HM Treasury

Treasury Minutes

Government responses on the Eighth and the Tenth to the Fifteenth reports from the Committee of Public Accounts: Session 2014-15

Cm 8958 November 2014

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Government responses on the Eighth and the Tenth to the Fifteenth reports from the Committee of Public Accounts Session 2014-15

8th Report:	Crossrail
10th Report:	Major Projects Authority
11th Report:	Army 2020
12th Report:	Update on preparations on smart metering
13th Report:	Local Government funding – assurance to Parliament
14th Report:	DEFRA: oversight of three PFI waste projects
15th Report:	Maintaining strategic infrastructure: roads

Presented to Parliament by the Economic Secretary to the Treasury by Command of Her Majesty

Cm 8958 November 2014

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Eighth Report of Session 2014-15

Department for Transport

Crossrail

1: Committee of Public Accounts conclusion

The Department and Transport for London are jointly sponsoring the Crossrail programme to deliver a new rail service for London and the South East. When complete, the railway will run from Reading and Heathrow Airport in the west, to Abbey Wood and Shenfield in the east. The programme involves construction and improvement works costing up to £14.8 billion, including: building a new underground railway across central London; improving existing tracks to the east and west of London, and building and upgrading stations. It also includes buying a new fleet of trains at a cost of £1 billion, and appointing a new operator for the service. Crossrail Limited is delivering most of the programme, with Network Rail undertaking the work on existing sections of railway.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 9 April 2014, from the Department for Transport, Transport for London and Crossrail Limited on the progress of the Crossrail project. The Committee published its report on 23 July 2014. This is the Government response to the Committees report.

Background resources

- NAO report: *Crossrail* - Session 2013-14 (HC 965)
- PAC report: *Crossrail* - Session 2013-14 (HC 574)

2: Committee of Public Accounts conclusion

Crossrail is a textbook example of how to focus on the essentials of programme management, including defining a realistic scope, establishing a management team with the necessary skills and securing the required funding.

Recommendation:

The department should capture the lessons it has learned from the Crossrail programme and apply these to its other projects, most notably High Speed 2. It should also promote the lessons from Crossrail, which are applicable to other major projects, widely across government.

2.1 The Government agrees with the Committee’s recommendation to implement a process for the department to capture and share lessons internally and support further sharing across Government.

Target implementation date: March 2015.

2.2 The department is currently finalising and embedding a structured process to capture and share identified lessons, from project and programme delivery, on a regular basis to ensure lessons learned, such as those from Crossrail, are implemented elsewhere. The department actively engages with the Major Projects Authority and other government departments to identify areas of learning, which are shared with the community through a number of channels.

2.3 The department is working with the Crossrail team to learn lessons. For example, the HS2 project has built on lessons from the Crossrail project in the design of its governance framework and approach to seeking independent assurance from a Project Representative function.

2.4 The department has a Project and Programme Management (PPM) Centre of Excellence team that is dedicated to encouraging and sharing examples of excellence and professionalism in project delivery. It currently delivers a number of initiatives to entrench best practice PPM across its portfolio. This includes regular communities of practice sessions where members of the PPM and Senior Responsible Owner network can collectively share knowledge and experience in an open and honest forum. A number of other professional development initiatives offer staff in leadership roles a strengthened appreciation of identifying lessons throughout the project life-cycle.

3: Committee of Public Accounts conclusion
Transport projects are assessed using benefit-cost ratios that do not capture the full benefits, thereby understating the case for investment.

Recommendation:
The department needs a clearer understanding of the wider economic benefits of transport projects which should be included in its investment decisions.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department has previously accepted the need for a clearer understanding of the wider economic benefits of transport projects and published its plans for developing its understanding of these impacts in October 2013.[1] The department recommends the use of a three part value for money assessment to reflect the greater uncertainty in the estimation of some impacts, including wider economic impacts. The department agrees that decision takers should see and take into account the different parts of the value for money assessment, giving appropriate weight to each part.

4: Committee of Public Accounts conclusion
The full rationale for proceeding with Crossrail was not made clear.

Recommendation:
The department should clearly set out how it weighs up different factors, including the benefit-cost ratio, in its decision making, and apply consistent criteria to appraising the projects in its portfolio.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The department adopted the Treasury's "5 case approach" in the "Transport Business Case". This approach shows whether schemes:

- are supported by a robust case for change that fits with wider public policy objectives – the 'strategic case';
- demonstrate value for money – the 'economic case';
- are commercially viable – the 'commercial case';
- are financially affordable – the 'financial case'; and
- are achievable – the 'management case'.

4.3 Ministers take into account the evidence in all five cases when making a decision. The department provides detailed advice (in WebTAG) on the development of the 'economic case', leading to the benefit to cost ratio and the wider value for money assessment. In line with Treasury guidance, monetisation of impacts is adopted wherever possible, thus providing a transparent weighting system for the economic case.

5: Committee of Public Accounts conclusion
Smaller transport projects have access to fewer resources and less expertise making it more difficult for them to secure funding from the department.

Recommendation:
The department should share its data and expertise in assessing transport projects with local authorities to strengthen the relative case for smaller projects.

5.1 The Government agrees with the Committee's recommendation.

[1] *Understanding and Valuing the Impacts of Transport Investment*

Recommendation implemented.

5.2 The department already provides detailed advice, reflecting its expertise, on the assessment of transport projects in WebTAG and shares a range of data sources with Local Authorities, such as the National Trip End Model and the Transport Users Benefit Appraisal. WebTAG users are encouraged to ask questions, report problems or suggest improvements. The guidance emphasises the need for proportionality in the level of analysis adopted, so that smaller schemes should not demand the same level of resource input as large schemes. Schemes, large or small, which apply for the department funding, are required to use the *Transport Business Case* to present their impacts to decision takers.

6: Committee of Public Accounts conclusion

The department cannot maximise contributions from private sector beneficiaries of transport projects if it does not fully understand the benefits that projects will bring.

Recommendation:

The department should establish and use a better understanding of the wider economic benefits of transport projects to help it to maximise contributions from beneficiaries of future transport projects.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department undertook a review into its approach to securing financial contributions from third parties on major transport projects. The review examined the lessons learnt by the department on its own major projects and reviewed international examples. At the conclusion of this review the department redrafted its business case guidance to take account of the issues raised and is implementing the recommendations across its portfolio of major projects as part of the business case approval process.

Tenth Report of Session 2014-15

Cabinet Office

Major Projects Authority

1: Committee of Public Accounts conclusion

The MPA was established in March 2011 as a partnership between the Cabinet Office and HM Treasury with a Prime Ministerial mandate to improve project delivery across government through robust assurance measures. Since then the MPA has developed a range of interventions to give assurance over government major projects and to support HM Treasury approval and funding decisions. It has also established the Major Projects Leadership Academy to train senior project leaders in the civil service. In September 2013, the Government Major Projects Portfolio consisted of 199 major projects covering a wide range of activities, from transforming how departments do their work to building ships and motorways. These projects represent a considerable and rising cost to the taxpayer: the MPA reported in May 2014 that the whole-life cost of these projects was £488 billion, an increase of some £134 billion on the previous year.

