HM Treasury

Treasury Minutes

Government responses on the Eighteenth, the Twenty First to the Twenty Fourth, and the Thirty Third reports from the Committee of Public Accounts: Session 2014-15

Cm 9013 February 2015

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

Cm 9013 February 2015

TREASURY MINUTES DATED 12 FEBRUARY 2015 ON THE EIGHTEENTH, THE TWENTY FIRST TO THE TWENTY FOURTH, AND THE THIRTY THIRD REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2014-15

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Eighteenth Report of Session 2014-15

HM Revenue and Customs

HMRC's Progress in improving tax compliance and preventing tax avoidance

1: Committee of Public Accounts conclusion

HMRC collects around £500 billion a year from UK taxpayers. Since the 2010 spending review, it has been specifically funded to do more compliance work to secure more tax revenues. HMRC measures the impact of its compliance work by estimating 'compliance yield'—the additional revenue it generates through its activities to identify and prevent tax losses, arising from avoidance, evasion and criminal attack. In 2013-14, it exceeded the target it had agreed with the Treasury, reporting compliance yield of £23.9 billion, £5.3 billion more than in 2011-12.

1.1 On the basis of the published HMRC Annual Report and accounts 2013-14, the Committee took evidence on 16 July, 2014 from HMRC. The Committee published its report on 18 November 2014. This is the Government response to the Committees report.

Background resources

- HMRC report: HMRC Annual Report and Accounts 2013-14 – Session 2013-14 (HC 19)
- PAC report: HMRC's progress in improving tax compliance and preventing tax avoidance Session 2014-15 (HC 458)

2: Committee of Public Accounts conclusion

HMRC made a £1.9 billion error when it established its baseline and set targets for its compliance work. This meant it presented misleading information to Parliament about the improvement in its performance.

Recommendation:

HMRC should ensure the governance arrangements around its key performance indicators are sufficiently robust, and subject to adequate internal and external challenge, before they are reported publicly.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The error was in the baseline calculation rather than the departments reported performance figures. The NAO review has concluded that the department's methodology and processes for estimating and compiling yield were sound and that the measure provides a reasonable proxy for the beneficial impacts of their compliance work. It is confident that their measures provide a robust assessment of compliance yields. The department's performance numbers are subject to scrutiny through the management chain. There is a programme of work in place with its Internal Audit function and the NAO for 2014-15. The Treasury will also have greater oversight of the department's compliance outturn.

3: Committee of Public Accounts conclusion

HMRC is not properly transparent and clear about the different levels of certainty around compliance yield that it reports.

Recommendation:

HMRC should be more transparent about its compliance yield estimates by publishing more detail about how it calculates compliance yield, being clearer about how much it has actually collected in cash terms and explaining how uncertainty affects its estimates.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department has recognised the need to provide more information to aid understanding of its complex performance, and has therefore provided a more detailed breakdown of compliance revenues in its 2013-14 Annual Report, published on 3 July 2014. The department will continue to provide explanatory information whenever it publishes its compliance revenue outturns.

4: Committee of Public Accounts conclusion
There has not been consistency in the way HMRC has measured compliance yield which makes it hard to hold HMRC to account for its performance over time.

Recommendation:
HMRC should maintain a comparable measure of compliance yield over time and report clearly the impact of any changes it makes to its methodology in its key accountability statements to Parliament.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The department is committed to transparency around any changes to its compliance yield scoring methodology. It will ensure that any changes will be set out clearly in the following annual report. However, the department understands that it may not always be possible, or practical, to make comparisons over time. This is because it is important that the department's methodology for assessing the effects of its compliance activities keeps pace with the developments of the compliance work. In future, the work the department carries out may change so significantly that it would be unable to maintain a comparable time series.

5: Committee of Public Accounts conclusion
HMRC's action against tax avoiders continues to be unacceptably slow, putting tax revenues at risk.

Recommendation:
Parliament has granted HMRC new powers to tackle tax avoidance. HMRC should report on the progress it has achieved by using these new powers (for example, in its Annual Report) and demonstrate to Parliament that it is using its existing powers with sufficient urgency.

5.1 The Government agrees Committee's recommendation.

Target implementation date: 1 April 2016.

5.2 The department received new powers in Finance Act 2014 introducing the Follower Notice and Accelerated Payment notice regimes. The department has plans and resources in place to issue 43,000 Accelerated Payment notices by the end of March 2016. The department has been issuing notices in accordance with the plan and will report progress in its Annual Report. Follower Notices depend on there being relevant final judicial decisions. The department has reviewed decisions in avoidance cases and started to issue Follower Notices as a result, with progress to be reported in its Annual Report.

5.3 The department has been given new powers in connection with High Risk Promoters. These are expected to apply to a small number of scheme promoters. The department will provide an update on activity under the regime, which will be available in the Annual Report. Disclosure Of Tax Avoidance Scheme (DOTAS) statistics will continue to be published on the website.[1]

6: Committee of Public Accounts conclusion
HMRC does not do enough to tackle companies which exploit international tax structures to minimise UK tax liabilities.

Recommendation:
The Treasury and HMRC should provide the Committee with details of progress in identifying and addressing the ways that international tax structures are exploited, and set out the actual costs and benefits of recent changes to the UK's tax regime.

[1] https://www.gov.uk/government/statistics/tax-avoidance-and-disclosure-statistics

6.1 The Government disagrees with the Committee's recommendation.

6.2 The Government announced at the Autumn Statement 2014 that it will introduce a new tax – the "Diverted Profits Tax" – to counter the use of contrived arrangements used by multinational enterprises to divert profits from the UK. The Diverted Profits Tax will be applied using a rate of 25% from 1 April 2015. The measure is targeted at contrived arrangements used to shift profits away from the UK in a manner that ensures they go untaxed or largely untaxed. The measure is designed to counter the erosion of the UK tax base as a result of complex structures that circumvent the international tax rules on permanent establishment and transfer pricing. Draft legislation for the Finance Bill 2015 was published on 10 December 2014, with a tax information and impact note and an explanatory note. The Office for Budget Responsibility has certified the central estimate of tax yield from this measure to be £1.4 billion over the next five years to 2019-20.

6.3 The Government also announced at the Autumn Statement 2014 UK action on two of the internationally agreed 2014 outputs of the G20-OECD Base Erosion and Profit Shifting project. The UK will introduce legislation to implement the G20-OECD agreed model for country-by-country reporting, which will require multinational companies to provide tax authorities with high-level information on profit, corporation tax paid and certain indicators of economic activity for risk assessment. Draft legislation for the Finance Bill 2015 was published on 10 December 2014, with a tax information and impact note and an explanatory note. Furthermore, a consultation document on the UK plans for implementing the G20-OECD agreed rules for neutralising hybrid mismatch arrangements was published at the Autumn Statement 2014.

6.4 The proposed hybrid mismatch rules will tackle tax avoidance by multinationals which exploits differences between two countries' tax rules either to avoid paying tax on profits in either country, or to obtain tax relief in both countries for an expense incurred in one.

