclusion (5): Primary Care Trusts have limited understanding of the local demand for and the cost-effectiveness of their commissioning of end of life care services. Trusts should use the commissioning guidance provided by the End of Life Care Programme and benchmarking information provided by the National Audit Office, to assist them in allocating resources more effectively. Trusts should also consider whether work similar to that done in Sheffield for the National Audit Office would improve their understanding of demand and supply and accordingly their commissioning of end of life care services.

21. The Department accepts that there is a limited understanding amongst commissioners about the cost of, and demand for, end of life care services, and agrees that they should make use of guidance and information provided by the National End of Life Care Programme, the National Audit Office, and the work produced by the Department to support the *End of Life Care Strategy*.

22. Further support for PCTs will be provided through the End of Life Care Strategy implementation work. The Quality Markers and measures for end of life care are intended to support commissioners of services. The Department is also developing currencies for end of life care community services as part of the Transforming Community Services (TCS) programme. Due to be completed by spring 2010, these will support commissioning decisions based around the care pathway set out in the *End of Life Care Strategy*.

23. Also as part of the TCS programme, six transformational best practice reference guides for community services have been developed, one of which is on end of life care[10]. Published in June 2009, this guidance based on clinical evidence should be used by clinical leaders and community managers and highlights top impact changes which if implemented could achieve high quality efficient, effective and productive community services. Commissioners may also find this a useful reference guide when developing strategic commissioning plans.

24. The Department will be working with key stakeholders to develop an End of Life Care Intelligence Network, which will support the commissioning and provision of services through the development of improved information on end of life care. The National End of Life Care Programme and the NICE will also be working in partnership to produce a guide for commissioners to support them in commissioning elements of end of life care based on the best available evidence.

25. The Department recognises the value of the work done in Sheffield for the National Audit Office, and agrees that PCTs, and other local organisations, may find it useful to undertake similar work to gain a better understanding of local service activity. However, this is an issue for local determination.

PAC conclusion (6): There is a risk that the additional £286 million committed to improving end of life care will not be used as intended. The Department should require Primary Care Trusts to account for how the additional funding is spent. Such information should be used to provide feedback to Trusts to allow them to benchmark their performance in improving service quality.

[10] http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_101425

26. The Department acknowledges that there is a slight risk that some of the additional funding may not go towards end of life care. This is a natural consequence of the Department's move away from central control through ring-fenced funding, enabling resources to be allocated locally to best meet national requirements and local priorities, delivering on the outcomes set out in the Operating Framework.

27. However, in the case of end of life care, the Department agrees with the Committee that PCTs should account for their spending, and information be provided to them to support benchmarking. Due to the lack of priority accorded to end of life care in the past, the Department made the commitment in the *End of Life Care Strategy* to monitor the additional funding. PCTs will record their additional spend on end of life care in their financial plans and their year end financial monitoring returns that are submitted to the Department. The Department will make this information available to SHAs through the End of Life Care Clinical and Management Leads for comparative benchmarking.

PAC conclusion (7): There has been limited formal evaluation of the patient benefits associated with approaches intended to improve end of life care such as the Gold Standards Framework. The Department should commission clinical evaluations to determine whether use of such approaches results directly in higher quality care. The planned survey of bereaved relatives may be appropriate in the evaluation of the Liverpool Care Pathway and aspects of the Gold Standards Framework and Preferred Priorities for Care. Other approaches need to be developed to evaluate the experience of the increasing number of elderly people who live alone.

28. The Department partially agrees with the Committee that there have been limited formal evaluations of patient benefits associated with specific approaches for improving end of life care, such as the LCP, the Gold Standards Framework (GSF) and the Preferred Priorities for Care (PPC). This is a reflection of the general difficulty in palliative and end of life care research in engaging with people at such a difficult time in their lives, and the impossibility of doing so after death. This has led to more informal evaluations, with a principal focus on the perceived benefits by members of staff. However, the Department does not accept that it should itself commission clinical evaluations of these tools. There is recognition in the clinical community and academia that more needs to be done in this area, and more formal evaluations are in train to build upon the existing evidence base.

29. There is an international research programme in place for the LCP, which includes utilising the views of bereaved relatives as a means of assessing care. This is already providing data on the benefits to patients. Likewise, a research study is underway on the use of the PPC, which is being run across the NHS North West SHA by the International Observatory for End of Life Care at Lancaster University. This is building on several smaller studies, and will evaluate the impact on patients, staff and carers.

30. The National GSF Centre has a long-standing evaluation and research programme based at the university of Birmingham[11]. Improving patient outcomes is key to the evaluation of the GSF, including issues such as dying in preferred place of care.[12] Some GSF evaluation studies involve interviewing patients and their carers,

[11] This evidence is freely available and summarised on the GSF website: http://www.goldstandardsframework.nhs.uk/evaluation_and_research.php

[12] Currently the DH is part funding the National Primary Care Audit in End of Life Care involving care of over 4000 patients, and a tenth of GP practices in England

which confirmed very positive perceived benefits. There are areas that require further research, and plans exist to address this, including proposed studies seeking views of bereaved carers.

31. The Department agrees that the work to develop a national survey of bereaved relatives, which was announced in the *End of Life Care Strategy*, is likely to support future evaluations of end of life care services.

32. The Department does not accept that new approaches need to be developed to assess the care for the increasing number of older people who live alone. The existing approaches are applicable to all people at the end of life, and the work that is now beginning to be taken forward on evaluating patient benefits will address the care that these elderly people receive.

PAC conclusion (8): Some 70% of independent hospices have only one year contracts with the NHS and for 97% the funding they receive does not cover fully the costs of the NHS services they provide. Primary Care Trusts should put in place three-year rolling contracts to enable hospices to better plan their use of resources and develop their services. These contracts should cover the costs of the NHS services provided, including relevant overheads. Hospices should be commissioned to provide wider support, for example, training of care home staff and the provision of outreach services to improve the quality of care for more people in the last year of life.

33. The Department accepts that independent hospices need longer-term contracts for the NHS services that they provide. The Department's *End of Life Care Strategy* made it clear that PCTs should be working towards this, as set out in the *Compact on Relations between Government and the Voluntary and Community Sector in England* [13]. The new NHS standard contract for community services also sets out the Department's expectation that three-year contracts should be the norm, regardless of sector.

34. The Department also accepts that contracts should include all relevant overheads, and has made this clear in the *End of Life Care Strategy*, the NHS standard contract, and in key guidance documents for commissioners, to ensure that all costs for the contracted service are met by the NHS. Procurement guidance states that PCTs are required to adopt procurement practices that are fair and open. This means that they must be neutral between different types of providers, and transparent on pricing.

35. The Department expects that there is an ongoing role for grants as well as contracts as a potential funding route, which is set out in guidance to PCTs. The appropriate funding route for third sector organisations should reflect the nature of the activities and the funding relationship. To aid PCTs in making this decision we have signposted them to the National Audit Office (NAO) decision support tool.

36. The Department partially agrees with the Committee that hospices should be commissioned to provide wider support. Hospices make a huge contribution to end of life care service provision, and are already working in many areas to provide training for care home staff and others, and to provide outreach services. The Department has made clear that it expects hospices to be in a strong position to bid for some of

[13] http://www.thecompact.org.uk/information/100023/publications/

the additional funding made available to PCTs to support the implementation of the End of Life Care Strategy, particularly in relation to outreach services and training. However, it is up to Primary Care Trusts to determine how they commission services to meet their local needs.

PAC conclusion (9): More people could be supported to die in their homes or in a care home if there was a more responsive system for providing the equipment and support services needed. The Department should review how requests for equipment and other assistance that support people to remain in their homes are handled, and identify ways of improving the speed and flexibility of the provision of such services. Primary Care Trusts should check that residents in care homes are provided with the same access to GPs and other health professionals as they would have if they were living in their own homes.

37. The Department agrees that prompt provision of equipment and support is important to the provision of good care for people at the end of life, but does not accept that it should undertake a central review of how this is handled. There has already been a general review on access to equipment, the Transforming Equipment and Wheelchair Services Programme, which was launched in 2006. This has led to the design of a new model for community equipment delivery, and this is now being tested in the North West, with plans to roll this out to a further ten areas by autumn 2009.

38. There may be specific issues that need to addressed as a result of local demands and service configurations in relation to end of life care, for which a Departmental top down approach would not be appropriate. To support local service development, the National End of Life Care Programme will identify, and disseminate, existing examples of innovative practice where approaches have been develop to resolve these issues.

39. The Department agrees that people in care homes should have access to the same health services as people living in their own homes, and that PCTs should ensure that this issue of access is addressed when commissioning local services. The Quality Markers for end of life care highlight the importance of access to medical services 24/7 for people at home and in care homes, and also cover the availability of drugs and equipment.

