HM TREASURY

TREASURY MINUTES

Government responses on the Thirty Fourth to the Thirty Seventh Reports from the Committee of Public Accounts: Session 2010-12

Cm 8129

July 2011

HM TREASURY

Treasury Minutes on the Thirty Fourth to the Thirty Seventh Reports from the Committee of Public Accounts - Session 2010-12

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Thirty Fourth Report

Home Office

Immigration: the Points Based System – work routes

Report Summary from the Committee

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

This report focuses on how well the Agency has achieved its objectives of an efficient and effective system for managing migration of workers from outside the European Economic Area. The Agency implemented a Points Based System (the System) in 2008, which introduced three main routes for people to come to the UK to work, replacing the previous 39 types of work visa. The System also incorporates a route for students to come to the UK to study, which the Committee does not consider in this report, but intends to examine at a later date.

The System works by awarding applicants points based on, for example, their skills, qualifications and salary and requiring them to meet a minimum points threshold. The System is objective, transparent and flexible, as the points required can be modified to respond to changing needs in the UK workforce. Decisions are also reached more quickly than under the previous visa system.

However the Committee are concerned that the Agency has not been doing enough to protect resident workers and ensure that migrant workers and sponsoring employers comply with immigration rules. It has not monitored migrants' right to remain to make sure migrant workers leave when they are supposed to. A lack of exit controls makes this more difficult. The Agency estimates there may be 181,000 migrants still in the UK whose permission to remain has expired since December 2008.

Migrant workers with a specific job offer have to be sponsored by an employer with a sponsorship licence from the Agency. The Agency cannot tell whether its checks on these employers are effective. It visits fewer than a fifth of employers to check their compliance with immigration rules, before granting them a licence. The Agency lacks the basic information needed to take a robust risk-based approach to visiting sponsoring employers. The Committee was surprised, for example, that the Agency does not even know how many sponsors it has visited.

Multi-national employers can send workers from outside the European Economic Area to UK branches or subsidiaries using the 'Intra-Company Transfer' route. Over half of all skilled workers entering the UK under the System with a specific job offer use the Intra-Company Transfer route, where checks are much more limited. Some two thirds of the migrants using this route work in IT, and are potentially displacing resident workers with IT skills. Unlike the other work routes, the number of workers that can enter the UK through this route is not capped, although workers have to earn above a certain amount. The Home Office has now set a minimum salary requirement for this route of £40,000 (and £24,000 for those in the UK for less than a year), to protect better the interests of resident workers.

The Points Based System is rule-based and requires applicants to supply specific documentation to support their applications. Applicants, however, have needed more help to understand the rules than the Agency was expecting, with half using the helplines. The Agency introduced a policy of 'evidential flexibility', allowing caseworkers to request additional information in support of applications, to prevent applications being rejected for easily corrected mistakes; however, this is not applied consistently.

The Committee was concerned that although the Agency has a programme to improve its guidance, it does not do enough to help applicants and sponsors make accurate and compliant applications, and that too many applications are not completed within acceptable timeframes.

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

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Home Office and UK Border Agency on management of the work routes of the Points Based System for immigration.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1 AND 7

1: The Points Based System (the System) is an improvement on the visa system which preceded it but has yet to fully meet its objectives.

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

7: The Agency does not have the necessary management information on migrant applications to address compliance problems.

The Committee welcomes the Agency's assurance that its new integrated casework system will provide the information needed to deal with these issues, The Committee notes, however, that it will not address weakness in the management information available on sponsoring employers or improve the service offered to them. The Committee were also concerned that the changes will not be fully operational until 2013. Over the next two years, while it rolls out the new integrated immigration casework system, the Agency should establish performance measures and determine what management information it needs to manage compliance better across both migrant and sponsor management and ensure that the new systems are able to support these.

1.1 The Government agrees with the Committee's recommendations.

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

1.3 The Agency acknowledges the limitations of its Sponsor Management IT system to gather comprehensive management information about sponsors and employers. However, this has not prevented action being taken against sponsors who are not complying with their duties. In the absence of certain management information generated by the Sponsor Management System, the Agency has established mechanisms to collate data manually. For example: it records the number of pre-licence visits, post-licence visits and visits to Highly Trusted Sponsors. In addition, the Agency also retains records on action taken against sponsors; whether as a result their licence has been suspended, revoked, or downgraded. These figures are collated by each Tier of the System and by region.