1.1 On the basis of two reports by the NAO, the Committee took evidence, on 5 June 2014, from the Major Projects Authority (the MPA) on the Government Major Projects Portfolio and the MPA's role in project assurance. The Committee published its report on 19 August 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Major Projects Authority Annual Report 2012-13 and government project assurance* - Session 2013-14 (HC 1047)
- NAO report: *Major Projects Authority Annual Report 2013-14*
- PAC report: *Major Projects Authority* - Session 2014-15 (HC 147)

2: Committee of Public Accounts conclusion
The MPA is unlikely to achieve a systemic improvement in project management without stronger, more formal mechanisms for driving change.

Recommendation:
The Chief Executive of the MPA should have a formal mechanism available, equivalent to an Accounting Officer letter of direction, to set out his position if a project proceeds contrary to MPA advice to cancel or re-scope. More generally, where ministers or officials reject MPA recommendations, there should be a formal and transparent process in place to document this.

2.1 The Government disagrees with the Committee's recommendation.

2.2 The Government agrees that the Chief Executive of the MPA should be able to set out clearly his position on projects. This will be done through the existing MPA and Major Projects Review Group (MPRG) review process, which was set up in 2011, and the published MPA RAG ratings of major projects. The Government has recently published updated guidance on the Osmotherly rules, restating the primacy of the principle of ministerial accountability but confirming that the Senior Responsible Owners (SROs) of the Government's major projects will now be directly accountable to Parliament for the implementation of their project. This should strengthen lines of accountability within Departments for project delivery. The Government will monitor how this works in practice over coming months. It is not, however, yet convinced of the need for a formal mechanism, equivalent to an Accounting Officer letter of direction.

2.3 MPA has a powerful voice and the MPA Chief Executive can influence through the Major Projects Review Group, stock-takes, meetings with senior staff in departments and advice to the Chief Secretary to the Treasury and Minister for the Cabinet Office. MPA is working with the Treasury and the Chief Executive of the Civil Service, to whom the MPA Chief Executive reports, on how to enforce and strengthen its influence. As part of MPA's existing project review process, review teams examine what actions the project team has taken in response to any previous MPA review. MPA will consider whether this can be better documented.

3: Committee of Public Accounts conclusion
The MPA provides welcome visibility of the Government Major Projects Portfolio, but despite the scale and the cumulative risk to the taxpayer, it is managed as a series of individual projects rather than a portfolio.

Recommendation:
The Treasury should take ownership and responsibility for overseeing the government portfolio. It should ensure that decisions about whether, and how, individual projects should proceed are based on each project's impact on the total portfolio's value and risk, and the relevant department's delivery capability and existing portfolio of projects.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2015.

3.2 The Government agrees that oversight of the Government Major Projects Portfolio (the Portfolio) should be further strengthened. But the Government does not agree that the Treasury should take sole ownership and responsibility for the Portfolio. The Treasury is responsible for overseeing spending across Government. It works in conjunction with the Cabinet Office to oversee the operation of Government as a whole, with the Cabinet Secretary and the newly appointed Chief Executive of the Civil Service working to ensure effective coordination and cooperation between government departments. Infrastructure UK currently maintains intelligence on the infrastructure project portfolio. MPA will consult with the Cabinet Office and the Treasury to identify how oversight across the whole Government Major Projects Portfolio can be further strengthened.

4: Committee of Public Accounts conclusion
The MPA could increase its impact by prioritising its assurance work more effectively.

Recommendation:
The MPA should work with departments to improve their project planning, and ensure that they have devoted sufficient attention to the planning phase before seeking project approval. The MPA should pay particular attention to departments with challenging, high-risk portfolios of major projects, such as the Department of Health and Ministry of Defence.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 MPA, the wider Cabinet Office and the Treasury have recently piloted a new approach to improving planning and approvals: departments have been required to do more planning up front and engage with the appropriate experts in the Government Digital Service, Crown Commercial Service or other teams as appropriate. Project Validation Reviews in the planning phase are now well embedded in the MPA assurance regime. MPA collaborates with Infrastructure UK, which provides support tools for infrastructure project planning. The appointment of a new Chief Executive of the Civil Service will strengthen the MPA's work to improve project planning by Departments.

4.3 MPA already prioritises its attention on projects and programmes facing the highest risks and challenges. MPA operates a tier-based system, with weekly reviews of high-priority 'Tier 1' projects. It will continue to do so.

5: Committee of Public Accounts conclusion
The Major Projects Leadership Academy (MPLA) is a welcome development but there is scope for it to target top decision-makers as well as project managers.

Recommendation:
The MPA should develop and implement a tailored approach to improving the project delivery skills and awareness of ministers, shadow ministers, and permanent secretaries.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

5.2 MPA is developing programmes for Ministers, Shadow Ministers and Permanent Secretaries on project delivery in government. The programmes will be bespoke and tailored to the differing needs and responsibilities of Ministers and senior civil servants but based on the principles of the successful Major Projects Leadership Academy.

6: Committee of Public Accounts conclusion
The MPA's assessment of major projects does not cover value for money considerations.

Recommendation:
The MPA assessment should include explicit consideration of whether the project is likely to deliver good value for money, alongside its existing assessment criteria.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2015.

6.2 The Treasury currently makes an assessment and appraisal of value for money alongside MPA project reviews so that a complete evaluation of individual projects is presented to Ministers before a decision to approve a business case is taken. MPA will work with the Treasury to assess what improvements can be made to the existing process for conducting and communicating value for money assessments.

7: Committee of Public Accounts conclusion
Despite welcome progress in extending the range of information published, the data is infrequent and out-of-date, and too much is still withheld.

Recommendation:
The MPA should publish project data more frequently and continue its efforts to reduce the amount of data exempted from publication. The MPA should publish more information on each project, including spend-to-date, even if this means reviewing the government's transparency policy.

7.1 The Government agrees with the Committee's recommendation, but disagrees that data should be published more frequently.

Target implementation date: March 2015.

7.2 MPA made significant improvements this year in reducing the number of exemptions from releasing project data and will continue to validate all future exemptions rigorously. MPA will review which data sets can be released in the next Annual Report, including expenditure, though some data may be commercially sensitive.

Eleventh Report of Session 2014-15

Ministry of Defence

Army 2020

1: Committee of Public Accounts conclusion

Army 2020 is an ambitious programme of change and restructuring which responds to the Government's need to reduce public spending, including on defence. It seeks, for the first time, to integrate fully a regular Army of 82,500 with a larger and more frequently used Army Reserve of 30,000. This represents a significant change from pre-2010 levels of some 102,000 trained regular soldiers and 19,000 trained reserve soldiers. The Department projects that this revised force size will reduce the cost of the Army by £10.6 billion between 2011–12 and 2021–22.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 16 June 2014, from the Ministry of Defence, the Army and Capita on Army 2020. The Committee published its report on 5 September 2014. This is the Government response to the Committees report.

Background resources

- NAO report: *Army 2020* - Session 2013-14 (HC 263)
- PAC report: *Army 2020* - Session 2013-14 (HC 104)

2: Committee of Public Accounts conclusion
The department did not test feasibility, or adequately consult the Army, before deciding to reduce the regular Army and increase the Army Reserve.