6.5 In addition to the measures announced at Autumn Statement 2014, the UK's corporation tax base is protected by a number of other rules. These include Controlled Foreign Company (CFC) rules which protect against artificial diversion of UK profits. Better targeted and more effective CFC rules were enacted by Parliament in 2012; these rules have not been challenged by the OECD or the European Commission as harmful.

6.6 The impacts of any changes to the UK tax regime are clearly set out in Tax Information and Impact Notes (TIINS). TIINS also set out the Government's intentions for the monitoring and evaluation of tax measures. However, it is not possible to produce cost-benefit analyses of individual changes to the tax regime because changes to the tax system are not appropriate for cost-benefit analysis. Tax is a transfer of resources to the Government sector, from the non-Government sector, rather than an expenditure with an economic cost, which uses economic resources. Individual changes to the tax system are not susceptible to cost-benefit analyses in the same way as public expenditure.

6.7 Although it is not possible to produce cost-benefit analyses of tax changes in the same way as for spending, the Policy costing's document and TIINS do provide some evidence of the expected impacts of changes in tax measures, including Exchequer impacts, behavioural effects, and impact on administrative costs. In some cases, the Government has also published dynamic analysis of certain tax changes.

6.8 Departmental Accounting Officers are accountable to Parliament and the public on the management of public funds, which includes value for money.

Twenty First Report of Session 2014-15

Department for Work and Pensions

The Work Programme

The Department for Work and Pensions is responsible for the Work Programme, which aims to help people who have been out of work for long periods to find and keep jobs. Specifically the Work Programme aims to increase employment, reduce the time that people spend on benefit, and to improve support for the hardest-to-help – those participants whose barriers to employment are, relatively, greater than others on the programme. The department assigns people to one of nine payment groups depending on characteristics such as age and the benefit each person is claiming.

On the basis of a report by the NAO, the Committee took evidence, on 14 July 2014, from the Department for Work and Pensions. The Committee published its report on 22 October 2014. This is the Government response to the Committees report.

Background resources

- NAO report: *The Work Programme* - Session 2014-15 (HC 266)
- PAC report: *The Work Programme* - Session 2014-15 (HC 457)

Committee of Public Accounts conclusions 1-5:
After a slow start, performance is improving

Recommendations 1-5:
The department should, before the Committee takes further evidence in early 2015, update the Committee on its view of progress, and provide robust and certain data to enable both the NAO and the Committee to make sound judgements on value for money. The department should introduce, for the Work Programme and future contracted out welfare-to-work initiatives, control groups so that it can assess the additional impact of its welfare-to-work provision.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The department has contractually introduced a more sophisticated performance measure than the one included in the original Work Programme contracts, through variations which were signed in December 2014. This allows performance comparisons across contracts to be made on a fair, transparent basis. The department also continues to update its transparency indicators for the Work Programme (the proportion of customers achieving a job outcome within 12 and 24 months of their time on the programme). Information on performance against these measures is being made available to the NAO. Work Programme performance information is published quarterly and these statistics will form the basis for any NAO review of progress.

1.3 The department will consider the use of control groups for future programmes, weighing up the advantages against any practical and ethical challenges. The department recognises the potential benefits of using these to help establish additional performance. In addition, the department's Commissioning Strategy, published 2014, states that the department would examine the feasibility of operating a Government-run comparator alongside the contracts let to third-party organisations.

Committee of Public Accounts conclusions 6-9:
Supporting harder-to-help participants into work has been particularly difficult.

Recommendations 6-9:
The department should review the impact of differential payments to prime contractors on their support to participants with different barriers to finding employment. Before the Committee takes further evidence in early 2015, the department should update the Committee on performance in respect of harder-to-help groups, and its progress encouraging prime contractors to work with them.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2015.

6.2 Recent Work Programme official statistics show improved performance for Employment and Support Allowance (ESA) claimants. The department has recognised the growing proportion of ESA claimants in the programme and are increasing the department's focus on this group. To further improve the performance for ESA claimants:

- All providers have developed Performance Improvement Plans, which have a focus on improving the performance of the Work Programme for ESA claimants.
- The department is undertaking additional Compliance Monitoring checks with providers focused upon Minimum Service Levels for new ESA programme participants.
- The department has shared best practice across all Work Programme providers, with a special focus on the bottom performing providers, to support better performance for ESA claimants.

6.3 The department has also improved the way the department identifies and tracks performance for ESA participants, agreeing contract changes which split out performance for those with longer and shorter term prognosis, to better identify performance for those claimants in need of most support.

Committee of Public Accounts conclusions 10-13:
The department could do more to understand the effectiveness of different approaches to supporting participants into work.

Recommendations 10-13:
The department should collect information from each prime contractor on how much they are spending on different payment groups and relate this to the nature of support being provided and the outcomes achieved, to help identify cost effective approaches to support. The department should publish, alongside its quarterly release of performance data, details of the number of sanctions analysed by prime contractor. It should use the data to monitor whether providers are making appropriate sanction referrals to the department.

10.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

10.2 The department annually collects and analyses financial data from providers relating to Work Programme contracts. The department has agreed Work Programme contract variations with all providers and will be undertaking this exercise again to request financial data by Payment Group. Where it is available, the department will examine this data in relation to the support providers deliver and the outcomes they achieve. The department will use the outputs from the latest exercise to inform the development of future employment programmes.

10.3 Jobseekers Allowance (JSA) and ESA sanction decision statistics are already published. The department does not publish these statistics at provider level because they would not show whether providers are using the sanctions regime appropriately. Providers choose whether to mandate participants. The department has a Compliance Monitoring regime, which ensures providers are adhering to the required standards and legislation, which in turn ensures mandated activities are reasonable to individual circumstances. The department regularly reviews data on the speed and quality of sanction referrals, as well as subsequent decisions. The department's Performance Managers work with providers to improve quality where necessary. Labour Market Decision Makers only decide a sanction is appropriate if they determine it is reasonable.

Committee of Public Accounts conclusions 14-17:
The department needs to tighten up its contract management.

Recommendations 14-17:
The department should write to the Committee, as soon as it as certain, to confirm whether Newcastle College Group will or will not receive an incentive payment for 2014-15. Before the Committee takes further evidence in early 2015, the department should update the Committee on its progress in clawing back from prime contractors the estimated over payment of £11 million for invalid sustainment payments; and update the Committee on its progress renegotiating its contracts with prime contractors, including a summary of the changes it has made to the contracts, the intended impact of the changes, and the cost of making the changes.

14.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2015.

14.2 The department is still negotiating with Newcastle College Group (NCG) over the contract for Contract Package Area (CPA) 18. This will determine whether an Incentive Payment is payable through this contract. The department will write to the Committee once negotiations are completed.

14.3 The department has agreed contract variations for all Work Programme contracts (excluding NCG in CPA 18). Through these variations, the department has successfully recovered all estimated overpayments for invalid sustainment payments. In addition, the Work Programme contract variations have:

- introduced a new cohort based performance metric and changed the basis of Incentive Payments, removing the risk of £40 million of inappropriate Incentive Payments highlighted by the Committee;
- strengthened the performance management regime, agreeing more frequent performance reviews and making it easier for the department to implement Market Share Shifts;
- split the 'new ESA' participants Payment Group ('PG 6') so the department can better understand performance for the hardest to help; and
- enhanced the validation regime, improving the department's use of data and making changes to the department's Unable to Validate and Technical Fail validation categories, ensuring they more accurately reflect performance.