1.4 While the scope of the ICW programme does not currently extend to incorporating management information on sponsors, the Agency will reconsider as part of its annual business planning cycle, the range of performance measures and management information required - both in the short to medium term and as part of the ICW programme - to build on its existing arrangements for managing compliance by migrants and sponsors.

PAC CONCLUSION AND RECOMMENDATION 2

The Agency has not done enough to ensure that migrant workers leave the UK when they no longer have a right to remain.

It estimates that 181,000 people may have stayed on in the UK after their permission to remain has expired, but it does not have the right information to know if this is an accurate estimate. The Agency should not use the lack of exit controls as an excuse to ignore thousands of people who overstay in this country illegally. It should develop a strategy to identify and deal with those overstaying, including students, workers, and others who are in the UK illegally, and report publicly at least once a year on progress in reducing their numbers. **The Committee will return to this topic to evaluate progress.**

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

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

2.3 The Agency has already made significant advances in its efforts to tackle those over stayers who seek to avoid detection or obstruct their removal from the UK. Removal figures, for example, have increased, with the Agency prioritising removals based on the perceived level of 'harm' an individual is deemed to present to the UK. It has also conducted a series of nationwide enforcement activities, working in partnership with the Serious Organised Crime Agency and police forces across the country, in efforts to crack down on a range of immigration offences.

2.4 The e-Borders programme will continue to be developed, extending its coverage: 90% of non-European Economic Area aviation routes are currently covered by the programme and full coverage of those routes is expected to be achieved by April 2012. The Government has committed to reintroducing exit checks by 2015.

2.5 Information provided by both e-Borders and the Agency's new case working system will allow the Agency to more quickly ascertain whether an individual has departed the UK prior to expiry of their leave and identify un-concluded cases. Over time this will provide a much better picture of those who are illegally overstaying in the country and for compliance activity to be targeted accordingly.

PAC CONCLUSION AND RECOMMENDATION 3

The Agency does not have enough control over whether sponsoring employers comply with their duties and does not appear to know where the main risks lie. The Agency does not check regularly through visits to ensure proper compliance with the rules by employers.

Until October 2010, the Agency was unable to say how many employers had been visited or the outcomes of these visits. This has undermined its ability to develop a sufficiently robust risk-based approach to monitoring employers. The Agency should improve its ability to assess and address the risk of employers failing to comply with immigration rules by developing better systems and placing greater priority on compliance. It should review its system of incentives and penalties to encourage better compliance, and consider what incentives it could offer to employers to guarantee their employees' adherence to immigration rules, in particular leaving the country when the visa has expired.

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

3.2 The Agency already has a risk based approach which focuses on sponsors deemed to be high risk rather than those who have a proven track record of compliance. Since the System was introduced, the Agency has revoked the licences of more than 285 Tier 2 and Tier 5 sponsors.

3.3 The Agency has made significant improvements to its risk assessment methodology and the way in which it manages compliance by sponsors. Since October 2010, the Agency has centrally coordinated visits data from its six regions, tracking and packaging non-compliance visits along with intelligence reports into clear focussed tasking to tackle specific areas and sectors of abuse. In addition, visit and report quality monitoring has been coordinated centrally since April 2011.

3.4 The Agency established a monthly series of intelligence led meetings in November 2010 to review suspected abuse by individual sponsors and consider its wider implications. Information from these meetings is used to build a greater understanding of the risks to the System and appropriate measures to mitigate them. Actions against individual sponsors range from further intelligence gathering, to compliance or enforcement visits or investigation for criminal offences. This process has allowed the Agency to identify high risk sectors and specific sponsors; commissioning four national operations since January 2011. One operation, which targeted high risk Tier 2 sponsors in the catering and care sectors, resulted in over 150 visits being made as part of the operation.

3.5 The Agency is currently reviewing the visit reports and will take further action where there is evidence of immigration abuse and sponsor non-compliance. Action has already been taken to suspend and downgrade a number of sponsor licences.

3.6 The Agency will be rolling out its Highly Trusted Sponsor scheme to Tier 2 and 5 sponsors, recognising those employers that have a proven track record of compliance. It is therefore appropriate to look at providing additional incentives for such sponsors that can demonstrate employees' adherence with immigration requirements. While there are no plans to review existing civil penalty arrangements, the Agency will re-examine its approach to the prosecution of those employers who repeatedly and knowingly employ illegal immigrants with no right to work in the UK.

PAC CONCLUSION AND RECOMMENDATION 4

Multi-national organisations are able to send workers from outside the European Economic Area to UK branches through the Intra-Company Transfer route, but we are concerned that the Agency does not have enough control over this route.