Twentieth Report

Ministry of Defence (MOD)

Ministry of Defence: Major Projects Report 2008

1. The Major Projects Report 2008 provides information on the time, cost and performance of twenty of the Ministry of Defence's (the Department) largest military equipment projects where the main investment decision has been taken, as well as the top ten projects in the earlier Assessment Phase.

2. In the last year, the twenty biggest projects suffered a further £205 million of cost increases, and 96 months additional slippage. This is the worst in-year slippage since 2003. The total forecast costs for these projects have now risen to nearly £28 billion, some 12% over budget. Total slippage stands at over 40 years, a 36% increase on approved timescales. The number of Key User Requirements reported as being "at risk" of not being met has also increase from 12 to 16 in the last year.

3. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department on the impact of slippage and cost increases, on managing projects more effectively at the early stages, and on delivering projects successfully throughout their life.

PAC Conclusion (1): Nine projects have been further delayed in 2007–08. Delays to projects have caused gaps in front-line capability, or increased the risk that gaps may arise in future. In the case of the Terrier armoured engineering vehicle, these gaps have been filled by the purchase of interim equipment but in others, such as the Nimrod MRA4 aircraft, existing equipment has been kept in service longer than originally intended. In order to better understand and adjust for the impact of delays, the Department needs to measure the full costs of delays to projects, including the costs of maintaining existing equipment in service for longer.

4. As the report acknowledges the Department has addressed any potential gaps in capability through interim purchases and running on existing equipment. The Major Projects Report already provides information about the additional costs of running on existing equipment where projects are delayed.

PAC Conclusion (2): The Department has recently announced delays to projects which have not yet reached their main investment decision point. These projects include elements of both the Future Rapid Effect System and the Military Afloat Reach and Sustainability fleet auxiliary programme. Delaying projects to generate short-term savings can create future capability gaps and raise overall project costs. The Department should identify the financial and capability impacts of slipping projects, even if they have yet to pass their main investment decision point.

5. The Department accepts this conclusion. Decisions to defer projects are sometimes necessary to deliver an affordable programme and enable necessary enhancements to be funded, although such deferrals are generally undesirable for the reasons given by the Committee. When such measures are considered in the planning round process, each measure has an associated assessment of the impact in terms of both capability delivery and through life cost.

PAC Conclusion (3): On far too many projects the Department is over-optimistic and sets unachievable cost, time and performance objectives. In future, when making the main investment decision on projects, the Department should develop quantified measures against which to assess how well it has:

- **understood the capability required and avoided over-specification;**
- **assessed whether the technology can be delivered by industry within the agreed cost and time envelopes;**
- **worked with industry to determine whether they have the right technical and project management skills to deliver the requirement;**
- **identified any key interdependencies with other equipments and developed a strategy in case these impact on the project, and**
- **assessed whether there is sufficient funding available to deliver the project.**

6. The Department accepts this recommendation and through recent acquisition reform has been working to counter the tendency towards over-optimism that the Committee observed we will continue to do so, including through the rigorous use of 'shared cost' and other benchmarking techniques. In the MPR 2008 report, the NAO noted that progress had been made, although performance remained variable, partly reflecting the complexity of defence acquisition and rapidly changing operational requirements.

PAC Conclusion (4): Recent fixed-price contracts with industry, for example, on the Terrier and Soothsayer projects, have ensured cost overruns are borne by industry, yet the Department's influence over these projects has correspondingly been reduced, eroding its ability to tackle project delays. The Department should assess whether the risks to delivery inherent in the type of commercial arrangements it agrees with industry at the start of projects are appropriate. Further, before contracts are placed, it should routinely develop a joint strategy with industry for addressing these risks if they materialise, including, for example, if a gap in capability is created if the project is delayed.

7. The Department accepts this conclusion and seeks to put in place appropriate commercial arrangements consistent with the levels of risk associated with a project. Recognising the scope for improvement in this area, since late 2007 the commercial arrangements proposed for all major (Category A and B) projects have been subjected to additional formal assessment by independent experts as part of the commercial scrutiny process put in place by the Defence Commercial Director who has been a formal member of the Department's Investment Approvals Board since 2006. This tests, to the material level, the procurement and contract strategy, fallback options, market analysis, key terms and conditions, incentivisation, payment mechanisms, the risk assessment and appropriate risk distribution.

8. Furthermore, the appropriate treatment of risk will vary from case to case – in some instances there may be more that could be done about jointly managing the risk to any potential gap in capability arising from delay, but this will be subject to appropriate cost-benefit analysis and the most appropriate management approach would be selected on that basis. The Department already requires a risk management strategy and risk management plan for all projects and that project teams and their contractors should, when appropriate, operate a common risk management process that utilises common risk information.

9. The management of risk of delays to major projects, especially with the potential to create gaps in capability, would be explicitly covered in the Main Gate Business Case. Finally, it should be noted that the application of fixed pricing in contracts does not directly mean a loss of influence by the customer as the effective application of management control, incentives and break points at key decision stages is still possible.

PAC Conclusion (5): Although recent progress has been made in licensing project managers, the Department admits that it needs to achieve more consistent skill levels across its procurement staff. The Department should introduce a more consistent approach across its own project management discipline, including further development of staff skills and the use of standardised project management systems.

10. The Department accepts the conclusion, recognises the need to achieve more consistent skill levels across its procurement staff, and has established a Programme and Project Management Centre of Excellence to develop a consistent approach to standards and skills.

11. Project Managers are being developed to standards set by the Association for Project Management, the leading professional body in the UK. This enables key Project Management posts to be filled by those with nationally recognised qualifications, leading to a more professional and consistent approach to Project Management.

12. The Department now has more than 600 qualified staff with Project Management Licenses at levels 1 and 2. A more advanced, level 3 License is being piloted. Standardised Project Management systems and skills are being developed with the defence industry.

PAC Conclusion (6): Because many defence projects are very complicated and involve 'cutting-edge' technologies and complex commercial arrangements, the Department and industry must work together to solve problems that are likely to occur. Specific actions to encourage both parties to develop a common understanding of the challenges include sharing joint risk analyses and developing more common project and technical management training.

13. The Department accepts that close working with industry is a key factor in successful project delivery. This forms a core element of our strategy to further improve Programme and Project Management across the Department.

14. The Department is working with the National Defence Industries Council to encourage the use of common Standards, the consistency of application and the professionalism of staff. The implementation of Through Life Capability Management has been the focus for this work, involving the adoption of Office of Government Commerce best practice at Managing Successful Programmes. National Defence Industries Council experience has been used to review the Through Life Capability Management design, helping to ensure that Industrial implications, such as technology readiness, risk and capacity, are considered in the Capability Planning Stages and Programme Board activities.

15. A Project Management Peer Group has been formed jointly between MoD and 14 leading Defence contractors to develop common practices and skills. Their Campaign Plan includes improvement to joint Risk Management and Project Controls. Many Projects already operate joint risk registers with their industrial partners. This approach is being re-enforced, with Assurance arrangements in place to confirm a common and comprehensive understanding of the risks and how they will be managed.

PAC Conclusion (7): The Department is moving towards more incremental procurement strategies on some projects, with work broken into 'bite-sized chunks'. If well applied in appropriate circumstances, this approach is sensible, but the existing two-stage approval process does not fit well with incremental projects or provide a sound basis for accountability to Parliament. The Department should:

- **review whether the two-stage approach introduced under Smart Acquisition remains the most appropriate mechanism for delivering all defence projects and**
- **ensure that publicly reported performance, measured from the decision points for each increment, meet the same rigorous accountability criteria as required for the current key decision point at Main Gate.**

16. The Department accepts this recommendation. The two-stage approval process does not prescribe or constrain the acquisition strategy. As the report acknowledges the Department is already taking a more incremental approach to acquisition, and the Major Projects Report is evolving to address this. The Departments acquisition system aims to meet the needs of the front line and provide value for money by being more agile and better able to deliver capability through life.

17. The Department's wide agenda for change continues to build on the reforms introduced under Smart Acquisition; and looks to exploit innovation, open systems architecture and technology in evolutionary and incremental acquisition approaches, alongside traditional approaches where these are most appropriate, to deliver the capability the Department requires and support sustained improvement in performance.

18. The independent review of acquisition, being undertaken by Bernard Gray and due to report in summer 2009, may also take a view on this approach. The Department needs to be careful about establishing rigorous boundaries before Main Gate because of the uncertainty and risk prior to that point.

PAC Conclusion (8): The Department is faced with some risks such as fluctuating exchange rates, which are hard to manage. The Department should take a portfolio view across its projects to make sure it is not committing to too many where it faces risks of similar magnitude, and where it has only limited ability to influence successful delivery.

19. The Department accepts this recommendation. On exchange rates, the Department already has in place a buy-forward programme for US$ and Euro which provides certainty for a large proportion of our foreign exchange requirement. This risk is managed centrally and ensures that individual programmes do not bear the brunt of exchange rate fluctuations and that broader affordability judgements are made in the context of the wider Defence programme as part of the planning round process.