Recommendation:
For future significant reviews of the armed forces, the department should involve relevant stakeholders fully in the decision-making process, and ensure adequate testing of the feasibility for proposed actions.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department shares the Committee's view of the importance of ensuring that relevant stakeholders are involved in decision making processes, both as part of significant reviews of the armed forces and in the course of day-to-day business. The department believes that the Army was suitably involved and consulted over the proposals for the regular Army and Army Reserve, given the level of the Army's representation at the Senior Military Judgement Panel which identified the force structure option which underpins Army 2020. The department fully accepts that proposals for change should be adequately tested for feasibility before final decisions are taken, and assures the Committee that to do so is standard practice throughout the department.

3: Committee of Public Accounts conclusion
Shortfalls in Army recruitment are increasing the risk of capability gaps emerging in some parts of the Army's structure.

Recommendation:
The Army should establish clear trigger points for enacting contingency measures if recruitment and retention rates are not improved and gaps emerge in the Army's structure.

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department already reviews recruitment and retention rates for the Army continually, with the Executive Committee of the Army Board (ECAB) reviewing reports on Regular and Reserve manning on a quarterly basis. For the Regular Army there is also an established biannual forecasting process that delivers a clear and detailed breakdown of inflow and outflow anticipated over the forthcoming 10 year period, enabling the ECAB to review regularly the potential risk of under-manning across the structure.

3.3 Specific areas of shortfall are addressed through a range of measures to mitigate either missed recruitment targets or increased outflow, such as more focussed marketing and targeted recruitment, improved remuneration for serving personnel, other aspects of the overall 'offer' including addressing barriers to entry, opportunities for career progression and conditions of service, or a more fundamental review of how the capability is best delivered. For the Army Reserve, the department has instigated monthly review meetings at Ministerial level to address the immediate need to grow the reserve by 2019; these review meetings enable the department to assess progress towards the targets and instigate mitigation measures where necessary.

4: Committee of Public Accounts conclusion
The Army lacks a fully developed contingency plan or clear criteria for using it if gaps emerge in the Army's structure.

Recommendation:
The department should evaluate the options available to it to address any gaps in military capability, assess their potential short-term and long term impact on the Army, and develop a strategic contingency plan to respond.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The Army already addresses potential capability gaps through a sophisticated system of allocating personnel to roles based upon priorities set by our Defence Strategic Direction (DSD) outputs. The bulk of the manpower would normally come from the regular component of the Army but, depending on circumstances, it may be more appropriate to use reservists, the regular reserve, department civil servants or contractors, particularly where specific skills, knowledge and experience are required.

4.3 The Army's projected manning is routinely reviewed and, although manning levels are subject to many influences (including the resources allocated to it, the health of the economy and long term changes in demographics), there are currently no gaps against DSD outputs. The Army is confident that it will meet the target for reserve manning by 2019 but, if the Army is required to exceed DSD outputs before it is met, the additional manpower will be provided from the regular reserve. Should DSD outputs change as a result of the next Strategic Defence and Security Review, there would be a requirement to re-assess the manning balance of the Army.

5: Committee of Public Accounts conclusion
The department's approach to recruitment has put planned savings at risk and is not delivering value for money.

Recommendation:
The department should ensure that it is able to hold Capita to account for its performance in delivering the Army recruitment contract, by finalising and agreeing an interim performance regime.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department has had an interim performance regime in place since June 2014, with financial penalties should Capita's performance fall below agreed levels. This incentivises Capita to improve recruiting performance across three vital key performance indicators (quantity of recruits, quality of recruits and candidate experience). It also encourages the right behaviours within the Recruit Partnering Project operation now and in preparation for Full Operating Capability (FOC), which is currently planned for financial year 2015-16. At that point a fourth key performance indicator will be added relating to the availability and functionality of the Capita ICT system.

6: Committee of Public Accounts conclusion
The department prevented full Parliamentary scrutiny of its Army 2020 plans by withholding information from the National Audit Office.

Recommendation:
The department should fulfil its obligations for accountability to Parliament by making all evidence available for scrutiny in a timely manner and follow established convention in commenting on National Audit Office reports.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department entirely supports the requirement on the part of Government departments to provide full cooperation to the NAO when an inquiry is being undertaken. In this instance the department provided over two hundred documents, many of them highly classified, to assist the NAO with their inquiry.

6.3 In one particular instance, during the finalisation of the report fieldwork, there was a regrettable misunderstanding in relation to further information required by the NAO. Officials believed that all relevant information requested had been passed to the NAO including up to date assumptions and military judgements overlaid on existing planning models leading to the department's conclusion that recruiting targets could be met. The department also made a large number of officials available for interview by the NAO, though the NAO did not interview the Permanent Secretary or the Chief of the Defence Staff, who both played a key role in the events being considered, despite the department suggesting that they should.

Twelth Report of Session 2014-15

Department of Energy and Climate Change

Update on preparations for smart metering

1: Committee of Public Accounts conclusion

The department expects smart meters will help consumers reduce their energy consumption, encourage them to shift demand away from peak times, make it easier to switch between suppliers, and encourage take-up of new tariffs. The Government estimates that £26 will be saved on average by consumers who pay average bills of £1,300 per annum—a saving of just under 2%. This saving has to be set against the cost of £10.6 billion which will be met by consumers at an average cost that will peak at £11 per annum in 2017. The department is relying on the consumer becoming more "savvy" in making decisions about using energy. It also expects smart meters to reduce costs for suppliers, network operators and generators.

The department has established the shared data and communications infrastructure required to ensure that smart meters work consistently for all consumers, regardless of their energy supplier. It has also established the regulatory framework requiring suppliers to install the meters and to establish and fund a new central body whose role is to increase consumer awareness of the Programme and to promote long-term energy consumption behaviour change. The mass roll-out of smart meters is due to start in late 2015. The regulatory framework requires energy suppliers, under licence conditions that will be overseen by Ofgem, to take all reasonable steps to install smart meters in all households and small businesses by the end of 2020.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 9 June 2014, from the Department of Energy and Climate Change and Ofgem on preparations for Smart Metering. The Committee published its report on 10 September 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Update on preparations for Smart Metering* - Session 2014-15 (HC 167)
- PAC report: *Update on preparations for smart metering* - Session 2014-15 (HC 103)

2: Committee of Public Accounts conclusion

Some aspects of the Programme design may prove to be too costly.

Recommendation:

The department should keep the design of the Programme under review and, if costs escalate, assess the value for money of the individual components of the design that are causing cost increases, and take action where appropriate.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Decisions on the design of the programme balance the need to ensure that costs of smart metering are minimised whilst maximising the benefits to consumers and GB as a whole.

2.3 The Government reviews progress on the Smart Meter Programme on an ongoing basis including tracking costs and benefits as set out in the monitoring and evaluation strategy.[2] The Programme's Impact Assessment has regularly been reviewed and updated to take into account the latest available evidence. This evidence informs decision-making on the programme. The Government will continue to review relevant evidence, assess the impacts of any changes in costs and benefits on the overall business case and consider whether any areas of the policy need to be amended to maximise the value for money.