18: Committee of Public Accounts conclusion:
Recommendations in the Comptroller and Auditor General's report.

Recommendation:
The department should, before the Committee takes further evidence in early 2015, update the Committee on its progress against the recommendations in the Comptroller and Auditor General's report.

18.1 The department will write to the Committee separately with an update on the recommendations made by the NAO.

Twenty Second Report of Session 2014-15

Department of Health

Out-of-hours GP services in England

Out-of-hours GP services provide urgent primary care when GP surgeries are closed, typically from 6.30 pm to 8.00 am on weekdays and all day at weekends and bank holidays. In 2013-14, out-of-hours GP services in England handled around 5.8 million cases at an estimated cost of £400 million. Since 2004, GPs have been able to opt-out of providing out-of-hours GP services and most have done so. In these cases clinical commissioning groups are responsible for commissioning services. Around 10% of GPs have retained responsibility for out-of-hours GP services and NHS England commissions these services directly from the GP practices concerned. The Department of Health (the Department) is ultimately responsible for securing value for money for spending on health services and has set national quality requirements for all out-of-hours GP services. NHS England is accountable to the Department for the quality and value for money of out-of-hours GP services

On the basis of a report by the NAO, the Committee took evidence, on 1 September 2014, from the Department of Health and NHS England on their stewardship and oversight of out-of-hours GP services in England. The Committee published its report on 12 November 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Out-of-hours GP services in England* – Session 2014-15 (HC 439)
- PAC report: *Out-of-hours GP services in England* – Session 2014-15 (HC 583)

1: Committee of Public Accounts conclusion:
NHS England's oversight of the value for money of out-of-hours GP services has been inadequate.

Recommendation:
NHS England should adopt a proportionate oversight regime which provides it with assurance on the value for money of out-of-hours GP services and allows it to identify poorly performing services and make targeted interventions.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2015.

1.2 NHS England is developing a revised assurance framework to be applied to clinical commissioning groups (CCGs) from April 2015. CCGs are the principal commissioners of out-of-hours GP services. Within the revised framework there will be a specific focus on the value for money and effectiveness of these services. The approach will be robust but proportionate, with a more intensive assurance process for the most challenged CCGs and a lighter touch for those identified as high performing. In the round, NHS England believes that out-of-hours GP services provide strong value for money to tax payers.

2. Committee of Public Accounts conclusion:
NHS England should do more to understand the reasons for the significant variations in cost and patient satisfaction.

Recommendation:
NHS England should take responsibility for developing an understanding of the significant variations across England in the cost of out-of-hours GP services and in the level of patient satisfaction with these services.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2016.

2.2 NHS England will further strengthen assurance arrangements in the cost of out-of-hours GP services, making the benchmarked costs of out-of-hours GP services a standard aspect of future data returns. The GP Patient Survey includes data on patient experience of out-of-hours GP services. Geographical variation will be identified and acted upon by local commissioners.

3: Committee of Public Accounts conclusion:
Clinical commissioning groups are not presently managing conflicts of interest when commissioning out-of-hours GP services. They should be able to demonstrate that they are.

Recommendation:
NHS England should test whether its guidance on conflicts of interest is being followed and assess whether it offers enough safeguards. Where contracts for out-of-hours GP services have been awarded since 1 April 2013, it should seek documentary evidence that no one with an interest in the successful provider organisation was involved in the procurement process.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 NHS England has sought and obtained assurance that all 211 clinical commissioning groups (CCGs) have appropriately managed conflicts of interest in the award of contracts in line with the NHS England guidance to CCGs for 2013-14.

3.3 NHS England published statutory guidance for CCGs on the management of conflicts of interest in December 2014. This statutory guidance builds on and supersedes previous guidance, and offers a number of new and strengthened safeguards, especially for CCGs looking to undertake commissioning of primary medical services under co-commissioning arrangements. Assurance of how well the guidance is being followed will be sought through CCG assurance.

4: Committee of Public Accounts conclusion:
The urgent and emergency care system is complex and fragmented and the present financial incentives run the risk of undermining effective integration of the different elements.

Recommendation:
Given the pressures on the NHS budget it is important that NHS England should expedite the redesign of urgent and emergency care services. NHS England, working with Monitor, should urgently identify solutions for paying for urgent and emergency care that address the current misaligned incentives and promote the treatment of patients in the most appropriate setting and the most effective use of NHS resources.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

4.2 NHS England continues to support the local redesign of urgent and emergency care services. 'The Forward View into Action: Planning for 2015-16' states that commissioners and providers should prioritise the major strategic and operational task of how they will implement the urgent and emergency care review. This will be reinforced in 2015-16 by incentives in the CCG quality premium and the Commissioning for Quality and Innovation (CQUIN) framework for providers aimed at increasing the number of patients with urgent and emergency care needs who are managed closer to home, rather than in a hospital setting.

4.3 Urgent and emergency care networks, which will build upon existing System Resilience Groups, should be established by April 2015, and oversee the planning and delivery of a regional or sub-regional urgent care system, including designating and assuring the quality of urgent care facilities, in line with guidance planned for summer 2015.

4.4 In August 2014, NHS England and Monitor published a discussion document setting out their thinking on options for reforming the approach to paying for urgent and emergency care, in support of NHS England's review of urgent and emergency care led by Professor Sir Bruce Keogh.

4.5 To facilitate system-wide co-ordination of the delivery of care, a new payment approach would seek to be consistent across as many components of care delivery as possible, and enable individual providers to share in the benefits (or costs) of their actions to the system as a whole. This approach could combine a proportion of fixed core funding, a proportion of volume-based funding and an element to reflect incentives that could be aligned across the entire local health economy, to support service change and promote quality improvement.

4.6 NHS England and Monitor will be working with local health economies during 2015-16 to test possible future payment approaches, including the impact of new models of care such as Multispecialty Community Providers. Assuming the test sites demonstrate positive results, they hope to start transition to the new payment approach in 2016-17.

5: Committee of Public Accounts conclusion:
Too many people are unaware of the different urgent care options and of how to contact them, meaning they may not receive care in the most appropriate setting.

Recommendation:
NHS England should set targets to increase public awareness of out-of-hours GP services and NHS 111, and collect data to monitor progress. As well as general public awareness, it should focus particularly on those groups with the lowest levels of awareness.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2016.

5.2 NHS England proposes, subject to further consideration of affordability, to deliver a national campaign to raise awareness of NHS 111, working collaboratively with CCGs. The promotion of NHS 111 is intended to help the public to understand the purpose of the service, how to use it and when to use it. More patients will be triaged and signposted to the most appropriate service, including out-of-hours GP services.