20. On portfolio management, the Department's Through Life Capability Management and Programme Board approach is designed to manage a portfolio of capabilities and provides an opportunity to trade within the portfolio to balance priorities to achieve the optimum capability within the available resource envelope. Balancing priorities across portfolios will continue to remain planning round business.

Twenty First Report

Department for Transport (DFT)

Letting Rail Franchises 2005-2007

1. In 2005, the Department for Transport (the Department) took over responsibility for passenger rail franchising from the Strategic Rail Authority. By the time of the hearing the Department had re-let eight franchises, half of the 16 franchises currently in operation across the country. All eight franchises were re-let within the planned timescales after a good level of competition. The Department changed the train operator on six out of the eight franchises.

2. The Department specifies the minimum levels and quality of passenger services and agrees annual levels of subsidy or premium, which it will pay to, or receive from, each train operator for franchise terms of typically 7–10 years. The Department invites views on the service specifications from relevant local bodies. These local bodies may elect to pay for options that need additional subsidy.

3. Increasing demand, high existing utilisation of the network and a shortage of rolling stock meant it was not possible for the Department to incorporate sufficient additional capacity to deal with crowding when re-letting the franchises. It has since announced plans to add a total of 1,300 additional rail carriages to operator fleets across all 16 franchises. This will stabilise the crowding that many rail passengers currently experience. Train operators have made commitments to improve service quality, but may be able to withdraw passenger benefits that had not been included in franchise agreements.

4. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department on its performance since taking over from the Strategic Rail Authority (SRA), the service to rail passengers, and how the taxpayers' interests are protected.

PAC Conclusion (1): Since taking over from the Strategic Rail Authority, the Department has shown itself capable of letting rail franchises to the planned timescales and protecting the taxpayers' interests. The Department has procured passenger rail services that live within the public funding available and improve railway performance, although passenger satisfaction continues to pose problems. The Department cannot be complacent and should provide regular analysis and assurance to demonstrate that rail-franchising developments are consistent with the Government's wider objectives.

5. The Department accepts this conclusion and welcomes the Committee's finding that the Department has delivered to planned timescales and protected taxpayer interests while improving rail performance. The Department is committed to working with train operators and Network Rail to improve passenger satisfaction and to reduce the number of passengers who have poor experiences on rail journeys.

6. In the most recent wave of the independent National Passenger Survey, the percentage of rail passengers satisfied with their journey overall had increased to 83%, which is the highest percentage of satisfied passengers recorded by the survey since it began in 1999. This is welcome progress, but the Department is aware that almost every aspect of the way rail delivers for passengers is, quite rightly, subject to increasing levels of expectation.

7. The Department's key objective is transport that works for everyone. This means a transport system that balances the needs of the economy, the environment and society. Passenger strategy for rail is based on the views of passengers themselves, and was set out in the Department's 2007 white paper *Delivering a Sustainable Railway*. Reliability and capacity are amongst the top passenger priorities, and affect their view of value for money, which also encompasses ease of understanding the fare structure as well as price information and ease of ticket purchase. The Department asked Passenger Focus to undertake a fares and ticketing study to identify the cause of passenger concerns about value for money. The results, published in February 2009, made recommendations to address these issues which are being considered with the rail industry.

PAC Conclusion (2): The Department does not consider damaging side effects for passengers from its rail franchising approach. The department sets requirements for service frequency and punctuality but does not, for example, measure the impact of rising car parking charges, complex fares and crowding on travelers, including on vulnerable members of society.

8. The Department partially accepts this conclusion. The Department supports the Committee's view that the understanding and measurement of impacts of the rail system on travellers, including vulnerable passengers, is important. Improved information and analysis is vital to improving decision-making. However the impact of the rail franchising approach on passengers has been considered in a detailed and systematic way during the specification of recent franchises, including the impact of fares and crowding.

9. As a result, the majority of recent franchises have included additional capacity for passengers, and significant further increases are currently being negotiated with operators, simpler fare structures have been introduced and the key policy of fares regulation has been included in all franchises, while its implementation has been improved. Fares are regulated in order to protect passengers where the market might otherwise not deliver a fair price. Around 60% of rail journeys are made on a regulated fare.

10. There is a considerable amount of research carried out on the people that use rail, including vulnerable users. The National Passenger Survey[14] (carried out by Passenger Focus) shows that, although the majority of rail users are from higher income groups, passengers from lower-income households are generally more likely to be "very satisfied" with their overall journey and the value for money of their ticket. Passenger Focus also undertakes "Mystery Shopper" research. The Department uses such research to understand travel choices and barriers to rail use, and will update its information in these areas with a major rail survey due to be published in September 2009.[15]

11. In the run-up to letting the most recent franchise, South Central, detailed passenger surveys were carried out to identify priorities for the new services. Crowding in London and the South East is measured in the rail statistics published by the Office

[14] National Passenger Survey, http://www.passengerfocus.org.uk/research/nps/content.asp

[15] Rail omnibus survey, Department for Transport www.dft.gov.uk

of the Rail Regulator[16] and also assessed nationally through the National Passenger Survey [17]. The Department carries out its own modelling to assess possible changes in passenger demand for rail, and to consider the impact of planned projects. This work underpinned the development of the Department's strategy to invest over £10 billion on increasing rail capacity between 2009 and 2014, including the provision of 1,300 additional rail carriages.

12. The Department notes the Committees' concerns about car park fees. Since privatisation, car park charges have been set at the commercial discretion of the train operator and are not managed by the Department. This is a complex area, as car park charges help to fund investment in new car parks, for instance the provision of at least 1000 new car-park spaces in the recently let South Central franchise. With lower charges, it is very likely that fewer new spaces could be funded.

13. While some commentators and passengers have argued that franchise agreements should directly constrain car-park fees, the Department also comes under political criticism for "micromanagement" of train operators, and is criticised for limiting the commercial incentives of train operators to invest. The Department will re-consider these issues in the light of the Committee's comments in the run up to the next planned franchise replacement in 2011.

PAC Conclusion (3): Although the Department consults widely, regional transport bodies are not involved in selecting the bidder who will operate services in their area. The Government plans an increased emphasis on a local approach to transport decisions, with Integrated Transport Authorities providing oversight to a number of Passenger Transport Executives in the regions. The Department should invite local and regional bodies to second suitably qualified staff to join the Department's bid evaluation teams so that details of the services, as bid, are checked against local needs.

14. The Department agrees with the Committee's view that there are circumstances where local input to bid assessment would help improve the quality of decision-making, and accepts the Committee's solution in part. However, the Department does not consider that this will generally require a secondment of staff, as the specific topics where local expertise would affect bid assessment are often relatively limited.

15. In future franchise competitions, the Department will consider carefully whether the evaluation of specific bidder proposals would benefit from local expertise and knowledge. If such proposals are identified, the Department will seek advice from appropriate local transport authorities during bid assessment, where the body can provide staff with appropriate skills and knowledge and agree to be bound by commercial confidentiality. This approach to seeking advice has worked well during the award of the South Central franchise. However, in practice there have been only a small number of proposals where the bid team has had to seek local advice in order to ensure accurate and comprehensive assessment.

16. The Department does not intend to invite authorities to form a view on bids as a whole, and will not request views on those parts of bids where local knowledge or expertise is unlikely to improve the Department's assessment. The Department takes the view that it is more likely to seek such expert input from the passenger transport authorities in the major metropolitan areas, though advice from other local transport authorities may add insight or knowledge in some exceptional cases.

[16] National Rail Trends http://www.rail-reg.gov.uk/upload/pdf/rolling-c2-railperf-q3.pdf table 2.4

[17] ibid.

17. The Department is anxious that this undertaking to request advice where appropriate during bid assessment, as we have in recent competitions, should not divert local transport authorities from their important role in the franchise specification process. This is the stage when local authorities should provide robust views on all aspects of rail provision, and should set out their aspirations for service and quality clearly and in full.

PAC Conclusion (4): The present economic crisis may well put additional pressure on the commercial skills of the Department's staff. The Department's franchise management and monitoring will only be effective if there are enough staff in post with the necessary skills to interpret and question financial and commercial information. The Department should be flexible in its recruitment, remuneration and use of staff with commercial experience. Pressure to reduce administrative budgets should not undermine its ability to negotiate effectively with train operators.

18. The Department agrees with the Committee's conclusions on staffing. Commercial and financial expertise is important to the continued effectives of the Department's procurement and management of rail franchises.