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[2] DECC, *Information Requirements for Monitoring and Evaluation of Smart Meters* https://www.gov.uk/government/consultations/information-requirements-for-monitoring-and-evaluation-of-smart-meters

3: Committee of Public Accounts conclusion
The impact of smart meters on vulnerable and low income consumers is unclear.

Recommendation:
The department must monitor the impact of the Programme to ensure vulnerable and low income households are obtaining the benefits available from smart meters.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Government is taking a pro-active approach to ensuring that vulnerable and low income consumers benefit from the smart meter rollout. A core feature of the programme's Consumer Engagement Strategy[3] was establishing Smart Energy GB, an independent body responsible for engaging consumers in the smart metering roll out. One of Smart Energy GB's three core objectives is to ensure low income and vulnerable consumers realise the benefits of smart metering. Smart Energy GB is working with trusted third parties, such as community groups, charities and local authorities, to support their engagement of these households.

3.3 The needs of vulnerable households are also embedded in other parts of the regulatory framework put in place by the Government. For example: the Smart Meter Installation Code of Practice (SMICoP) requires that suppliers identify and meet the needs of vulnerable consumers. The requirements in the SMICoP have been informed by recommendations made in research conducted on behalf of the department and Consumer Focus by National Energy Action (NEA – a fuel poverty charity) which examined the specific needs of vulnerable consumers in relation to smart meters. Suppliers are already providing a specialised service to such consumers in response to the requirements in SMICoP.

3.4 The Government has also made it a requirement that the In-Home Display (IHD) – which provides the real-time data on energy use that has been shown by international evidence to drive energy saving behaviour change – is designed in a way that makes it easy to use for a wide range of consumers, including those with impairments such as impaired sight, dexterity or memory. The department will continue to monitor the rollout as it progresses and, if evidence emerges, we will take action, for example through additions to SMICoP, to ensure consumers realise the benefits of smart meters.

4: Committee of Public Accounts conclusion
Relying on market forces to control costs and deliver benefits may not provide adequate protection for consumers.

Recommendation:
The department and Ofgem should set out how each intends to minimise the costs of installing smart meters and ensure that the subsequent operational cost savings to suppliers are passed on to consumers.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The Government's approach to minimising costs and ensuring cost savings are passed on to consumers is embedded in the strategy of mandating an energy supplier-led roll out. The department fully expects energy suppliers to pass cost savings through to consumers. As commercial entities operating in a competitive market, energy suppliers are incentivised to minimise costs and maximise cost savings. Consumers will be able to switch away from suppliers that do not keep their customer offer and prices competitive.

4.3 The Government's strategy to encourage new entrants in the energy supply market has seen the number of suppliers increase significantly. There are now 19 independent energy suppliers in the GB market, providing more competition and greater choice for consumers. The Government and Ofgem are

[3] DECC, Smart Metering Implementation Programme: Government Response to the Consultation on the Consumer Engagement Strategy
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43042/7224-gov-resp-sm-consumer-engagement.pdf

committed to further enhancing retail energy competition. To this aim, Ofgem has referred the retail energy market to the Competition and Markets Authority to investigate if features of the market are having an adverse effect on competition and, if so, what reforms would make competition even more effective.

4.4 Ultimately, smart metering will itself enhance competition by providing consumers with the information they need to make better informed decisions about who they buy their energy from, by making switching easier and faster, and by removing barriers to entry for new suppliers.

4.5 Ofgem will write separately to the Committee in their response to this recommendation.

5: Committee of Public Accounts conclusion

Smart meters need to be fully interoperable so that customers can switch easily between suppliers, but there are no regulations preventing suppliers from replacing meters when customers switch.

Recommendation:

The department should ensure clear regulatory requirements are in place to prevent suppliers from replacing smart meters unnecessarily when they take on new customers through switching.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The regulatory framework is designed to support the market to deliver an efficient and effective roll out while avoiding suppliers changing meters unnecessarily on gaining a new customer. First, the department requires energy companies to install smart meters that meet common technical specifications. Together, with the establishment of the Data and Communications Company (DCC), this requirement will ensure that the smart metering equipment installed by one supplier can be used by the gaining supplier. This principle of "interoperability" is central to avoiding meters being replaced unnecessarily on change of energy supplier.

5.3 In addition, the department has put in place a licence condition that means gaining suppliers must take all reasonable steps to avoid replacing a SMETS-compliant (Smart Metering Equipment Technical Specifications) meter with a 'dumb meter' on change of supplier. Moreover, the commercial incentives of energy suppliers are aligned with the regulatory requirements. Given the costs of visiting premises and installing a new meter, a gaining supplier has strong financial incentives to maintain an interoperable compliant meter, rather than install a new one.

5.4 Additional regulation of metering provision could stifle the market and limit suppliers' flexibility in the delivery of benefits - for instance should they want to offer additional functionality to their customers. However, the Government will continue to monitor installation practice and keep the need for further regulation under review.

6: Committee of Public Accounts conclusion

The department has not made clear to consumers what the Programme will cost them and what benefits they can expect.

Recommendation:

The department should require suppliers to provide a clear breakdown for consumers of the cost of smart meters, their operational cost savings and whether consumers are achieving the expected reductions in energy consumption.

6.1 The Government disagrees with the Committee's recommendation.

6.2 The Government has published the overall costs and benefits of the smart metering programme in its Impact Assessment (latest published in January 2014) and has updated this when new evidence has come to light. The Government also publishes the annual Energy Prices and Bills report which provides details of the cost of Government policies, including smart meters, on consumers' bills.

6.3 The Government does not consider it appropriate to require suppliers to separate out the costs and benefits of the smart metering programme – just one element of the overall costs of delivering energy to consumers and billing for it - at the individual consumer level. Ultimately, consumers want to know the price they are paying for the energy they use and then to have the option to choose a new supplier if they are not satisfied with their current one. As already mentioned, smart meters and the information they provide will enhance retail competition and enable consumers to make a more informed choice of energy supplier.

7: Committee of Public Accounts conclusion
The department has relied heavily on consultants to progress the Smart Meters Programme, rather than acquiring the skills in-house.

Recommendation:
The department should examine how other departments are developing their in-house commercial expertise, particularly the model developed by the Ministry of Defence to provide new pay arrangements outside civil service structures.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 Over the past year, the department has worked with others across Whitehall to develop a robust business case for the expansion of the DECC Commercial Team. In March 2014, the department obtained approval from the Treasury to apply a variable Pay Enhancement for specific specialist commercial staff who are to be employed on 23 month fixed term contracts. As at September 2014, 14 contracts had been issued. The specialists will join one of two teams; Commercial & Corporate Finance Advisory, which provides policy advice across the department, and the Investor Relations team, which seeks to engage financial institutions in the UK energy sector. In addition, the department is considering targeted pay enhancements where there is specific specialised commercial need.

8: Committee of Public Accounts conclusion
Public confidence in the Smart Meters Programme may be undermined by the department's refusal to publish the Major Projects Authority's assessments of the Programme.

Recommendation:
The department and the Cabinet Office should adopt a more open approach to publishing Major Projects Authority project assessments after they have published the resulting RAG rating and only rarely withhold the most sensitive information.

8.1 The Government disagrees with the Committee's recommendation.

8.2 The Government accepts the need for greater transparency on progress in delivering its major projects and believes this is well met by other means such as the MPA annual reports, and the specific project performance data published by departments at the same time.