5.3 NHS England has gathered feedback from the general public and a range of specific patient groups, including seldom heard and vulnerable audiences, to ensure that communications and marketing can be tailored accordingly. The NHS 111 Programme Team is also delivering a patient engagement programme. It has held engagement events with the deaf and hard of hearing community and with people with learning disabilities. It has also held specific events around mental health focused on addictions, anxiety, depression and suicide, older people, dementia, and severe mental health disorders. These will help shape future communications and marketing. Ongoing engagement with these groups will also raise awareness and support of NHS 111 including out-of-hours GP services.

6: Committee of Public Accounts conclusion:
NHS England cannot at present assess how many GPs will be needed over the coming years.

Recommendation:
The Department and NHS England should develop a model for the GP workforce now, and use the results to inform discussions about the budget the NHS needs and decisions about the number of GP training places required.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2015.

6.2 The model for the future primary care workforce including GPs will be informed by new models of care arising from the NHS Five Year Forward View. Health Education England (HEE) will undertake planning to determine what sort of workforce is required to deliver these care models. HEE has established an independent Primary Care Workforce commission chaired by Professor Martin Roland. This will consider how HEE develops the wider workforce for primary care requirements and what innovative practices will be defined to support the future models of primary care. HEE will report by the end of July 2015 and will inform commissions for 2016-17. The review will consider the impact of any shift from secondary to primary and community care; better integration of services; new ways of working in urgent and emergency care; and seven day services.

6.3 HEE is already working to increase the number of GP training places to 3,250 by 2016. The figure of 10,000 additional GPs quoted in evidence during the Committee's hearing reflects the extra staff expected to be available in primary care by 2020 (of which 5,000 will be GPs), as set out in the departmental publication: *Transforming Primary Care*. To tackle immediate pressures, NHS England and HEE have published a plan alongside the Royal College of General Practitioners and the British Medical Association, to attract more training doctors into general practice, make better use of the wider clinical workforce in primary care, target measures to support retention, and support the return of clinicians who have left general practice.

Twenty Third Report of Session 2014-15

Cabinet Office (Crown Commercial Service)

Transforming Contract Management

The private sector delivers complex services on behalf of the public sector, to the value of around £90 billion, which represents half of public sector expenditure on goods and services. The public needs to have confidence that contracts are managed well by both Government Departments and the contractors themselves. The case of G4S and Serco overcharging the Ministry of Justice for years on electronic tagging contracts was the starkest illustration of both contractors' failure to work in the public interest and Government failure to safeguard taxpayers' money. In the course of the Committee's work, similar cases have been identified and examined where there are allegations of the misuse of taxpayers' money. Led by the Cabinet Office, the Government is now working to improve the way it manages its suppliers and contracted-out providers of public services.

On the basis of a report by the NAO, the Committee took evidence, on 8 September and 10 September 2014, from the Cabinet Office; Ministry of Justice; Home Office; Serco; G4S and CBI on contract management. The Committee published its report on 10 December 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Home Office and Ministry of Justice – Transforming Contract Management* - Session 2014-15 (HC 268)
- NAO report: *Cabinet Office – Transforming Government's Contract Management* - Session 2014-15 (HC 269)
- PAC report: *Contracting out of public services to the private sector* - Session 2013-14 (HC 777)
- PAC report: *Transforming Contract Management* - Session 2014-15 (HC 585)

Committee of Public Accounts conclusions 1-5:
The Government will not achieve value for money from its contracts until it pays much more attention to contract management

Recommendation 2:
The Cabinet Office must lead efforts to make sure that the current emphasis on improving contract management is embedded across all departments and that tendering processes did not discriminate against small and medium sized enterprises. It must not lose focus and should report back to this Committee by the end of 2015 on the progress made in implementing reforms across Government.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Late 2015.

2.2 Since 2010, the Cabinet Office has led a cross-Government programme to address long-standing weaknesses in commercial and contract management skills. As part of reforms to procurement, the Government aims to ensure that there is a level playing field for suppliers of all sizes. The Government acted swiftly and decisively when problems emerged with G4S and Serco in 2013, and is continuing to strengthen contract management following the *Cross-Government Review of Major Contracts*. All departments are implementing improvement plans, which include strengthening their audit and governance of contracts. The Crown Commercial Service (CCS) has published supporting materials alongside these plans, and has updated its standard operating procedures to ensure contract management is mobilised effectively.

2.3 The Treasury is increasing its scrutiny of contract management plans within the Treasury Approval Process for major projects. The Government will develop further standards including earlier mobilisation of contract management in due course.

2.4 The Cabinet Office and the Treasury are jointly conducting a programme of reviews of corporate commercial capability across central government departments. These reviews are reporting to the Minister for the Cabinet Office, Cabinet Secretary, Civil Service Chief Executive, and Commercial Secretary to the Treasury. Departments, including the Cabinet Office and the Crown Commercial Service itself, are implementing the ensuing recommendations as their reviews are completed. The Cabinet Office, reporting to the new Corporate Management Board chaired by the Chief Executive of the Civil Service, will continue to engage regularly with each department after the reviews to ensure recommendations are implemented.

2.5 The Government has strengthened the governance of commercial reform by establishing a committee of senior officials chaired by the Chief Executive of the Civil Service to oversee markets of Government services. This comprises Permanent Secretaries from the large spending departments meeting regularly to discuss and oversee commercial reforms, including deep dive analyses of specific suppliers, market design principles in specific markets, and SME strategy.

2.6 The Cabinet Office has increased the level of commercial experience within the Crown Representative team by continuing to recruit senior business leaders, who are able to carry out deep dive investigations into government's most important suppliers. The cross-departmental Commercial function reports to the Chief Executive of the Civil Service. The Chief Executive, and the Chief Commercial Officer, will have clearly defined roles in managing talent within the Commercial profession (including through controlling recruitment, deployment and setting career pathways) and building capability by setting the learning curricula for the commercial profession.

Recommendation 3:
Accounting Officers remain accountable for spending throughout the life of contracts. They should put in place an accountability framework for contracts which specifies how senior oversight of major contracts should work in practice—including the information needed to scrutinise and challenge contractor performance, cost and progress in making further savings—and the personal responsibilities of senior managers, with appropriate sanctions and rewards for performance.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2015.

3.2 The responsibilities of an Accounting Officer are set out in chapter 3 of *Managing Public Money* (MPM). This sets out the standards expected to ensure that the organisation (and sponsored ALBs) operate effectively and to a high standard of probity for governance, decision making, and financial management. Further, chapter 7 of MPM sets out the requirements, through a framework document, for public sector organisations delivering public services.

3.3 The Government's strengthened functional leadership model will help consolidate the way in which the centre works with Accounting Officers to improve performance and delivery. The functional heads have a cross-cutting responsibility for the running of expert corporate functions, from IT to HR, digital to finance. They take a leading role in recruiting talent and agreeing standards within their cross-departmental functions. The Government Chief Commercial Officer is leading work to manage talent better and build capability within his function. This includes setting standards for departments to follow; setting career pathways and the learning curricula for the commercial profession; and establishing a central recruitment hub. Commercial Directors have a dotted line responsibility to the Government Chief Commercial Officer and this relationship will be clarified.