19. The Cabinet Office's Professional Skills for Government (PSG) programme is about ensuring that all civil servants have the right blend of professional and business skills to deliver public services, and have access to development opportunities that support career progression. As part of this initiative, a set of minimum skills common to all types of procurement role for each of the grades covered by PSG have been identified and are presented in a professional expertise framework for procurement practitioners and procurement leaders. In determining these standards, procurement is defined as the whole-life cycle process of acquisition of goods, services and works from third parties, beginning when a potential requirement is identified and ending with the conclusion of a service contract or ultimate disposal of an asset.

20. The Department has already made a significant investment in professional development support to its staff on commercial and procurement matters. The Department has reacted to the recruitment issues it has identified by holding a high profile national media campaign for franchise and contract managers. This campaign included national, trade press advertisements, open days and an online micro recruitment site. The recruitment consultants also undertook an executive search in a broad range of regulated industries. The campaign generated considerable interest, which resulted in four-franchise manager and two contract manager appointments. Building on this campaign, the Department is exploring other options to overcome recruitment and retention challenges in the short and longer term.

PAC Conclusion (5): The Department promises of bringing 1,300 new rail carriages into service by 2014 look over-optimistic. There are only 423 on order so far, and another 150 carriages are the subject of negotiations. It takes 30 to 36 months to mobilise the supply chain, suggesting deliveries running into 2011-2012 for the current work in progress.

21. The Department accepts that the procurement of these vehicles is a complex project, which requires the agreement of many parties and would partly accept the Committee's conclusion. In managing this project, which is one of a number of rolling stock procurement projects, the Department has take into consideration a number of key dependencies, including the delivery of related infrastructure works and the negotiation of new rolling stock acceptance with train operators.

22. Procurement also has to be integrated with the existing timetable for franchise competitions and structured in order to achieve best value for money. Balancing all these issues, the project to negotiate and introduce additional rail carriages has made good progress, and project timescales are kept under careful review. Since evidence was given to the Committee in January 2009, another 120 carriages have been ordered and procurement is progressing on further carriages.

23. Additional carriages are required in order to deliver the Department's specified outputs for the next five years: to accommodate growth while containing, or even improving levels of crowding in major cities and most London termini. The capacity metrics which the Department has specified for the rail network over this period are set out in the High Level Output Specification for the railway which was published in July 2007 alongside the Department's white paper Delivering a sustainable railway.

PAC Conclusion (6): It is unacceptable that low cost fares, which should be available to all rail passengers, are most readily found by those with access to the Internet. This approach undermines the whole basis of the railways as a public service available to all. It excludes those people without access to the internet, without the time to search or who decide to travel at short notice. There is no reason why the Department should favour a system which supports such perverse and unwarranted exclusion.

24. The Department does not fully accept the Committee's conclusion that low cost fares are most readily found by those with access to the internet. Firstly, fares regulation ensures that increases to a wide range of fares are capped by the Department at RPI+1% per annum. These fares are available through all outlets. In addition, the current system also requires that there is widespread access to the cheapest unregulated fares. Low cost rail fares are – with a small number of exceptions – available to all rail passengers through a number of purchase routes and are not restricted to internet sales.

25. Advance fares, which are normally the cheapest, are all available by telephone and at most ticket offices. Some smaller ticket offices do not sell them, though enquirers would be advised how to purchase via telephone or from a larger station. This ensures that people without access to the internet are not excluded from purchasing "Advance" tickets. There are a limited number of cheaper offers on the internet because some rail operators offer an additional on-line discount from the standard ticket price to passengers who purchase directly from the operator's own website. This practice has been allowed under the current ticketing rules to reflect the administrative saving which an operator can make with a direct automated sale, however it is only applied by a small number of operators.

26. The current system of fares regulation controls a large number of fares (essentially most commuter fares plus other key longer distance fares). It is intended that from January 2010 annual price rises in these fares will be capped individually at RPI+1%. All other fares are set at the commercial discretion of the operator, recognising the fact that car, coach and air travel place a competitive, market pressure on unregulated fares. Operators tend to use this discretion to manage demand, by making advance-purchased seats on off-peak trains much cheaper than walk-up fares on busy trains.

27. Regulation is in place specifically to protect passengers from excessive fares in those cases where there is limited competition to the rail service, and results in a substantial public subsidy of fares, reflected in the overall price of the franchise to Government. The most expensive fares, First Class Anytime and Standard Anytime, which are unregulated for long distance journeys, account for only 20% of such journeys.

PAC Conclusion (7): The department must do much more to simplify fares. The Department has made a start in simplifying fares, but some complex fares still exist and the best fares are hard to find without access to the internet. Fare structures should be simple, fares should be accurately named and the lowest priced fare for a journey should be publicised and readily available at station ticket offices, as well as on the internet.

28. The Department agrees that fares should be simple and easy to access. Passengers have in the past been confused by the complexity of the fares structure and the proliferation of brand-names. Rail passengers should have confidence they are getting the right ticket at the right price That is why the Department worked with train operators to simplify ticketing last year introducing just three basic fares: Advance, Off-Peak, and Anytime. This was seen as the first step in making fares easier to understand.

29. The rules that govern train operators (set out in the Ticketing and Settlement Agreement) ensure that all tickets are available over the telephone, on the internet and at the majority of ticket offices. The exception is only some smaller ticket offices that do not sell tickets for all journeys on the UK railway. The internet has made searching for different tickets easier and, as noted above, there are some cases where an administrative discount is offered. But telesales advisors and ticket office staff are trained to assist passengers and required to offer the best available price for a journey.

30. The Department agrees that there could be scope to go further to build passenger confidence in fares, in line with the Committee's conclusion. As a result, the Department asked Passenger Focus, which independently represents rail passengers, to carry out a study to see how well the current system meets passenger expectations and make recommendations about further improvements. Passenger Focus has come up with some constructive recommendations, which the Department is discussing with the rail industry.

PAC Conclusion (8): In the economic downturn, the Department intends to hold train operating companies to their financial commitments. The Department hopes that, by 2010-2011, direct subsidies to train operators will be eliminated as companies increase their revenues. But the recession may trigger a reduction in rail travel and fare revenues, and some train operating companies may ask the Department to relax their contractual obligations. The Department should hold train operators to their contract terms although in some cases, including National Express's bid for the East Coast Franchise the original bid might have included over-optimistic revenue assumptions.

31. The Department agrees with the Committee's conclusion. The prediction that direct subsidy to franchisees (as opposed to Network Rail) will change into premium payments by 2010-11 relies on the assumption that train operating companies are able to generate revenues as set out in their original bids. The Department recognises the risks of such an assumption and does not budget on this basis, instead making its own assessment of the likely range of revenues and the correlated levels of subsidy or premium in different economic scenarios.

32. The Department's policy is to hold all franchised train operators to the terms of their franchise agreements, and not to renegotiate franchises. This policy was followed in the case of National Express East Coast. National Express Group announced on 1 July that they will not provide the further financial support necessary to ensure that their subsidiary, National Express East Coast, remains solvent. As a consequence, National Express East Coast is unlikely to be able to continue operations to the full term of its franchise.

PAC Conclusion (9): In the short term, there is an increased risk of train operator financial failure. Although the Department has effective arrangements for monitoring the operational and financial viability of train operating companies, there is a risk that some companies could fail as their revenue fall. In some cases problems that are temporary in nature will be managed thorough parent company support for additional bank finance. The Department should explore all options and develop robust contingency plans to keep train services running in the event of multiple failure.

33. The Department welcomes the comments by the Committee that it has effective monitoring arrangements, and agrees with the conclusion that robust contingency plans must be in place.

34. The Department has tested these arrangements since the publication of the Committee's report. On 1 July, the Department announced it had established a publicly owned company, which will take over the franchise from the point at which National Express East Coast ceases to operate. It is the Department's intention to tender for a new East Coast franchise operator from the end of 2010. Contingency plans to take action on other franchises are in place, and are frequently reviewed.

PAC Conclusion (10): In the short term, there is also an increased risk of financial failure by banks that have issued performance bonds. The Department requires train operating companies to issue performance bonds, backed by banks, which the Department can call in the event of the failure of a company. The bonds cover about 5% of the annual cost base of each franchise holding company and have been issued by a selection of banks. The Department should review the ability of the issuers of performance bonds to respond to a call as often as necessary, potentially even on a daily basis.

35. The Department welcomes the comments made by the Committee, and acts in line with this recommendation. In addition to monthly bond reports, the status of bond providers is monitored continuously: any unfavourable change in status is notified to the Department as soon as practicable.

Twenty Second Report

Department of Health (DH)

Financial Management in the NHS: Report on the NHS Summarised Accounts 2007-08

1. In the Committee of Public Accounts report summary, the Committee stated that the NHS in England, excluding Foundation Trusts, achieved a surplus of £1,674 million in 2007–08, representing almost 2% of total available resources and the equivalent of about one week's funding for the whole NHS. The surplus was significantly higher than the original forecast of £916 million and more than three times that recorded in 2006–07 (£515 million).