8.3 In the context of other transparency for the smart metering programme, the Department already publishes information on smart meters in its Annual Progress Report on the roll-out of Smart Meters, quarterly roll-out statistics, and results of research and regular consultations (and responses). Since 2011 there have been more than 35 separate consultation exercises on various aspects of the Programme.

Thirteenth Report of Session 2014-15

Department for Communities and Local Government

Local government funding: Assurance to Parliament

1: Committee of Public Accounts conclusion

In 2013-14, the Government gave local authorities £36.1 billion, of which £32.9 billion had no specific conditions (ring-fences) attached as to how local authorities could use it, other than that spending was lawful. This reflected Government's intention to give local authorities maximum flexibility to allocate funds in line with local priorities. Departmental Accounting Officers retain a responsibility to assure Parliament that the funding is used in line with its intentions and achieves value for money.

The Department for Communities and Local Government, as the lead department for local government funding, states that it has put in place assurance arrangements aimed at balancing the tension between giving local authorities greater flexibility whilst providing sufficient assurance to Parliament. However, there are direct reporting arrangements for ringfenced grants that amount to £3.2 billion of the £36.1 billion allocated. The department relies primarily on the local accountability system of checks and balances to ensure that local authorities achieve value for money with unringfenced funding. The new arrangements for the audit of local authorities and the potential for political party control of scrutiny arrangements also threaten to weaken accountability.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 9 July 2014, from the Department for Communities and Local Government. The Committee published its report on 12 September 2014. This is the Government response to the Committees report.

Background resources

- NAO report: Local government funding: Assurance to Parliament - Session 2013-14 (HC 174)
- PAC report: - Local government funding: Assurance to Parliament - Session 2014-15 (HC 456)

2: Committee of Public Accounts conclusion:
The department does not know whether the local accountability system ensures local authorities achieve value for money with government funding.

Recommendation:
The department should ensure that the department's information sources provide it with sufficient assurance over the effectiveness of the system in relation to value for money, including having plans in place to preserve the assurance currently provided through the Audit Commission's annual report Auditing the Accounts.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department has reliable sources of information that provide it with ample assurance over the effectiveness of the accountability system. The annual review process systematically pulls these together and ensures that the department has sufficient information to assure the Accounting Officer that the accountability system for local authorities is effective. Value for money will continue to form part of this process. The department publishes a summary of its findings in the annual governance statement. Therefore, the Government believes the proper degree of assurance is in place on value for money, relative to the duties of the Department for Communities and Local Government Accounting Officer's responsibilities within a decentralised system.

Recommendation:

The departments should focus on the effectiveness of mechanisms that have a specific value for money role, such as the Best Value duty, scrutiny committees, local auditor roles, transparency of data and the role of section 151 officers.

2.3 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

2.4 The department accepts that there is a need to preserve the assurance provided by the local audit system. Under the new audit and transparency arrangements, a wide range of information must be published locally by councils, where it will be available for local electors In future years, the department intends to run a trawl of this publicly available information, in order to provide the Accounting Officer with a sufficient national overview for assurance purposes. The department will be undertaking a dry run of the trawl of publically available information for the year 2014-15 prior to the closure of the Commission. The findings will form part of the assurance process.

2.5 The public can also inspect their council's detailed financial accounts, ledgers and records over a set period of time (currently lasting 20 working days), once the accounts have been finalised. Under proposals published by Government, as from the accounts for 2015-16, this will be extended to 30 working days and will include a common period of 10 working days when local people throughout England will be able to access the accounts of their council.

2.6 On 3 October 2014, the Government formally reissued the Local Government Transparency Code 2014 (the Code) under section 2 of the Local Government, Planning and Land Act 1980 (the Act). The revised Code will make key datasets mandatory for councils to publish, further strengthening the ability of citizens to scrutinise spending by local authorities.

3: Committee of Public Accounts conclusion:

The department could do more to help local authorities achieve better value for money now that they have greater flexibility over funding.

Recommendation:

The department should identify and share best practice examples that demonstrate where local authorities have used greater funding flexibility to introduce innovative practices that save money and protect frontline services.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 There is good evidence that greater funding flexibility has facilitated the development of highly innovative integrated local services by local authorities. The Greater Manchester Early Years Partnership, designed to increase the proportion of children in Greater Manchester who are 'school ready' and enable parents to give them the best possible start in life, is a good example. The Public Service Transformation Network, established by the department, will ensure that similar best practice is identified and shared across the country.

3.3 In addition, Sir Ken Knight's review of fire and rescue authorities in England, published last year, highlighted the scope for the fire and rescue services to find millions in savings whilst safeguarding emergency operations and protecting public safety. To help fire and rescue authorities realise these savings, the Government has provided £75 million to support transformational change and deliver longer-term efficiencies for fire authorities in 2015-16. The use of transformation funding to support collaborative projects underlines the Government's long held position that sharing services is one of the most effective ways to increase value for money and protect frontline services.

3.4 The department has commissioned and funded research, "Good practice in Local Government Savings Study" which is based on an on-line survey and in-depth case studies and explores how local authorities have been making savings across a range of different service areas. The research has been carried out by Shared Intelligence/Grant Thornton. The Department is currently considering the draft final report and possible publication options.

4: Committee of Public Accounts conclusion:
Departments do not monitor some unringfenced grants, which means they do not know whether they are achieving their stated strategic objectives.

Recommendation:
Where departments judge that unringfenced targeted grants are appropriate, they should ensure they have sufficient information to understand the impact of these grants, to assure Parliament on the expenditure and to inform their decision-making on future funding arrangements.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The Government pledges to reduce the ring-fencing of grants, so that local authorities have more flexibility on how they use resources. Also, the department will maintain on-going dialogue with local authorities on how their spending can be directed towards shared priorities, while allowing sufficient flexibility.

4.3 The department does seek some levels of assurance on unringfenced funding. For example: on the weekly collection support scheme, the department had a bidding process and sought assurance from councils that they were implementing their bid proposals before each tranche of funding was given; in the case of Local Enterprise Partnerships, they were asked to agree business cases with the department. In many cases, there is some light touch monitoring in place.

4.4 The department believes that the current system has created the conditions for local authorities to achieve value for money through decentralising funding, pressure to improve outcomes and greater transparency on their spending.

5: Committee of Public Accounts conclusion:
The department's reliance on local accountability places a greater onus on value for money judgments made at a local level, but local authorities' capability to perform this role varies.

Recommendation:
The department should recommend to the Local Government Association that it identifies and shares best practice in scrutiny committees for authorities where there is little or no opposition representation.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 Best practice sharing by local authorities is already underway. Effective scrutiny is important in ensuring regularity, propriety and value for money. The Centre for Public Scrutiny, an independent charity focussed on improving local scrutiny, has a wealth of materials available for those engaged in scrutiny to read and use in identifying and sharing best practice. There are also local authority scrutiny networks in place across England in which both members and officers can take part, compare notes and share good practice. The department will discuss this issue with the Local Government Association.

6: Committee of Public Accounts conclusion:
The quality and accessibility of information to enable residents and councillors to scrutinise local authorities' decisions varies.