Recommendation 4:
The Committee welcomes progress to improve the Government's commercial and contract management skills, but this needs to be supported by concerted Cabinet Office action in two areas: to increase the attractiveness of careers in commercial disciplines including pay, status and career development; and do more to raise the commercial awareness of operational managers so they can work with the commercial professionals to achieve value for money throughout the life of contracts.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Late 2015**.**

4.2 The Government is taking steps to reshape the commercial profession following the findings of its reviews of commercial capability, which confirmed that the commercial profession is too focused on securing compliance with procurement rules and not sufficiently focused on market shaping or rigorous, post-procurement contract management. There are too few senior and experienced people, and the commercial awareness of generalist policy officials needs to improve.

4.3 To address these issues, departments are already taking steps to enhance their commercial capability. In addition, the Chief Executive of the Civil Service is leading a programme of work to address common themes, such as status and career progression of commercial specialists. The profile of the profession is being raised, and new entrants are taking up a career in the Commercial Function, rather than a particular role in an individual department. A holistic approach to talent management and career development is being developed by the Government's Chief Commercial Officer, including a recognised framework of experience for senior commercial roles, specifying clear requirements for senior posts.

4.4 To support and complement the actions being taken in departments to raise commercial capability, there are now 20 highly experienced commercial leaders operating as Crown Representatives to improve the Government's commercial performance and capability, 17 of whom are from the private sector. Their work is enabling Government to act increasingly as a single customer, negotiate better contracts, and build stronger commercial relationships with industry. The Government is also identifying graduates who are interested in pursuing commercial careers in Government, and has launched a specific Commercial Fast Stream. This new talent is a core element for the Civil Service to "grow our own" commercial expertise for the future.

4.5 A programme is under way to build contract management capability, including embedding contract management principles, a contract management framework summary based on work by the NAO, and a new contract management operating model. A range of learning and development products is now in place to build confidence and good practice of operational managers with a current uptake over 51,000, and rising, of which more than 3,000 have been face-to-face training. In addition to the core commercial courses, departments are increasing the commercial awareness of their staff through workshops, seminars and other initiatives, including the now well established Commissioning Academy.

Recommendation 5:
Alongside the Cabinet Office reporting back to the Committee at the end of 2015, both the Ministry of Justice and the Home Office should report back to the Committee specifically on progress with their contract management improvement plans:

For the Ministry, the Committee will be particularly interested in arrangements for running the 'Transforming Rehabilitation' contracts (for outsourcing probation services) which we see as a litmus test for better management of high risk and complex contracts.

For the Home Office, the Committee will be particularly interested in what it has done to extend improvement plans beyond its commercial directorate and into the operational management of contracts.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2015.

Ministry of Justice

5.2 The Ministry of Justice (MOJ) has a contract management improvement plan which is due to be implemented by September 2015 but will remain a high priority area. The plan is being overseen by the recently established Commercial and Contract Governance Committee (CCGC), which is chaired by the Director General Finance, Assurance and Commercial and reports to the MOJ's Executive Committee. Part of the remit of the CCGC is to perform in-depth reviews of existing contracts. As part of these reviews a named individual responsible for the performance of a contract is required to 'attest' to the

CCGC the effective and appropriate management of their contracts. Senior supplier relationships have also been put on a more formal and strategic footing.

5.3 A common operating model has been introduced, together with increased clarity of roles and responsibilities, to support staff at all levels to carry out their roles. Internal Audit has widened its scope in relation to contract management with an intensive programme of audits. Analytical services has prioritised the development of improved KPIs for key contracts.

5.4 The Commercial and Contract Management Directorate is being reorganised to provide for a more senior grade mix and operating from fewer locations to improve professional oversight and management. To improve capability, MOJ has worked with the International Association for Contract and Commercial Management (IACCM) to develop an e-learning programme covering the full range of contract management skills. This has been made available to all staff involved in contract management including operational contract managers, analysts, internal audit, as well as commercial contract managers. Over 140 people will have commenced or completed the training by end of February 2015.

5.5 The contract management arrangements for the Transforming Rehabilitation contracts (which are due to go live on 1 February 2015) are fully aligned with the contract management improvement programme and are under active review by the Government Chief Commercial Officer who, in turn, is regularly updating the Chief Executive of the Civil Service. The Treasury's approval of this project was made conditional on satisfactory contract management plans and capacity being in place. The Commercial and Contract Governance Committee will oversee the management of these contracts within MOJ.

Home Office

5.6 The Home Office implemented a Contract Management Improvement Plan in April 2014, which is assured by the Home Office Internal Audit unit. The Executive Management Board oversees implementation of the plan. Good progress has been made by improving the Home Office management of supplier relationships; issuing guidance, and standardising policies and procedures in contract management; improving skills, knowledge and commercial capability across the Home Office commercial and business functions; and strengthening and providing clarity to governance structures.

5.7 A commercial awareness programme commenced in October 2014. This provides an introduction to contract and commercial management to business functions across the Home Office. The Commercial Skills for Business Contract Owners Programme provides general awareness and bespoke training interventions. The Home Office is collaborating with the NAO, MOJ and Cabinet Office to establish a method to derive a benchmark to measure improvement through training.

5.8 The Home Office has addressed the issue of business responsibility for contracts with the introduction of named business owners to strengthen the relationship between business units and the Commercial Directorate in managing strategic suppliers. The Executive Management Board is fully committed to this initiative.

5.9 In addition, each of the above departments have agreed, at Permanent Under Secretary level, to address all of the recommendations resulting from the review of commercial capability. A plan for implementing these recommendations is in place within each department.

Committee of Public Accounts conclusions 6-8:
Contractors have not shown an appropriate duty of care to the taxpayer and users of public services.

Recommendation 7:
The Cabinet Office should work with industry to define what obligations a duty of care should entail, what sanctions would apply should performance fall short, and require senior executives to attest annually to the strength of their internal controls over public contracts and to be personally accountable to Parliament for performance.

7.1 The Government agrees with the Committee's recommendation, but disagrees that senior executives should be accountable to Parliament.

Target Implementation date: End 2015.

7.2 The Government does not believe that the benefits of holding senior executives personally accountable to Parliament outweigh the disadvantages. There is a significant risk that smaller companies (SMEs) would be deterred from signing contracts if they would have to appear before Parliament, and such a requirement would be perceived as a new barrier at a time when the Government is dismantling old ones. Parliament is able to hold departments to account for service delivery through Accounting Officers and Senior Responsible Owners. Departments are, in turn, holding suppliers to account more effectively through better contract management, the Government's policy to take into account past performance, and management of strategic suppliers.

7.3 Within departments, as part of their work to improve contract management, internal audit divisions will develop proposals to assure controls for strategic providers; for example, by requiring new contractors to commission external reviews to give assurance on the contractor's controls. The Cabinet Office will seek to bring these initiatives together into an integrated system of control, transparency and assurance.

7.4 The Cabinet Office is already working with stakeholders to produce principles for improving the transparency of contracting which will be launched in due course. Building on this work, the Crown Commercial Service will work with Industry stakeholders, including the CBI, to explore the feasibility of introducing a duty of care and what it might entail. Any outcome will need to balance a contractor's duty of care to the taxpayer with its obligations as a commercial entity operating in the private sector.