2. In 2006–07, the surplus was concentrated in the Strategic Health Authorities (SHAs), which are administrative bodies, with the Primary Care Trust (PCT) and NHS Trust sectors remaining in deficit. All sectors are now in surplus and the quality of financial management at individual NHS organisations improved during 2007–08. The Healthcare Commission also reported that the quality of services provided by the NHS improved over the year.

3. The surplus of £1.67 billion represents funding that was made available by Parliament for healthcare in 2007–08, but which was not used. Whilst some contingency planning is sensible, there is a real risk that patients lose out because the NHS is not spending its allocated funding on treating them. The Department has committed itself to making the surplus available to the NHS for spending in future years, and it should mean that the NHS has the financial headroom and associated flexibility to respond to future financial pressures or changing priorities.

4. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department of Health and Monitor, the independent regulator of NHS Foundation Trusts, on the financial performance of the NHS and NHS Foundation Trusts, how the surplus was achieved and its impact, as well as the financial challenges facing the NHS in the future.

PAC Conclusion (1): The NHS generated a surplus of £1.67 billion in 2007-08, representing approximately 2% of available resources, and three times that recorded in 2006-07. The Department set the NHS the target of delivering a combined surplus and contingency of around £0.9 billion for 2007-08. During the year, the contingency was not required and the surplus exceeded the target as a result of NHS organisations exceeding savings plans and due to a reduction in the price of generic medicines.

5. The Department welcomes the Committee's acknowledgement of the surplus achieved in 2007-08. The surplus, all of which sits in the NHS, allows the NHS the flexibility to respond to fluctuations in demand and unexpected emergency / patient safety issues, whilst maintaining sufficient funds for investment in new services. The surplus will also help to give the NHS the ability to respond to the projected constraint on public finances and this is one reason we intend to take a £1 billion surplus into the next spending review period when growth is likely to decrease.

6. Whilst, the forecast surplus did move between Quarter 1 and Quarter 2 due to a favourable movement in generic medicines, organisations exceeding their savings plans and deficit organisations moving to recovery sooner than expected, the National Audit Office (NAO) has recognised that NHS forecasting improved in 2007-08. When compared with previous years the forecast from quarter two onwards was fairly stable and accurate when compared with the final position.

PAC Conclusion (2): Only 11 out of 340 NHS organisations (3%) reported a deficit compared with 22% in 2006-07. Strategic Health Authorities delivered a surplus of £903 million, Primary Care Trusts a surplus of £391 million and NHS Trusts a surplus of £380 million. This performance compares well with 2006-07, when Primary Care Trusts and NHS Trusts were overall both in deficit.

7. The Department welcomes the Committee's recognition of the fact that fewer NHS organisations are recording deficits, and that every sector ended the 2007-08 financial year in overall surplus. This improvement has continued during 2008-09, and the draft accounts show that SHAs recorded a total surplus of £1,052 million, PCTs a surplus of £447 million and NHS Trusts a surplus of £236 million and only six organisations were recording an operating deficit in their 2008-09 draft accounts.

PAC Conclusion (3): Some contingency surplus is sensible but if this is too large, there is an increased risk that patients lose out because less healthcare is provided than might have been. Managing this risk requires NHS bodies to be more adept at forecasting demand for healthcare, budgeting in a way that best matches resources to activity levels, while having the flexibility to shift resources quickly as new priorities arise.

8. The Department agrees with the Committee that when a surplus is too large, there is an increased risk that less healthcare may be provided. However, in 2007-08, with the surplus at just over 2%, the position was managed such that this risk did not materialise.

9. The NAO have stated that the NHS achieved all of its performance objectives for 2007-08, as well as delivering a higher volume and higher quality of care than in previous years. In addition, the NAO specifically noted that the surplus was not achieved at the expense of services to patients, and agree that the surplus reflects good resource utilisation rather than a failure to deliver

PAC Conclusion (4): In 2006-07, the Department designated 17 NHS Trusts as financially challenged. Seven Trusts continued to have this classification at 31 March 2008. Trusts are classified as financially challenged when they are unable to meet their cash commitments. Those Trusts still in this position need to have in place an action plan for repaying, over a reasonable period, the maximum amount of cash outstanding.

10. The Department welcomes the Committee's acknowledgement that during 2007-08 it was able to agree solutions going forward for ten of the Financially Challenged Trusts.

11. The Department is continuing to work through the SHAs to ensure that repayment solutions are agreed for the remaining Financially Challenged Trusts whilst still maintaining and improving services to patients.

PAC Conclusion (5): Despite improvements in financial transparency, some NHS bodies are still moving cash around the system by making prepayments in an inappropriate manner. Two Primary Care Trusts had their accounts qualified because such payments were deemed to be irregular. The Department should issue clear guidance about the use of such payments, and should monitor and challenge year-end payments which are not made in the ordinary course of business. Evidence of this review and challenge should be made available to the National Audit Office as auditors of the NHS accounts.

12. Whilst the Department agrees that the accounts of two NHS organisations were qualified for making payments in advance of need, we do not agree that this behaviour is habitual within the NHS. The NAO have stated that overall, payments in advance of need were not material to the summarised accounts and this was only a material issue for two out of 152 PCTs. The Committee also acknowledges that payments in advance of need were only a particular issue for these two organisations.

13. The local SHA reviewed the circumstances that led to these payments in advance of need in both of these organisations and has ensured the appropriate governance is in place so that payments in advance of need are not made in future years.

14. In addition, in the 2008-09 NHS Manual for Accounts the Department has strengthened the guidance to ensure that organisations are clear about their requirements in respect of payments in advance of need. The additional guidance reminded NHS organisations that in making any payment in advance of need they should follow the principles contained within the HM Treasury publication *Managing Public Money*.

PAC Conclusion (6): Reporting the achievement of the planned £15 billion efficiency improvements over the next three years needs to be sufficiently robust, with clear evidence that efficiency has not been at the expense of patient care. While some 50% of the efficiency savings of the Department and the NHS examined by the NAO in 2007 were considered to be fairly stated, the remainder were uncertain or had measurement weaknesses. The Department needs to be confident that the systems for measuring efficiency include reliable baselines, take account of all additional costs, have widely accepted definitions of what constitutes productivity improvements, and have supporting evidence which is subject to independent challenge by, for example, internal audit.

15. The Department accepts this recommendation. Local NHS trusts are receiving 5.5% budget increases in 2009-10 and 2010-11. It is for NHS organisations to use this opportunity to identify efficiency savings so that the Department can continue delivering high quality care for all patients. Better quality, safe health care goes hand in hand with better value for money as getting it right first time means better care for patients, and avoids costly follow-ups. David Nicholson, the NHS Chief Executive, has asked the NHS to be ready for a wide range of future funding scenarios and has set the focus firmly on improving quality and efficiency simultaneously, because getting it right first time for patients is both efficient and delivers better quality of care.

16. An established principle of the Government's efficiency strategy, both the Gershon programme and the current Comprehensive Spending Review (CSR) programme is that efficiency savings should not have a negative impact on service quality. In the CSR programme progress against our Public Service Agreement (PSA) targets provides assurance that services continue to improve. Combined with the strong financial management in the NHS, which has turned deficits into substantial surpluses, this provides significant assurance that efficiency savings are being delivered.

17. The Department will assess reported savings against a number of requirements, including that all savings are properly calculated, net of any costs incurred, quality neutral, cash releasing and sustainable. Additionally, the Department's value for money programme will also be subject to internal audit scrutiny as well as public scrutiny in the light of public reporting of progress in the annual Departmental Report and Autumn Performance Report.

PAC Conclusion (7): As more NHS Bodies become Foundation Trusts, it is important that standards are maintained in the conduct of public business. There are now more that 110 NHS Foundation Trusts and the Department intends that almost all NHS Trusts will eventually achieve this status. Although Foundation Trusts and their independent regulator, Monitor, are accountable to Parliament, the former are public corporations, are intended to have a commercial focus and can operate with significant freedom. While this should provide Trusts with greater flexibility to be entrepreneurial and respond to local needs, it is important that this freedom is exercised in accordance with accepted principles for conducting public business. Monitor's oversight arrangements need to provide assurance that proper standards of governance and propriety are maintained.

18. The Department shares the Committee's concern for proper standards of governance and propriety. The Government response to the recent Healthcare Commission report into Mid Staffordshire NHS Foundation Trust, published on 30 April, made clear that amongst other things: 'all NHS organisations must ensure they are operating in accordance with the current guidance, which promotes openness, transparency and accountability to their local populations, including boards holding meetings in public.'

19. The NHS Chief Executive David Nicholson wrote to the NHS on 1 May to draw the attention of NHS organisations to the report's findings and the Government response.