Recommendation:
The department should ensure that local authorities conform to the new mandatory Transparency Code on the publication of data, and work with local authorities to improve performance where shortcomings are identified.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 Part 2 of the Local Government Transparency Code 2014 is mandatory, and local authorities now have a duty to comply. The department will be working with the Local Government Association and others to prepare advice for local authorities on how to meet their obligations under the Code. The local government sector is expected to lead this process by producing updated versions of existing Local Government Association guidance, prepared for the Code of Recommended Practice for Local Authorities on Data Transparency 2011. The Code will ensure that more data about how local authorities spend their money and deliver services is published. As local people become increasingly familiar with this data and are able to compare the performance of their local authority with others, we expect demand will grow for local authorities to publish more of their data. Where the department identifies any shortcomings in performance, it will work with the Local Government Association to strengthen their guidance.

Recommendation:
The department should assess whether the data published under the Transparency Code helps residents to scrutinise the performance of local authorities, and if alternative data would be of more value.

6.3 The Government agrees with the Committee's recommendation.

Target implementation date: 2016.

6.4 The Government abolished the unnecessary top-down central performance management regime that included the Comprehensive Area Assessment and strengthened local accountability through transparency measures making councils accountable to local people. The Local Government Transparency Code demonstrates Government's desire to place more power in citizens' hands to increase democratic accountability

6.5 The Government is aiming to review how implementation of the Code has gone, in the early part of the next Parliament. However, the Code is not a tool for central government to collect data on the performance of local authorities. The aim of the Code is to ensure that local people have enough key information to enable them to hold their authorities to account. Local authorities are encouraged to look to go further than this Code, in line with the principle that all data held and managed by local authorities should be made open and available to local people unless there are specific sensitivities to doing so. This, in turn, will enable people to contribute to the local decision making process and help shape public services. The department is in regular discussions with local authorities and the Local Government Association about implementation of the Code and other transparency and open data issues. Currently, there are no plans to add any more data sets to the mandatory part of the Code.

7: Committee of Public Accounts conclusion:
The accountability system is not aligned with funding for new local bodies such as Local Enterprise Partnerships (LEPs) and Health and Wellbeing Boards.

Recommendation:
The department should ensure that they develop a separate accountability system statement, which makes it clear how new bodies, such as Local Enterprise Partnerships and Health and Wellbeing Boards, will be transparent and accountable for their use of public money. Responsibilities should be defined at both central and local levels.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

7.2 The department recognises the potential challenge that multi-agency delivery models present to traditional accountability systems and understands the need for bodies like Local Enterprise Partnerships to be transparent and accountable for their use of public money. The department will shortly be publishing a separate accountability system statement for the Local Growth Fund, which will explain more about how the department will see accountability working in Local Enterprise Partnerships to achieve the objectives of the Fund.

7.3 Linked to this accountability system statement, Local Enterprise Partnerships will also be required to produce local assurance frameworks. These frameworks will be locally produced to reflect different local circumstances. However, the Government is producing guidance about what these frameworks are expected to cover - for instance, information about structures for decision-making, minimum transparency requirements, information about local partnership-working and the mechanisms in place to achieve value for money. Similarly, it will be for relevant departments' Accounting Officers to publish accountability system statements in respect of the unique governance and funding programmes they have responsibility for.

Fourteenth Report

Department for Environment, Food and Rural Affairs

Defra's oversight of three PFI waste projects

1: Committee of Public Accounts conclusion

In 1999, the European Union introduced a Directive requiring all member states to reduce the amount of biodegradable municipal waste sent to landfill. The department has responsibility for ensuring that England diverts sufficient waste from landfill to enable the UK to meet its target under this Directive of sending less than 10.2 million tons of waste to landfill a year by 2020. Local authorities have statutory responsibility for disposing of their municipal waste.

The department established a Programme in 2006 to encourage the development of local authority waste infrastructure by providing support, guidance and funding to local authorities undertaking waste projects through PFI contracts. The department part-funds local PFI projects through this Programme. Local authorities are the signatories to the PFI contracts and are responsible for ensuring that their waste contracts represent value for money. The department contracts staff from an organisation, Local Partnerships, to provide the technical support to local authorities. The department, which oversees the allocation of funds and scrutinises local authorities' plans, has allocated £1.7 billion of PFI credits to 28 local authorities under the Programme.

The Committee's inquiry focused on the department's support to three PFI waste projects run by Norfolk County Council, Surrey County Council and a joint project managed by Herefordshire Council and Worcestershire County Council.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 25 June 2014, from the Department for Environment, Food and Rural Affairs on the department's oversight of three PFI waste projects. The Committee published its report on 17 September 2014. This is the Government response to the Committee's report.

1.2 The Government accepts four of the Committee's recommendations, although disagrees with two recommendations. The NAO's findings concluded that the department had already put in place a system of active support and guidance for local authorities. Further, the rationale for funding infrastructure through PFI was to achieve the EU Landfill Directive diversion targets, which remain on track.

Background resources

- NAO report: Oversight of three PFI waste projects - Session 2014-15 (HC 264)
- PAC report: Department for Environment, Food and Rural Affairs: oversight of three PFI waste projects - Session 2014-15 (HC 106)

2: Committee of Public Accounts conclusion:

The department's support of PFI to build waste management infrastructure may result in long term contracts that are too inflexible for a sector where technology is continually evolving and the amount of waste produced can be hard to predict.

Recommendation:

The department should consider including other forms of support to help local authorities to manage their waste in ways that are flexible enough to deal with changes in technology and waste levels to ensure local authorities are not locked into projects that provide more capacity than is required and are very expensive.

2.1 The Government disagrees with the Committee's recommendation.

2.2 The department's support for the development of waste treatment infrastructure through PFI has contributed substantially to enabling England to meet its share of the UK targets to divert biodegradable waste from landfill. Compared to 1995 levels, biodegradable municipal waste sent to landfill in England has fallen by over 70%.

2.3 The PFI projects provide for a variety of waste facilities including recycling, collections, residual treatment and disposal, and local authorities determine which technology is most appropriate locally. The projects are designed to support local authorities' broader efforts to achieve high levels of recycling, and where Energy from Waste infrastructures are developed, these are designed to accommodate future technological change, for example by enabling heat as well as power to be produced when this becomes economically viable. Environment Agency data for 2013 shows that there are 26 operational Energy from Waste treatment plants in England and that all are working to their intended capacities.

2.4 In addition to support for waste treatment infrastructure through the PFI, the department advises local authorities to manage their waste through other means including: the Waste and Resources Action Programme (WRAP), providing financial support for the Anaerobic Digestion Loan Fund, and the Innovation in Waste Prevention Fund, which aims to encourage partnership working on innovative prevention projects. The Government has set ambitious packaging targets to increase the amount of packaging waste that is recycled, and has part funded an industry initiative 'Pledge 4 Plastics' to increase the amount of plastics packaging collected from households. The department also launched a 'Reward and Recognition Fund' in 2011 supporting organisations and local authorities to reward and recognise people or communities for managing waste. The department for Communities and Local Government is currently running a Recycling Reward scheme for local authorities to incentivise residents to recycle.