Recommendation 8:
The 'corporate renewal' process is a new concept for many. The Cabinet Office and HM Treasury should publish a review of this process and its outcome, and, when disseminating findings, make clear to all departments what it expects them to do differently and what different behaviours departments should expect from the contractors.

8.1 The Government agrees with the Committee's recommendation.

Target implementation date: Early 2016.

8.2 The Cabinet Office will conduct a lessons learned exercise on the government experience of instigating corporate renewal for G4S and Serco. This will look at whether the process was right (including financial compensation and the use of independent external assessors); whether the eight principles of corporate renewal were the right ones to use; and whether it has established healthy working relationships between the departments and the companies.

Committee of Public Accounts conclusions 9-12:
Public service markets are becoming more difficult for government to manage.

Recommendation 10:
Led by the Cabinet Office, departments must take concerted action to develop competitive markets for public services. Government must use its contractual powers to intervene in market consolidation - so that taxpayers and public service users benefit from the innovation and competition a thriving market can offer.

10.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2015.

10.2 Markets of Government Services oversees Government's work to ensure that public service markets are competitive. The Cabinet Office and the Treasury are producing joint guidance on designing competitive markets to assist officials in determining when and how to use markets to deliver complex public services. This will be published in due course and should help the Government and taxpayers to benefit from healthy competition and encourage new SME players and social enterprises in the market.

10.3 The Government realises the importance of increasing competition and consumer choice in order to drive innovation and efficiency, and of identifying new commercial models as an alternative to the binary choice of traditional in-house or outsourced delivery. This includes opening up public service provision where it can to employee-led mutuals, to harness the recognised benefits of employee ownership, and other joint ventures.

10.4 Change of ownership clauses give the Government specific rights in the event that a supplier is acquired by a rival. There are examples where Government has used these clauses very effectively to protect taxpayers and service users. However, it is important to ensure that they are routinely included in all appropriate contracts and Cabinet Office has strengthened the guidance available to departments by including standard clauses in the new model contracts

Recommendation 11:
All Government contracts should include robust sanctions for underperformance or weak control which should be applied rigorously when performance falls short, and performance on previous contracts must always be taken into account when awarding new work.

11.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

11.2 The Cabinet Office has published model terms and conditions for major service contracts for departments to adopt, including provisions for managing poor supplier performance, including robust sanctions, and for sharing information between departments.

11.3 As part of the Strategic Supplier Risk Management policy, the Cabinet Office collects performance reports from departments on supplier performance. This includes both current contracts with Strategic Suppliers and those completed in the previous three years that collectively have a contract value of £20 million or more. These will be refreshed by in-scope organisations on a six-monthly basis and where appropriate in light of on-going developments.

11.4 Departments are now regularly asking for performance certificates when buying information technology and business process outsourcing services. These certificates allow past performance to be taken into account in procurement decisions. The Cabinet Office will review existing arrangements to see if these can be further improved within the scope of EU public procurement directives.

11.5 CCS is currently running a pilot project to test whether providing feedback on suppliers to prospective buyers has a positive influence on the efficacy of government spending. Feedback on suppliers will be aggregated and made available to prospective buyers.

Recommendations 12:
The Cabinet Office should look at the barriers to SMEs joining markets and develop a plan to address each barrier. Departments should be required to demonstrate that they have considered disaggregated models for each major contract.

12.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2015.

12.2 The Government has introduced a wide range of measures to level the playing field for companies bidding for government contracts, with the proportion of Government business won by SMEs increasing substantially.

12.3 The Government is now implementing recommendations by Lord Young, the Prime Minister's advisor on enterprise, by creating a single market for SMEs in public procurement through the new public contracts regulations. Measures to make public sector business more accessible to SMEs will ensure all new contract opportunities are accessible in one place; remove burdensome Pre-Qualification Questionnaires (PQQs) for low value procurements and standardise PQQs for higher value contracts; and ensure all suppliers in public sector supply chains are paid promptly.

12.4 The Small Business, Enterprise and Employment Bill contains a further range of public procurement reforms that aim to remove further barriers for small businesses. These include a delegated power which will allow Government to implement future procurement measures by secondary legislation where they help small businesses, for example duties on contracting authorities to run an efficient and timely procurement process, and accept electronic invoices; and a strengthened Mystery Shopper scheme with statutory powers to ensure that all contracting authorities fully co-operate with requests for information.

12.5 All departments have developed action plans and targets to increase their spend with SMEs; appointed SME Champions at official level; and departments have confirmed the appointment of a Ministerial SME lead to drive this agenda forward.

Committee of Public Accounts conclusions 13-16:
Government's current approach to contracting gives too much advantage to contractors.

Recommendation 14:
The Cabinet Office standard operating procedures should require departments to set and regularly review KPI regimes, to ensure they are incentivising the right behaviours, with clearly specified indicators that are capable of highlighting poor performance at an early stage.

14.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2015.

14.2 The Government has established the Complex Transactions Team in the Crown Commercial Service, which provides expert support to departments when setting appropriate Key Performance Indicators (KPIs). These commercial experts restack the balance in favour of the taxpayer by providing departments with an equivalent to supplier's big deals teams during commercial negotiation. The set of transparency principles being produced jointly by Government and the CBI will cover KPI regimes. The model services contract, published in January 2014 by CCS, contains service credit provisions and remedies for performance failures or shortfalls.

Recommendation 15:
The Cabinet Office should mandate the inclusion of open book provisions in all Government service contracts and set clear expectations for how these provisions should be utilised to manage the contract throughout its life.

15.1 The Government recognises the value of Open Book techniques and acknowledges that they can help to secure better value for money, particularly on complex, high value, multi-year service contracts. However, Government is mindful of the added burden that open book arrangements could pose if they were included in less complex, lower value contracts, and is therefore keen to ensure that they are implemented proportionately.

Target implementation date: Summer 2015.

15.2 The Government recognises the value of open book techniques and acknowledges that they can help to secure better value for money. The transparency provided by Open Book allows both parties to be clear on the supplier's charges, costs, and planned return. It also provides a basis to be able to review performance, agree the impact of change and to challenge each other with ideas for efficiency improvements. If implemented well, this technique should help to improve mutual understanding and trust between client and supplier

15.3 However, it is important that departments recognise that open book procedures could disproportionately affect SMEs. Government needs to understand how and where the approach can be used effectively. Consequently, the Government believes that open book provisions should be implemented proportionately.

15.4 The Cabinet Office has completed a study into open book accounting, which examined a range of issues in order to identify and evaluate the different models for using Open Book and consider to what types of contract these models should apply to enable departments to secure the maximum benefit from open book accounting.

15.5 Officials are working to finalise policy recommendations following the study, which they expect to take through approval routes in the first quarter of 2015. These recommendations include publishing Open Book guidance containing a tiered framework and self-assessment decision tool to guide departments on how and at what level to apply Open Book; supporting the guidance with training, using existing training offerings and providers; and the Crown Commercial Service using its expert resource to support departments and to facilitate the sharing of experience across departments.