Up to September 2010, employers have brought in 42,000 IT workers using this route at a time when UK residents with IT skills cannot find work. Unlike other work routes, there is no limit on the number of workers unable to use the route. The Department believes that the interests of resident workers are protected through a minimum salary requirement. Since April 2011, this route is available only to workers earning a minimum of £24,000 a year to remain in the UK for 12 months and to workers earning over £40,000 a year to remain in the UK for up to five years. However, employers are able to pay up to 40% of the salary as allowances, which are more difficult to verify.

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

4.1 The Government agrees with the Committee's recommendation.

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

4.3 The Agency will continue to monitor ICTs closely, increasing the number of compliance checks on ICT sponsors to ensure compliance with the Immigration Rules. Sponsors who make payments of allowances must be able to accurately document their value so that Agency visiting officers can be satisfied that the workers being sponsored are paid in accordance with the Rules. Sponsors must keep evidence of the value of any allowances, unless their value is clearly shown in the migrant's contract or on the migrant's payslips. Feedback mechanisms will ensure that visit findings are used to inform future policy. Where there is evidence of abuse and displacement of the resident workforce, the Agency will take further action as necessary.

4.4 During the consultation on the introduction of an annual limit, the business sector made it clear that imposing limits on ICTs would potentially damage the UK's economic interests by deferring inward investment and undermining trade. Setting a benchmark of £40,000 allows business to transfer the managers and specialists they need whilst limiting others to 12 months will ensure that we strike the right balance between meeting short-term business needs and not admitting migrant workers to do more permanent jobs which could be done by resident workers. These measures reinforce the ICT route as a temporary one and will ensure that the UK continues to benefit from those who will drive the UK's economic recovery. The Government will continue to monitor the numbers coming and the roles being filled through the ICT route, and will review the arrangements for ICTs if necessary.

PAC CONCLUSION AND RECOMMENDATION 5

There are wide variations in productivity between the Agency's UK-based and overseas operations, and between different regions, which the Agency cannot fully explain. The Agency's visiting officers are not as productive as they should be.

The numbers of applications decided per day varies widely between caseworkers working in the UK and overseas offices, and between different offices overseas. In addition, the Agency's visiting officers carry out an average of only 4.5 employer visits a month, compared to the 16 visits the Agency calculates should be possible. The Agency should investigate known areas of difference in productivity and focus greater effort on ensuring staff in all locations work as productively as possible.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Agency will ensure that best practice is shared across the organisation to maximise productivity levels. For example: an ongoing initiative to improve the efficiency and productivity of migrant applications determined in the UK - FrontRunner - is committed to realising productivity increases throughout its case working teams. In addition, the extension of on-line applications and greater use of external commercial partners will, over time, increase further the Agency's capacity to enhance its productivity levels, both in the UK and overseas. It should be noted however that there are a number of significant differences between the processing of cases in the UK and overseas, that can make a direct comparison of respective productivity levels misleading.

5.3 In particular, for applications made overseas, a significant amount of preliminary work is undertaken by administrative staff prior to the Entry Clearance Officer's decision, which is not the case for applications made in the UK due to the need to check a range of data sources to establish the acquired history and background of UK based applicants. Similarly, for applications made in the UK, additional processing time is often required to support the in-country appeal process. These differences, coupled with the high proportion of generally straightforward 'visitor applications', means that overseas applications can often be processed more quickly than those made in the UK.

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

5.5 The Agency accepts that it can do even more to improve the productivity of its visiting officers. A review of the way the Agency manages visits to sponsors is already underway. The Agency has identified a number of improvements that can be made to increase visiting officer performance and productivity. Measures identified that will improve productivity include better visit scheduling and greater use of solo visits. The Agency will establish national targets for visits and performance will be reviewed against these targets on a monthly basis.

5.6 The Agency will make better use of its visiting officer resource to target those known to be least compliant. To support this all officers are currently being retrained in line with new guidance which incorporates the Hampton principles of effective inspection and enforcement; this will be completed by the end of August 2011. Refocusing the visiting officer role on ensuring compliance, rather than account management, will increase efficiencies and will lead to greater consistency in performance across the visiting officer network.

PAC CONCLUSION AND RECOMMENDATION 6

The number of errors made by applicants creates unnecessary burdens on both applicants and the Agency.