3: Committee of Public Accounts conclusion:
The funding agreements for the early PFI waste deals were poorly drafted and too lax as they require payments to be made even though some of the key assets planned have not been built.

Recommendation:
The department has more work to do to improve local authorities' contracting capability, especially for PFI projects. It needs to be much clearer about the outputs and outcomes it requires when funding future waste projects and ensure that it only pays for what is delivered.

3.1 The Government agrees with the Committee's recommendation.

Recommendation Implemented.

3.2 The department continually works to improve local authorities contracting capability, through a system of active support and guidance for the local authorities, in the PFI programme and more broadly, for example, through best practice sharing.

3.3 In 2007, the department amended the way it allocates PFI credit to new projects, so that it only pays when the residual treatment infrastructure is actually operational. The department's funding for Waste Infrastructure Grant has been fully allocated and the objectives of the programme are highly likely to be met. Currently the department has no plans to fund future waste projects by this means.

4: Committee of Public Accounts conclusion:
The department waited far too long before renegotiating its funding agreements with Surrey and with Herefordshire and Worcestershire Councils

Recommendation:
The department should act with far greater urgency when it has concerns about a project's progress.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The department already acts quickly to address concerns on the progress of any project. Funding agreements, for more recent projects, provide the department with a right to review its funding allocation if projects experience material delay. Large and complex projects of this nature typically take several years to deliver in full and delays are common, particularly in achieving planning consent. These projects were successfully delivering a number of services, including recycling services, from the beginning of their contracts. The department's approach was to support the efforts of local authorities to overcome difficulties in delivering the remaining infrastructure.

5: Committee of Public Accounts conclusion:
The department supported the Norfolk scheme despite having strong reservations about the local authority's timetable for securing planning permission. This contributed to the £33.7 million bill Norfolk taxpayers now face.

Recommendation:
The department should not agree to fund schemes until all its concerns have been resolved.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department did not agree to fund schemes until all its concerns had been resolved. Going forward, the department's funding for Waste Infrastructure Grant has been fully allocated and the objectives of the programme should be met. Currently, the department has no plans to fund future waste projects by this means.

6: Committee of Public Accounts conclusion:
Local authorities need better advice on negotiating PFI contracts, particularly on technical aspects such as when to secure finance, and compensation arrangements.

Recommendation:
The department should make better use of its position and expertise to support local authorities in negotiating PFI contracts and achieve value for money for local taxpayers.

6.1 The Government agrees with the Committee's recommendation.

Recommendation Implemented.

6.2 The department's scrutiny has improved local authorities contracts and it continues to work with authorities to ensure that contracts deliver value for money. Currently, the department is providing resources to help local authorities make savings from operational PFI and Public Private Partnership (PPP) projects in the waste sector. The department has helped local authorities negotiate variations that will deliver more than £250 million savings over the remaining life of their contracts.

6.3 The advice and challenge provided by the department to local authorities is not intended to substitute for local authorities own procurement of commercial advisors, or their judgement or decisions on contractual commitments. Ultimately, it is the responsibility of local authorities to ensure they are able to take informed decisions.

7: Committee of Public Accounts conclusion:
The department has made decisions on this programme focused entirely on the need to meet the EU target without due regard to the impact of its decisions on local authorities.

Recommendation:
The department needs to balance the need to meet the EU target at minimum cost, with making sure that its decisions serve taxpayers' interests as a whole and do not result in additional costs for local authorities. The department should place more weight in its decision-making on the cost to the public in the round when it considers withdrawing its support to individual projects.

7.1 The Government agrees with the Committee's recommendation that its decisions should serve taxpayers interests as a whole.

Recommendation Implemented.

7.2 The department has taken account of the impact on local authorities in making funding allocations, based on an assessment of overall value for money.

7.3 The objective of the department's Waste Infrastructure Delivery Programme is to enable England to meet its share of the UK targets to divert biodegradable waste from landfill. The department has to consider the national need in the context of expected developments in the generation and treatment of waste, including the amount of treatment capacity likely to be available. Efficiency in the use of taxpayer's money – and therefore achievement of value for money – is dependent on the proper targeting of expenditure to purpose.

7.4 Norfolk County Council breached the terms of its funding agreement with the department when satisfactory planning consent was not secured by the agreed date.

Fifteenth Report

Department for Transport / Highways Agency

Maintaining strategic infrastructure: roads

1: Committee of Public Accounts conclusion

The strategic and local road networks are England's most valuable infrastructure asset. They are valued at approximately £344 billion, and are made up of roads and other infrastructure such as bridges, embankments and drainage systems. The Highways Agency, which is an executive agency of the department, is responsible for maintaining the strategic road network (4,400 miles), which includes almost all of England's motorways and its most important 'A' roads. The remaining local roads (183,000 miles) are maintained by 152 local highway authorities. In 2012-13 public spending on maintaining England's roads was £4 billion; of which the Agency spent £720 million (capital and revenue) and the department provided £779 million capital for local highway authorities' road maintenance. The remainder was paid for from local authorities' other resources.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 18 June 2014, from the Department for Transport and Highways Agency. The Committee published its report on 25 September 2014. This is the Government response to the Committees report.

Background resources

- NAO report: *Maintaining strategic infrastructure: roads* - Session 2014-15 (HC 169)
- PAC report: *Maintaining strategic infrastructure: roads* - Session 2014-15 (HC 105)

2: Committee of Public Accounts conclusion:
The department's unpredictable and fluctuating budgets for road maintenance over decades have put value for money at risk.

Recommendation:
The department should hold the new Highways Agency to account for delivering the improved value for money that should be achievable given the certainty that will be provided by the planned funding reforms.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 A Road Investment Strategy will be published later in 2014, which has an investment plan for the Strategic Road Network, and a performance specification, which includes key performance indicators (KPIs) that the new company will be expected to deliver.

2.3 The company's performance will be monitored by the Strategic Road Network Monitor, a new role being taken on by the Office of Rail Regulation (ORR). The Monitor will publish reports and analysis on the company's performance, including its delivery of outputs and KPIs costs and efficiency. Action will be taken in the event of poor performance by the company.

Recommendation:
The department should keep to the long-term budget allocations it has set out for local highway authorities to enable them and the supply chain to plan ahead confidently and efficiently.

2.4 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.5 The Government announced in the 2013 Spending Review a six year funding settlement from 2015-16 to 2020-21, which will provide local highway authorities with long term funding to enable planned preventative maintenance to be undertaken. Local authorities can ensure that they can put in place maintenance plans working closely with their contractors and other parts of the supply chain. The departments sponsored Highways Maintenance Efficiency Programme will further address any issues when undertaking planned maintenance.

3: Committee of Public Accounts conclusion:
The department has promoted best practice in local road maintenance but performance still varies locally.

Recommendation:
The most effective way in which the department can influence practice is through its funding of road maintenance. The department should use the way it allocates its funding to incentivise efficiency and collaboration and it should not fund poor performance.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department continues to encourage local authorities to undertake a planned, asset management-based approach to highway maintenance and have produced advice and toolkits through the Highways Maintenance Efficiency Programme to enable them to do this.