Recommendation 16:
The Cabinet Office should require all service contracts to be published, including a clear expression of the performance the service user can expect and then how contractors are performing.

16.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2015**.**

16.2 Since January 2011, as part of the Government's transparency programme, central government departments have been required to publish contracts above the value of £10,000 on Contracts Finder[2]. A new version of Contracts Finder will be launched shortly which will allow users to search by area.

16.3 The Cabinet Office is working with stakeholders to produce a set of principles for improving the transparency of contracting. The Cabinet Office has also issued two procurement policy notes describing how performance should be taken into account in procurement; and explaining how the performance of strategic suppliers is to be assessed across all contracts held with central Government.

[2] https://www.gov.uk/contracts-finder

Twenty Fourth Report of Session 2014-15

Department for Transport

Procuring new trains

1: Committee of Public Accounts conclusion

The department awarded two large contracts to private sector consortia to supply, finance and maintain new trains for Intercity Express and Thameslink with a combined cost of around £10.5 billion, which will be paid by train operators. The department has opted to lead these procurements itself, rather than have rolling stock companies finance the trains and lease them to the train operators, which has been the usual model for train procurement.

The 866 new carriages procured from the Hitachi-led consortium (Agility Trains) under the Intercity Express programme will replace ageing trains on the Great Western and East Coast lines. Siemens, in the Cross-London Trains consortium, will supply 1,140 new Thameslink carriages which are needed as part of a wider improvement programme, increasing the capacity and improving the frequency of this cross-London commuter service. The contracts will run for 27.5 and 20 years respectively.

The department awarded both contracts more than two and a half years later than intended, largely because of pauses to the procurements and the challenge of securing finance for these projects during the financial crisis. The Intercity carriages are now expected to enter service between June 2017 and 2020, and the Thameslink stock between 2016 and June 2018.

1.1 On the basis of a report by the NAO, the Committee took evidence on 13 October 2014 from the Department for Transport on its procurement of new trains for the InterCity Express and Thameslink programmes. The Committee published its report on 17 December 2014. This is the Government response to the Committees report.

Background resources

- NAO report: Procuring new trains – Session 2014-15 (HC 531)
- PAC report: Procuring new trains - Session 2014-15 (HC 674)

2: Committee of Public Accounts conclusion

The department's failure to articulate its role in the rail system has caused confusion in the rail industry.

Recommendation:

The department needs to work with the industry through the Rail Delivery Group to clarify the respective roles and responsibilities of government and industry, and to address weaknesses in the system including the lack of appropriate incentives to achieve a high-performing network, including good quality trains and low track maintenance costs.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department has already outlined industry roles and responsibilities in the *Reforming our Railways Command Paper* in 2012. The department continues to work with the Rail Delivery Group (RDG) and wider industry as part of the franchising process and the development of the next Rail Investment Strategy. Through franchise awards, the department incentivises partnership working to deliver improved performance and to introduce better quality and lighter trains, leading to lower track maintenance costs and other benefits.

2.3 The department also supports initiatives such as alliancing and route-level efficiency benefit sharing encouraging industry to work together to achieve a high-performing network that is cost effective. The department will continue to work with industry and the Office of Rail Regulation (ORR) to ensure alignment of incentives in delivering a high-performing network.

3: Committee of Public Accounts conclusion
The department's decision to purchase the trains leaves all the risk with the taxpayer.

Recommendation:
The department needs to calculate the potential impact of its decision on the taxpayer and put in place plans to mitigate that impact, if demand for train services means it is not economical for train operating companies to use these trains as expected. More broadly, the department needs to develop with the industry a rolling stock strategy, setting out what rolling stock will be replaced, when and by whom to provide certainty to the industry.

3.1 The Government disagrees with the Committee's recommendation.

3.2 Departmental policy already sets outcomes and places responsibility for delivery on industry, through a structured planning process involving Network Rail and partners. In line with the 2012 Command Paper, the department expects the market to lead the replacement and refurbishment of rolling stock reserving the right to lead in some circumstances.

3.3 The industry and the supply chain use the department's rail franchising programme and Rail Investment Strategy (RIS) plus their own rolling stock strategy to plan, to which the department contributed. The department has also created the Integrated Delivery Directorate (IDD) to better manage the interdependencies between franchising, infrastructure and rolling stock.

3.4 The department also regularly reviews and updates the business cases used for the IEP and Thameslink procurement decisions and is in regular dialogue with the operators using the trains to understand how passenger demand is developing.

3.5 The department's processes already involve a very careful examination of the impact on the taxpayer and a comparison of alternatives in order to seek the greatest possible value from taxpayer funding.

4: Committee of Public Accounts conclusion
Value for money was undermined by the lack of certainty at the start of the procurement process.

Recommendation:
The department, working with key partners such as Network Rail, train operating companies and rail manufacturers, should develop a long-term, integrated strategy covering infrastructure, rolling stock and franchising, so that major decisions can be taken in a logical order which provides the industry with greater certainty.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 In line with the 2012 Command Paper, the department already sets outcomes and places responsibility for delivery on industry, through a structured planning process involving Network Rail and partners. The department will consider what additional information from that provided in the Rail Command Paper could be published to optimise the market further through improved knowledge and visibility of outcomes.

4.3 The department considers that both procurements have delivered good value for money for taxpayers and were achieved despite challenging circumstances, including the financial crisis and challenges to the Eurozone.

5: Committee of Public Accounts conclusion
The procurement process for the Intercity Express Programme was poorly managed from the outset.

Recommendation:
Before starting any procurement the department should develop its knowledge of the supply market and underlying costs to inform its procurement strategies, to determine whether bidders' proposed prices are reasonable, and to help negotiate prices with suppliers.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 In procurement, the department will continue to engage early, regularly and comprehensively with supply chains and experts to ensure proposals are realistically priced and to develop intelligent procurement strategies.

5.3 Good examples come from improving rail franchise Direct Awards, which utilise a continuously improving pool of market knowledge; and franchise competitions, where stakeholders set specifications helping to deliver efficient procurements which drive value for money.

5.4 Similarly, during the UK Search and Rescue helicopter project, manufacturers, operators and banks were engaged extensively on supply market requirements to inform negotiations, achieving a £1.5 billion saving.

6: Committee of Public Accounts conclusion
The Committee welcomes Hitachi's commitment to invest in County Durham so that trains are assembled in the North East and support is given to the UK supply chain.

Recommendation:
The department should be more assertive in using its powers to require information on, for example, the supply chain proposals, the use of SMEs and the employment in apprenticeships to ensure that the UK economy and UK-based industry benefit from large capital public sector investment programmes.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department and the Department for Business Innovation and Skills have jointly established the Rail Supply Group (RSG) to strengthen the UK rail supply chain so that UK-based companies are better able to win work here and abroad. Train components are being sourced in the UK and jobs have been created for the construction of very significant depots for the maintenance of the trains.