20. The Independent Regulator of NHS Foundation Trusts (Monitor) agrees with the Committee's conclusion. The current publications and oversight arrangements provide the desired assurance. NHS foundation trusts are required to prepare externally audited annual accounts and present them to Parliament and to Monitor. Within those accounts, NHS foundation trusts are by law required to adhere to reporting standards specified by Monitor in accordance with the requirements of Managing Public Money. Monitor sets the standards for the audit, which ensure proper assessment of probity, value and financial stability, and which, inter alia, empower auditors to submit public interest reports to Monitor.

21. In addition, for each foundation trust Monitor receives and reviews a separate report by the trust's auditors each year, which sets out areas of financial control or governance, or any matter of public interest, which may have raised concerns during the annual audit. Where these concerns, or any which emerge as part of Monitor's wider compliance and regulatory activities, may be material to the trust's Authorisation obligations, many of which relate to standards of governance at NHS foundation trusts, then Monitor may require, and has on occasion obtained, further independent assurance.

22. The documentation which Monitor produces, the reporting against which is designed to provide assurance that NHS foundation trusts are conducting business both in accordance with best practice and standards expected of a public body, is reviewed and updated regularly. It provides a co-ordinated and comprehensive assurance framework. Monitor's approach balances the maintenance of freedoms to deliver superior results with controls, and a minimum of regulatory burden and duplication, to provide assurance as to governance, standards and propriety. To date neither have the annual accounts of an NHS foundation trust been qualified nor has a public interest report been submitted to Monitor.

Twenty Third Report

Department for Children, Schools and Families (DCSF)

Mathematics performance in primary schools: getting the best results

1. Understanding basic mathematics is an essential life skill, and a good start at primary school paves the way for success at secondary school and beyond. Since the late 1990s, the Department for Children, Schools and Families (the Department) has had a specific National Strategy to improve performance in primary mathematics. In 2007-08, this strategy cost some £104 million to implement. The Strategy aims to raise performance through extensive teaching and learning resources, supported by professional development programmes for teachers. In 2006-07, based on average teaching time devoted to the subject, some £2.3 billion was spent on teaching mathematics in primary schools, out of a total expenditure of £10 billion on primary teaching and teaching support staff.

2. Despite this expenditure, improvements in the mathematics results of primary school pupils have levelled off since 2000. In common with other subjects, there are persistent gaps in the mathematics performance of primary school pupils from different backgrounds and with different characteristics. In contrast to other subjects, boys are making more progress than girls. The Primary National Strategy has contributed to improvements in primary mathematics teaching and learning, but weaknesses persist in vital areas such as the use and application of mathematics to real-life situations and the assessment of pupils' progress.

3. Teaching quality is important, with pupils rating a good and enthusiastic teacher as the greatest influence in their enjoyment of mathematics. The lack of depth in subject knowledge of many primary school teachers and the lack of take-up of continuing professional development in mathematics are major concerns which the Department has only recently begun to address through a ten year programme to train 13,000 specialist teachers.

4. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department on mathematics performance in maintained primary schools in England.

PAC Conclusion (1): Since the late 1990s, the Department's Strategy to raise performance in primary mathematics has contributed to improvements, but more recently pupil attainment has leveled off. While the Strategy has led to better planning and delivery of primary mathematics teaching, only very small improvements are being made to pupil attainment despite the £2.3 billion spent each year on teaching the subject. The Department needs to radically re-think its strategy for improving pupil attainment, otherwise we seriously doubt that the Department will meet its 2011 targets.

5. The Department agrees that after significant improvements since 1998 when only 59% of 11 year olds were at the expected standard (level 4+), the rate of improvement has slowed since 2000 (72% reached level 4+). Although there was a plateau between 2000-03 and between 2004-08, results have risen by 5 percentage points and in 2008, 79% of 11 years olds attained level 4+. The higher the results, the harder it is to secure a further rise.

6. At Key Stage 1 standards have remained high, with 90% of pupils reaching expected levels in 2007 and 90% in 2008 (provisional), compared to 91% in 2005

7. The Department recognises that the 2011 targets are challenging and results have plateaued, but believes it is on trajectory to meet the 2011 targets. In addition, the Government commissioned Sir Peter Williams to complete an independent review of Early Years and Primary Mathematics. Sir Peter's findings were published on 17 June 2008. The Government accepted all the recommendations including the key recommendation to give every primary schools access to a mathematics specialist by training 13,000 maths specialists in the next ten years.

8. Funding has also been made available for this year's spring and summer terms to support 36,000 children, nationally, in years 5 and 6 through one to one tuition in English or maths.

PAC Conclusion (2): It is disgraceful that over one-fifth of pupils are still leaving primary school without a secure grasp of essential mathematical skills, and that, as a result, only one in ten of these children are likely to attain the expected standard by age 16. We recently reported on Skills for Life, a programme to improve adult numeracy, which is attempting to tackle the legacy of decades of schooling which did not equip enough young people with basic numeracy skills. Helping more children to become more confident and able at mathematics at an early age is the most certain way to avoid the unacceptable financial and human costs of having to provide so many people with remedial education when they are adults.

9. In 2008, 79% of children reached or exceeded level 4+, the expected level in Key Stage 2 (20% more than in 1998 and 2% more than in 2007). However an additional 15% of pupils achieved level 3 in 2008 and a child achieving this level does have a range of basic mathematical skills. At level 3 for example, a pupil has the ability to solve whole number problems involving multiplication and division, use simple fractions, recognise negative numbers and extract and interpret data from simple tables and lists.

10. The Review's findings on assessment data in mathematics show that despite the great progress made since the introduction of the National Numeracy Strategy there is still a group of pupils who fail to achieve level 3 by the time they leave the primary sector at age 11. This group fell to less than 6% in 2008 (fewer than 36,000 children) failing to reach level 3 at Key Stage 2. For these children, the Department is rolling out new programmes to raise standards in maths.

11. The Every Child Counts intensive intervention programme targets the lowest attaining 5% of pupils and will have national coverage from September 2010. Data from the first term of the Numbers Count Programme (the core intervention at the heart of Every Child Counts) showed that children made an average of 12 months progress over three months with just 20 hours tuition. In term 2, the second cohort of children showed even greater improvement making an average of 15 months progress over three months of teaching.

12. The Primary Maths Specialist training programme aims to train 13,000 primary teachers over ten years so that every primary school will have access to a math specialist who will improve maths teaching and learning. By 2010-11, the Department aims to provide one-to-one tuition to 300,000 children a year in each of English and mathematics.

PAC Conclusion (3): Some 5% of 11-year olds (30,000 in 2008) leave primary school with mathematical skills that are, at best, at the level of those expected of a seven year old. The Department's mathematics recovery programmes are targeted at pupils making the slowest progress. It is too early to assess their impact but the difficulties that some schools are already experiencing in recruiting enough specialist tutors are disturbing. The Department should monitor progress closely, and identify and tackle any differences between areas that might indicate ineffective local implementation.

13. The Department recognises that some 5% of 11-years olds have fallen behind their peers. In response the Department is rolling-out the Every Child Counts mathematics intervention programme aimed at the bottom 5% of year 2 primary pupils (aged 6-7) in order to help them catch up to their peers and sustain this progress through age 11 and beyond. The Every Child Counts programme provides training and support for specialist teachers so they can work with pupils in one-to-one and small group intervention sessions.

14. In addition, from 2010-11, one to one tuition will be an entitlement to all pupils who entered Key Stage 2 behind the expected level, and who are not on track to make two levels of progress throughout the key stage.

15. The Committee is right to raise this issue and the Department is looking into the issues around recruitment, retention and sustainability of the programme, and identifying the most effective ways to encourage local authority, schools and individual teacher participation. These include having a clear understanding of the varied local issues, which can effect effective implementation, whilst also monitoring progress closely.

PAC Conclusion (4): Nationally, there is a large and persistent gap in mathematics attainment between primary school pupils who receive free school meals and those who do not. In 2008, the gap was 18%. This cannot be allowed to continue and the Department must address the gap urgently. While primary schools that serve disadvantaged areas face considerable challenges in raising attainment, some are clearly meeting these challenges more effectively than others. The Department should identify local authorities whose activities to help schools raise performance are resulting in marked improvements in the progress of pupils from disadvantaged backgrounds. It should support them in disseminating effective practices to those authorities where schools are doing less well for these pupils.

16. The Department accepts this conclusion and has made it a priority to narrow the attainment gaps between pupils eligible for Free School Meals and their peers. In March 2009 the Department published *Breaking the Link between deprivation and low attainment – Everyone's Business*, a comprehensive assessment of the reasons why children receiving free school meals attain less than their peers at every key stage. The document sets out a coherent and vigorous strategy to engage schools, other services, parents, pupils and communities, to secure further acceleration in the recent welcome improvement in standards for free school meals children.