3.3 Key to asset management is having good data. Knowing when to intervene in maintaining an infrastructure asset brings value for money. The department will shortly be undertaking a consultation exercise on the best way to allocate local capital highways maintenance funding from 2015-16 to 2020-21 to local highway authorities. The consultation will look at incentivising efficiencies, and ensuring authorities have an asset management strategy in place.

Recommendation:
The department should identify those local highway authorities that carry out maintenance less efficiently and target the Highways Maintenance Efficiency Programme at them.

3.4 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.5 The bidding process for the Potholes Fund, announced by the Chancellor in the March 2014 Budget, included questions to local highway authorities about their existing maintenance services. The questions were designed to gain evidence from each local authority on the quality of their preventive maintenance regimes; whether they had an up to date asset management strategy; and if they were adopting efficiencies in their highway maintenance service.

3.6 Those authorities who were unable to provide robust evidence through the Pothole Fund are now being offered further assistance by the work being undertaken through the Highways Maintenance Efficiency Programme. The Programme has also produced a number of resources to help local highways authorities assess their performance including the cost, quality, customer project, undertaken in association with the National Highways and Transport Network.

4: Committee of Public Accounts conclusion:
A lack of information and understanding of road infrastructure and the costs of maintenance hinders decision-making on when and where it is best to spend the money.

Recommendation:
The department should work with local highway authorities to ensure that they all develop appropriate data and understanding of their road infrastructure.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The statutory responsibility for local roads rests with local highways authorities. It is ultimately for each local highway authority to satisfy itself that it has appropriate data and understanding of its road infrastructure. The Department will continue to work with local highway authorities to seek to improve the current position significantly. Local highway authorities are already encouraged to undertake a planned, asset management-based approach to highway maintenance and through the Highways Maintenance Efficiency Programme.

4.3 The department collects key data on the condition of classified roads managed by local highway authorities on an annual basis. The department has no plans to place any further burdens on local authorities to collect more data at this time. Local highway authorities are also encouraged to undertake a planned, asset management-based approach to highway maintenance, with the Highways Maintenance Efficiency Programme providing additional guidance and toolkits.

Recommendation:
The Agency should also improve its understanding of its road infrastructure, how this deteriorates over time and the costs of maintenance interventions.

4.4 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.5 The Highways Agency is building a single Integrated Asset Management Information System (IAMIS), uniting information across different asset types to support more informed investment decisions. The Agency's new LIDAR (laser) and imagery surveys are providing accurate surface-visible asset information. With 92% of the Strategic Road Network already covered, a national contract will continue to provide regularly updated information. Potential uses to provide asset deterioration information are being progressed through innovative techniques being developed by the Agency.

4.6 The Highways Agency is utilising less disruptive more cost-effective surveying techniques to improve drainage condition information. These will be carried out within future highway schemes and as a dedicated survey programme commencing winter 2014-15.

4.7 The Agency is also developing Decision Support Tools (DSTs) to support investment decisions. It has implemented a pavement tool, which models existing information to predict future condition, based on Agency-developed deterioration models. The Agency is developing a roadmap by 31 March 2015, informing development of Decision Support Tools for other assets. It is also working to ensure alignment between its cost capture data and the new asset information system, to support measurement of maintenance activity unit costs. This will be in place for all maintenance contracts by 1st July 2016.

5: Committee of Public Accounts conclusion:
Whilst we understand the unpredictable nature of winter weather, too much road maintenance is inefficient because it is reactive and unplanned.

Recommendation:
The department should ensure that Government funding promotes and supports the more even spread of expenditure over the year, with work carried out during the time when costs can be minimised.

5.1 The Government disagrees with the Committee's recommendation.

5.2 The additional highways maintenance funding, allocated to local highway authorities, was provided due to significant weather events - for example: the severe 2010-11 cold winter weather and the wet weather 2013-14 winter. The funding was requested by local highway authorities to deal with the damage on the local road network. The department agrees that over the longer term the need for the Government to provide additional highways maintenance funding should diminish. The department's funding for local highways maintenance is increasing from 2015 onwards. There is scope for local authorities nationally to deliver more for less through a greater up take of asset management / efficiency practices and longer term funding certainty, which the Government is providing.

Recommendation:
The Highways Agency should develop longer-term plans for preventative maintenance and streamline its annual planning process to spread work more evenly across the year.

5.3 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.4 The Highways Agency is producing a roadmap (to be completed 31 March 2015) for the design and implementation of a number of asset-specific Decision Support Tools, which will utilise existing asset condition information and carefully developed asset deterioration models, to provide a range of future maintenance intervention options to support maintenance intervention decisions. The Agency has already implemented the first of these which is the pavement investment tool to support carriageway-related planning and will be rolling out a structures 'proof of concept' tool by 31 March 2015.

5.5 The Agency has also established a team to look at the coordination of capital delivery for the next five years, including developing a forward look of interventions based on Route Strategies and Designated Funds relating to environmental, safety, and accessibility schemes, and other known funding streams.

5.6 The Agency has streamlined its process for prioritising resurfacing work to enable production to commence earlier in the year and is already progressing detailed design in this financial year for this year's work and for work to be delivered in the next financial year.

Recommendation:
The department should use the Highways Maintenance Efficiency Programme to help local authorities quantify the benefits of more preventative work and to anticipate problems rather than react to them.

5.7 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.8 The department has commissioned a research project which commenced in November 2013 to value the benefits of highways maintenance. The results will be applicable both at national level, for use by the department, as well as at a more local level, for use by local highway authorities and Local Enterprise Partnerships. The first phase of this work is nearing completion and includes delivery of a Highways Maintenance Wider Impacts model that can be used by local bodies to produce evidence of the wider economic impact of a maintenance strategy, including planned preventative maintenance.

6: Committee of Public Accounts conclusion:
Routine maintenance is essential to deal with increasingly frequent severe weather and to prevent long-term damage to infrastructure but a fall in the proportion of revenue funding to capital funding risks a reduction in this type of maintenance.

Recommendation:
The department should ensure the Highways Agency has the right balance of revenue and capital funding to enable it to carry out essential routine maintenance activities.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Spending Round settlement in June 2013 included a record increase in maintenance spending for the Strategic Road Network (SRN). This included £4 billion capital for renewals up to 2021, which will allow 80% of the SRN to be resurfaced. It also committed to resource certainty of £2 billion over the same period. This was based upon an assessment on the funding necessary for an efficient whole life cost approach to the maintenance of the asset. The department is confident that this ensures the right balance between revenue and capital funding has been set for the Road Investment Strategy period.

Recommendation:

The Department for Transport and the Department for Communities and Local Government should examine the cumulative impact of their combined funding decisions on local authorities' road maintenance, and they should adjust their approach accordingly to support essential routine road maintenance activities.

6.3 The Government agrees with the Committee’s recommendation.

Recommendation implemented.

6.4 The department regularly considers the levels of funding available for local highway maintenance, as well as more in-depth considerations at Spending Reviews. The department contributes to the cross Government work led by the Department for Communities and Local Government on the resources required by local government as a whole. Additionally, the department has been working with the sector through the Highways Maintenance Efficiency Programme and other channels to highlight the importance of planned routine maintenance. However, in line with the localism agenda, it is for individual local authorities and not the department to determine how they allocate their resources across the spectrum of services they provide.

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