6.3 HS2 Ltd.'s supply chain will include a relatively small number of large Tier 1 suppliers, with substantial indirect opportunities for small and medium sized enterprises (SMEs). HS2's approach to procurement is consistent with the Crossrail programme where 97% of suppliers originated from the UK and 58% were SMEs.

7: Committee of Public Accounts conclusion
The department still lacks the skills needed to manage complex procurements.

Recommendation:
The department must develop, set out and implement a clear strategy for developing the capability needed to deliver its rail strategy and address the concerns the Committee has raised over many years about its senior management capacity and its commercial skills.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 The department will continue to regularly review skills requirements to ensure appropriate skills are available. The department's recent skills audit for the Civil Service Capabilities Plan shows good progress. A Commercial Capability Strategy, launched in 2014, includes a fast track programme providing direct commercial exposure for civil servants drawn from an annual graduate cohort. The department is also enrolling Government Major Projects Portfolio SROs and Project Directors to the Major Projects Leadership Academy and developing a Senior Network for sharing advice.

Thirty Third Report of Session 2014-15

Department for International Development

Oversight of the Private Infrastructure Development Group

Committee's Summary

The department believes that infrastructure investment stimulates growth, which is a pre-requisite for cutting poverty. It has identified a need for substantial infrastructure investment in developing countries which cannot be met by public funding and aid alone. PIDG, which invests in infrastructure projects in developing companies, is a multilateral agency founded by the department and three other donors in 2002. PIDG is now governed by development agencies from eight countries and the World Bank. The department's total contributions to PIDG, which are expected to reach £860 million by 2017, have represented 70% of PIDG's funding since 2002 and 88% of the funding in the last two years.

On the basis of a report by the NAO, the Committee took evidence, on 15 October 2014, from the Department for International Development and the Private Infrastructure Development Group on the Department's oversight of PIDG and the steps it is taking to assess and improve its performance. The Committee published its report on 19 January 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: Oversight of the Private Infrastructure Development Group - Session 2014-15 (HC 265)
- PAC report: Oversight of the Private Infrastructure Development Group - Session 2014-15 (HC 675)

1: Committee of Public Accounts conclusion:
Some of PIDG's investments raise questions over its decision making and the department's oversight.

Recommendation:
The department must ensure that PIDG has a robust and appropriate approach to due diligence in general and that it receives detailed briefing when concerns are raised about specific investments.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

1.2 The PIDG has helped to create 200,000 jobs and driven £6.8 billion of private investment into poor countries, developing their economies and making them less dependent on aid. The NAO's report concluded that PIDG investments were achieving good development impacts and financial returns in often difficult environments.

1.3 The Committee's report is unbalanced and distorted, failing to recognise substantial PIDG achievements. The Committee cites alleged links between convicted fraudster James Ibori and PIDG. These have been investigated by the NAO, as well as the department and PIDG, and absolutely no evidence has been found to substantiate them. The Parliamentary and Health Service Ombudsman (PHSO) looked at the department's investigation into allegations on Ibori, Emerging Capital Partners and CDC, and concluded there were "no reasons to question the overall outcome of the investigation".

1.4 PIDG governance has improved substantially and the department has in place robust and appropriate due diligence procedures for all programmes, including the PIDG. The department intends to further strengthen the oversight of due diligence procedures with the collaboration of PIDG partners. Any concerns raised about specific investments anywhere in the department's portfolio are taken seriously and followed up.

2: Committee of Public Accounts conclusion:
The department's weak oversight of PIDG means that some of PIDG's operational decisions are at odds with the department's objectives.

Recommendation:
The department should review its oversight mechanisms for PIDG to make sure it has an appropriate level of visibility of operational matters, and that sound financial controls are in place and that money is appropriately spent.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

2.2 Oversight of the PIDG has continued to be strengthened since 2012, including enhanced quarterly reporting, the introduction of a code of conduct and approval of a new travel policy which ensures that no flight under five hours can be business class.

2.3 The department works with PIDG on safeguarding investments in regions with weak regulatory and legal systems. PIDG only supports investments where partners comply with local tax legislation. These issues will be considered as part of the current independent governance review which will report in advance of June 2015's Governing Council.

3: Committee of Public Accounts conclusion:
The department's poor oversight of PIDG allowed money to sit idle in a bank account rather than funding projects.

Recommendation:
The department should set out what action it has taken to make sure funds it passes to third parties are used promptly. It should report back to the Committee on the outcome of its request for a donation to charity from SG Hambros.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department agreed a new Treasury Policy for PIDG in 2014. All cash disbursed is required to be used within the subsequent three months. Promissory Notes have been introduced to further improve efficiency. Since July 2014 department funds have been disbursed directly to PIDG facilities within 10 business days.

3.3 The department wrote to SG Hambros in October 2014 to ask them to consider a charitable donation on interest received by SG Hambros from the PIDG deposits referred to in the NAO's report. Deposits were held in limited or non-interest bearing accounts. Any interest earned on PIDG Trust's bank accounts does not go to SG Hambros but is used to reduce the department's contribution to PIDG's general administration costs. SG Hambros responded in November 2014 that it would not be making a donation to charity. A copy of the letter has been sent to the Committee.

4: Committee of Public Accounts conclusion:
The department is not using its position as the dominant funder to drive improvements in PIDG's performance.

Recommendation:
The department should, when considering increasing its investment in PIDG, identify the operational changes it would like to see alongside the development impact it is looking to secure. The department should use its 2015 multilateral aid review to develop a proportionate and risk-based approach to how it funds and oversees multilaterals, with a clear focus on whether its level of influence in multilaterals is commensurate with its level of funding, both in absolute terms and relative to other donors.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

4.2 The department regularly reviews the operational and development impact performance of its investments in the PIDG. The department will continue to assess the organisational effectiveness of the multilaterals it funds and their ability to deliver results.

5: Committee of Public Accounts conclusion:
Public confidence on spending on overseas aid through PIDG requires robust and independent information on the impacts achieved, which is currently lacking.

Recommendation:
The department should push PIDG to have a robust system to monitor and evaluate impacts using the Department's own expertise to gain assurance over the adequacy of PIDG's approach.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

5.2 As the NAO recognised, the PIDG has achieved impressive development results. The department successfully negotiated at the December 2014 PIDG Governing Council a new, independent approach to evaluation. In 2015 the department will also commission a development impact study of select PIDG initiatives.

6: Committee of Public Accounts conclusion:
The department has failed to draw sufficiently on the insight of its country teams to influence the investment decisions PIDG is making.

Recommendation:
In its response to this report, the department should set out how it will apply the expertise of its country teams to improve the value for money of infrastructure investments made by PIDG and other multilateral bodies.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

6.2 The department works to ensure coherence across bilateral and multilateral investments. Department staff in-country engage with the PIDG in areas where they can add most value, such as around host government interaction, capacity building and risk management. The greater emphasis on economic development by country teams is increasing the positive collaboration around infrastructure projects such as those funded by the PIDG. This will be further enhanced by the department's successful lobbying for the establishment of regional offices by the PIDG. The Inclusive Growth Diagnostic which is now being implemented by country offices will help the department to make better economic development portfolio choices including considering PIDG as a potential instrument.

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