17. Programmes to close the gap for underperforming groups (including those receiving free school meals) in mathematics (and English) are now being mainstreamed. In the past five years over 3,000 schools below floor targets, many in the country's most disadvantaged areas, have been supported through the Improving Schools Programme. As a result there has been a 43% reduction in the number of schools achieving below the floor target (fewer than 65% of pupils achieving level 4+) in maths.

18. Raising expectations and attainment in the lowest attaining schools (usually the most deprived) through targeted support and challenge has been a key focus of the National Numeracy Strategy and more recently the Primary National Strategy.

19. In 2009, for the first time local authorities were required to set statutory targets at Key Stage 2 and Key Stage 4 to narrow the attainment gaps for those receiving free school meals.

PAC Conclusion (5): Some schools are failing to develop pupils' mathematical knowledge and skills sufficiently between the ages of seven and 11. It is very disappointing that in 2007, 24% of pupils made progress of just one national curriculum level or less. These included 66,000 relatively able pupils and, within that number, nearly 38,000 who had been among the most able at Key Stage 1. The Department and local authorities should raise the expectations on schools where a greater than average number of pupils are not making at least two levels of progress between the ages of seven and 11. They should provide help such as specialist support from teachers who have skills in maintaining pupils' motivation in mathematics. Improving the progress of these pupils would make a big contribution to the extra 12,000 pupils each year required to make at least two levels of progress, if the Department is to reach the target that 84.5% of all pupils should achieve two levels or more by 2011.

20. The Department accepts that progression is a key issue and it is a key priority. Since 2006 the percentage of pupils making two levels of progress from Key Stage 1 to Key Stage 2 has increased from 73.6% to 78.8%. This is good news and keeps the Department on trajectory for meeting the 2011 target of 85%. 86% of pupils who achieved level 2 or above in Maths at Key Stage 1 achieved level 4 or above at Key Stage 2.

21. The three year Assessment for Learning (AfL) strategy aims to support schools in tracking pupil progress, including in maths. Teachers' uptake of mathematics tracking materials has been very strong since its launch in 2008. The Department has published Assessing Pupils Progress materials, which have been given to every school to further support teachers in monitoring children's progress.

22. Primary Maths Specialist training programme and the Every Child Counts programme will help to increase the number of maths champions in Primary schools.

PAC Conclusion (6): Mathematics is the only core subject where boys are doing better than girls, and the gap is growing. The Department is planning to review the reasons for this gender gap this year. This review should identify any teaching and learning approaches that are hindering the progress of girls, and, through the Primary National Strategy's website, the Department should promote and disseminate guidance on what works well in helping girls to make better progress in mathematics.

23. The Department accepts this conclusion and through the *Making Good Progress* Pilots, (running from 2007 to 2009 in 386 primary schools across ten local authorities and aimed at improving teachers' ongoing assessment and tracking of pupils) and national implementation of one to one tuition, the Department is learning more about the approaches and strategies that support girls' learning in mathematics

24. The Department has begun to identify what teaching approaches and resources are used for the teaching of mathematics skills to girls who find the subject relatively difficult and why these approaches and / or resources may be hindering their progress. This information is being made available through the Primary National Strategy's website and this issue is a priority in 2009-10 plans.

25. The Department's 2008-09 "Gender Agenda" is a year of research and activities looking at the gender gap. The Department will disseminate advice and guidance for teachers on how to improve the achievement and learning for underperforming groups of boys and girls.

26. The use of the Assessing Pupils' Progress materials also has been shown to help increase girls' understanding of the progress they are making and identifies the next steps in learning they need to take.

PAC Conclusion (7): "Mathematics is boring" is a common refrain of pupils who do not like mathematics in primary school. Through the Primary National Strategy's website, the Department should better signpost schools to the resources that are proven to engage pupils most effectively in meaningful mathematics learning. It should consider establishing a panel of pupils to identify what they consider to be the best resources and to comment on the most engaging ways they can be used in the classroom.

27. The Department accepts this conclusion and is already putting in place an increasing population of specially trained teachers in primary schools which will help combat the refrain that 'Mathematics is boring' (through the Every Child Counts, Primary maths specialist programmes and the up-skilling of local authority consultants). The Department's experience of these programmes shows that as teachers improve in confidence and skill in mathematics, their enthusiasm grows and they are able to share this successfully with children and parents.

28. The Department will also consider establishing a panel of pupils to identify what they consider to be the best resources and to comment on the most engaging ways they can be used in the classroom. During the independent review of Early Years and Primary Mathematics, Sir Peter Williams talked to pupils and used their views to inform his report.

PAC Conclusion (8): The Department's ten year programme to train 13,000 specialist mathematics teachers will result in some primary schools not benefiting until 2019. The Department should review the relative priority of this programme and, as part of its current piloting, seek to identify ways in which the programme could be accelerated.

29. The Department wishes to clarify that while some individual Primary schools will not have access to a Maths Specialist until 2019, the Maths Specialist programme will have a presence in all local authorities from 2010-11. Through the pilot in 2009-10, the Department recognises that once the programme is in a local authority, all schools begin to benefit. The local authority consultant's role in delivering the maths specialist training enables them to facilitate the sharing of good practice across all schools in the local authority thus helping to raise standards in maths.

30. In addition the Every Child Counts programme will have national coverage from September 2010 and every primary school that needs it, will have access to it. This programme has been shown to help raise primary maths attainment across schools and local authorities.

31. From April 2009, the Department is also up-skilling local authority consultants in Mathematics and this will contribute to raising standards in Mathematics.

32. In addition, the existing work with Leading Mathematics teachers is being expanded – where schools with strengths in mathematics teaching are encouraged to coach and support others, at no detriment to themselves.

Thirty First Report

HM Treasury (HMT)

The Nationalisation of Northern Rock

1. By 2007 Northern Rock had grown to become the fifth largest mortgage lender in the UK. To finance its growth the company depended on raising funds from wholesale sources such as other banks, and selling its existing mortgage book to investors. In August 2007, credit concerns stemming from bad debts in the US mortgage market caused banks to curb their lending to each other and investors to stop buying mortgage-backed securities. Northern Rock began to experience problems raising funds and asked the Bank of England for emergency financial support. In September 2007, when Northern Rock's customers became aware of the support, queues formed outside branches and, over a few days, £4.6 billion was withdrawn.

2. The Treasury stabilised the situation by providing a series of guarantees to retail depositors and wholesale lenders. With the assistance in place, the Treasury's preferred option was to support the company while it searched for a private sector buyer. The Treasury considered it should avoid taking any actions that were properly a matter for the Northern Rock directors and, therefore, regarded the company as being in charge of the search for a buyer. It gradually became clear that potential buyers for the company could not arrange private funding and, with market conditions continuing to deteriorate, there was no prospect of a sale on this basis, even when the Government was prepared to consider backstop guarantee arrangements.

3. In February 2008 the Government received two detailed private sector proposals for the company. The Government concluded that these alternatives did not meet the test of protecting the taxpayers' interest, when compared with the alternative. The Treasury decided, having considered all relevant factors, that the best means of achieving its objectives and in particular the protection of taxpayers, was to take the company into temporary public ownership.

4. On the basis of a report by the Comptroller and Auditor General[18] the Committee examined the Treasury on the protection of the taxpayer ahead of nationalisation, its capacity and readiness and on the oversight of Northern Rock after nationalisation.

PAC Conclusion (1): The Treasury's decision to nationalise Northern Rock in February 2008 was based on a comprehensive assessment of the options available to it. This analysis suggested that public ownership represented the best alternative in terms of value for money.

5. The Department welcomes the Committee's finding. The Treasury decided, having considered all relevant factors, that the best means of achieving its objectives and in particular the protection of taxpayers, was to take the company into temporary public ownership.

[18] C&AG's Report, *HM Treasury: The Nationalisation of Northern Rock*, HC (2008–09) 298

PAC Conclusion (2): The Treasury had been aware of shortcomings in the arrangements for dealing with a bank in difficulty since 2004, but the pace with which it acted to remedy these shortcomings was leisurely. The Treasury, working with the Bank of England and the Financial Services Authority, should ensure that weaknesses identified as a result of scenario testing are evaluated promptly, any action needed is clearly specified and that follow-up work is taken forward with an urgency reflecting the seriousness of the shortcomings identified

6. With hindsight, the Department accepts the Committee's finding. In September 2005, following an earlier scenario testing exercise, the Authorities (HM Treasury, Bank of England and Financial Services Authority) endorsed a programme of work to establish the practical details of the processes required to implement a range of resolution options for financial firms and to identify any significant weaknesses which might be obstacles to their robust implementation.

7. The Authorities recognised then that handling a bank in difficulty presented complex challenges, including possible changes to insolvency arrangements and was likely to require primary legislation. Such legislation has now been enacted in the Banking Special Provisions Act 2008 and the Banking Act 2009. However, to win opinion over and to get new legislation through was not going to be a quick matter in the circumstances at the time. In retrospect, the Department accepts the matter was not progressed with sufficient vigour. The Department will ensure that problems such as this identified in future are taken forward with the appropriate urgency.

PAC Conclusion (3): Despite the enormous problems facing Northern Rock during the period of emergency support, the Treasury saw fit to allow the company to write around £750 million of high risk loans of up to 125% of the value of the property. Whilst the company agreed to reduce its overall lending in return for this support, the Treasury failed to protect the taxpayer from the riskiest loans. This type of loan is now a significant source of arrears and write-offs. When the Treasury steps in to provide support to a company it should evaluate systematically the risks to the taxpayer, decide what information it will need to monitor these risks and use its influence as owner, or major creditor, to manage these risks robustly.

8. The Department partly accepts the Committee's recommendation. Whilst accepting that the total sum of high loan-to-value ratio loans written by Northern Rock over this period was too high, the Department does not agree that it did not act to protect the taxpayers' interest.

9. At the time, the Department had to operate under a number of constraints, including not putting itself in the position of controlling the actions of the company as a shadow director. The legal advice on this was very clear. Within such constraints, arrangements to protect the taxpayers' interest were put in place. In particular, under the terms of the loans provided to Northern Rock by the Bank of England in 2007, the company was required to put in place a plan to stabilise its business by conserving cash. This was primarily achieved by reducing the number of mortgages written.

10. The vast majority of the high loan-to-value loans made during this period of emergency support represented completions made on applications in September and October 2007, whilst the company's plan was being formulated and implemented. Over this period of emergency lending there was a 90 per cent reduction in the number of loans of this type written. The effect of the plan was that redemptions exceeded loans granted. Other protections included requiring Northern Rock to obtain approval before entering into any corporate restructuring, making substantial changes to the general nature of its business or paying any dividends.

PAC Conclusion (4): At the time it nationalised Northern Rock, the Treasury did not know enough about what it was taking on. In nationalising Northern Rock, the Treasury was taking on enormous risks on behalf of the taxpayer. Yet the Treasury did not commission its own due diligence on the quality of the company's loan book, preferring instead to place reliance on the work undertaken by advisors to the Bank and the Financial Services Authority. That work had been done for different purposes and the Treasury undertook no formal assessment to ascertain whether it could or should place reliance on it.

11. The Department does not accept the Committee's finding. The decision to take Northern Rock into temporary public ownership was based on a full assessment of the value-for-money case, endorsed by the Committee in Conclusion 1.

12. As the Committee notes, the Bank of England and its advisors had undertaken work on the loan book. Such matters were also subject to FSA oversight. Private bidders had undertaken due diligence on Northern Rock as part of the bidding process and had incentives to raise any issues found as part of their negotiations with the Authorities. Given this, it is the Department's view that carrying out a further formal due diligence assessment of the loan book would not have changed the value-for-money arguments for public ownership. It could only have added to costs and caused delay, and in the opinion of the Department it was imperative to resolve the issue as quickly as possible, which minimises costs.

13. However the Department recognises that this finding raises a more general issue about the extent to which the Authorities, including the Treasury, require their own due diligence and assessment of financial institutions. The Department has acted on this. In dealing with subsequent problems, the Department has considered it appropriate to take extensive independent advice on credit issues in individual firms. The FSA has used its powers (under section 166 of the Financial Services and Markets Act) to order audits of problematic assets and liabilities. The Department has also worked closely with the other Authorities to understand common issues identified in independent analysis such as the likely deterioration of credit quality under stressed scenarios.

PAC Conclusion (5): The company's initial business plan approved by the Treasury on nationalisation was over-optimistic on future changes in house prices, even compared to forecasts publicly available at the time. The company's reported loss for the six months to end of June 2008 of £585 million was £314 million greater than the base case, and worse than the recession case forecast in the plan approved by the Treasury just three months earlier. As part of the programme of scenario testing, the Treasury should challenge vigorously the information it receives on the quality of a business in difficulty. It should identify the type of information likely to be needed and the timescales within which such information can be collected.

14. The Department accepts that with hindsight it could have tested more rigorously the impact of a severe stress on Northern Rock. The Department believes that it made responsible assessments of the market conditions facing Northern Rock on the facts available at the time. It carried out significant stress testing of the business plans of Northern Rock. Falls in house prices were among several factors considered. The plan was stress tested against a recession scenario equivalent to a decline in the housing market comparable to that seen in the early 1990s, including a fall in house prices of 20 per cent. This was at the bottom end of market forecasts at the time.

15. However, in common with other banks across the world, Northern Rock subsequently faced a more challenging external economic environment. This has affected the credit quality of Northern Rock's mortgage assets. These conditions have also damaged Northern Rock's profitability and led to a need to strengthen its regulatory capital position. With the benefit of hindsight, the Department could have tested more rigorously the impact of a severe stress on Northern Rock. At the time, however, neither the Government, the company, or others in the market anticipated market conditions tightening to the extent that has been realised.

16. The Department accepts that assistance to any firm in difficulty should be assessed against a challenging a set of business scenarios and this has been the case in subsequent interventions.

PAC Conclusion (6): Goldman Sachs refused the National Audit Office access to the financial modelling underpinning its analyses for the Treasury, even though this work had been paid for by the taxpayer. It is wholly unacceptable that the Treasury signed a contract with an adviser denying it access to the financial models developed to inform its decision on Northern Rock. Departments should retain the power to examine the financial models developed by their advisers and use this access to gain a thorough understanding of how these models work, their underlying assumptions and the impact on the resulting financial analyses.

17. The Department partially accepts this finding in the sense that it is fully aware of its responsibilities for making information available to the National Audit Office. In the case of Goldman Sachs, the financial models were the property of the firm, limiting the scope for access to third parties.

18. The Department believes that it was well able to satisfy itself as to the quality of the advice of its professional advisors without a detailed examination of the financial model. The Department was satisfied that its financial adviser's models were sound because it worked with the advisers to establish and test their assumptions and outputs. It was therefore unnecessary to rework the models themselves. The Department also tested the advice based on the models to understand the factors driving the adviser's conclusions. While advice based on modelling was valuable, it was only part of the assessment process that led to the decision to take Northern Rock into public ownership. For example the Department also gave due weight to the deliverability of the private sector solutions

PAC Conclusion (7): The Treasury unthinkingly followed common investment banking practice in its initial remuneration agreement with Goldman Sachs, despite the unusual nature of the situation. The initial contract with Goldman Sachs included a success fee of £4 million even though there was no clear definition of success in a complex and evolving situation. In the Treasury's view, a success fee was necessary because it was common investment banking practice and would incentivise Goldman Sachs to do a good job. This argument reveals the extent to which the Treasury felt unable to challenge its investment bankers. In future it should not slavishly follow industry practice.

PAC Conclusion (8): In practice, the Treasury sensibly chose not to pay Goldman Sachs a success fee. The main problem with the £4 million success fee was that success had not been defined. Such fees should only be paid where clear criteria for success can be established up front, and where it is clearly in the interest of taxpayers.

19. The Department was keen to ensure that its financial adviser explored all options in an open and unbiased way. The Department does not accept that it was wrong to offer a discretionary success fee. The Department believes such fees are a normal and proper way of incentivising advisers. The Department agrees that, ideally, it would be possible to define success in such a way as to ensure complete alignment with the Department's interests. However, that is not always possible. Where that is the case, the Department considers that success fees can still have a role to play, as long as the payment decision is left at the Department's discretion, as was the case here.

20. If detailed criteria for a success fee had been agreed at the outset in September 2007, a point in time when the Department had not yet decided which of a range of options it wished to pursue, the result would have risked a misalignment of interests. Subsequently, the Department agreed with Goldman Sachs that, in the circumstances, it was not appropriate to pay this discretionary fee, which was neither asked for nor paid.

PAC Conclusion (9): It is wholly anomalous that the Comptroller and Auditor General may report on the work of the Treasury at his discretion, yet has to wait for an invitation before he can look at the work of the Financial Services Authority.

With billions of pounds of taxpayers' money now at stake in the banking sector, there is an overwhelming case for Comptroller and Auditor General to be given unfettered power to audit the work of the Financial Services Authority as a matter of urgency. The Treasury has given us a commitment to look again at this issue. We hope to see early progress towards rectifying this anomaly.

21. The Government has recently published a white paper "Reforming Financial Markets" in which it sets out the case for stronger accountability in the arrangements for financial stability in the UK. The Government recognises that there is a case for the Comptroller and Auditor General and National Audit Office to be more fully involved in this, including in relation to the FSA, alongside its existing role in monitoring the work of HM Treasury in this area. The Chairman of the FSA is currently working with the FSA board to review board effectiveness, and will submit this to the Treasury. The Treasury will consider the role of the NAO as part of that process and revert to the PAC with a fuller response in October.

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