Currently, half of migrant applicants seek help through calls to the Agency's helplines, and applications are often rejected for easily correctable errors. Sponsoring employers frequently seek advice from the Agency's enquiry lines or from specialist immigration lawyers. The Committee welcomes the Agency's commitment to address these problems by improving its guidance and forms. 'Evidential flexibility', which was introduced to help with this issue, is not applied consistently and is not in place for sponsor licence applications. The Committee also heard that some employers would like to have named immigration caseworkers who could be directly contacted about applications for sponsored workers.

The Agency should:

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

6.1 The Government agrees with the Committee's recommendation.

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

6.3 In addition to the evidential flexibility arrangements, the Agency has introduced further measures to allow applicants applying in the UK to correct minor errors or omissions earlier in the application process. This approach was trialled on the Tier 1 (General) route in order to avoid rejection of applications prior to the closure of the route. The Agency plans to extend this approach across all temporary migration routes in 2011.

6.4 All applicants wishing to stay in the UK under the System are required to submit all relevant evidence in support of their application at the time the application is made. The Agency is committed to helping migrants and sponsors to get their applications right first time wherever possible. Over the next 12 months, the Agency will be reviewing and improving all guidance on offer to users of the System and will extend further the use of on-line forms to make the application process easier. As part of the on-line process, a check list will be produced to clarify the documentation the applicant must provide as part of their application. Additional call centre support for on-line applicants will also be offered.

6.5 The Highly Trusted Sponsors scheme, already in place for Tier 4, is being expanded to cover Tiers 2 and 5 of the System. The most compliant sponsors will be awarded additional customer service benefits, including a designated helpline to answer their queries. This service will initially be introduced on a non-charged basis, although this will be reviewed in April 2012. The Agency is exploring the options for offering customer service enhancements to other sponsors and migrants who are content to pay an additional fee. These options include additional fees for a single point of contact within the Agency.

Thirty Fifth Report

Department of Health (DH)

The procurement of consumables by National Health Service acute and Foundation Trusts

Report Summary from the Committee

The 165 NHS acute and Foundation hospital trusts in England spend over £4.6 billion a year on the procurement of medical supplies and other types of consumable goods, dealing with thousands of supplier companies ranging from large multinational corporations to smaller specialist firms. Each trust controls its own purchasing, in line with the Government's strategy to give NHS organisations increasing freedom to operate independently.

Foundation Trusts, which now account for more than half of hospital trusts, are independent of the Department of Health's control and all trusts are intended to become Foundation Trusts by 2014. Trusts can purchase consumables in various ways: dealing direct with suppliers; through the national supplies organisation, NHS Supply Chain, operated by the private distribution company DHL under a 10-year contract to the NHS Business Services Authority; or via the regional Collaborative Procurement Hubs. They can also choose to join other trusts in collaborative purchasing arrangements for particular localities or types of supplies.

The Department is clearly engaged in improving its procurement systems, and sees the future for NHS procurement as a 'pyramid' structure with national, regional and local procurement of different types of goods, as appropriate to the products and the supplier markets. However, this theoretical model does not reflect the current complex reality, with a profusion of bodies involved in the procurement process. Its effectiveness is open to question in the emerging landscape where Foundation Trusts act independently with no explicit incentive to co-operate. Getting this system right is critical to improving procurement performance in the future. The Department acknowledges that it is accountable for NHS procurement across the system, but it has no control over the actions of the individual trusts who could deliver improvements.

The fragmented system of procurement has produced a great deal of waste, with trusts being charged different prices for the same goods, ordering in inefficient ways and failing to control the range of products which they purchase; for example, the National Audit Office (NAO) found that trusts buy 652 different types of surgical and examination gloves. The NAO has estimated that trusts could save around £500 million annually, 10% of their consumables expenditure, by amalgamating small orders into larger, less frequent ones, rationalising and standardising product choices and striking committed volume deals across multiple trusts. The Department has set a target to achieve procurement savings of £1.2 billion under the Quality, Innovation, Productivity and Prevention (QIPP) programme.

A lack of data has limited progress towards more efficient procurement, and the Department must now address this. The Department plans to require all products sold to the NHS to have standard bar-coding. Bar-coding of products would help trusts to rationalise the range of products they buy and compare prices, providing the data they need to benchmark their performance.

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

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department and from Howard Rolfe, Procurement Director of the East of England Collaborative Procurement Hub, on the national and regional procurement systems in the NHS and on trusts' individual procurement practices.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1 AND 6

1: There is a need for clarity from the Department about how it will deliver the necessary improvements in procurement by NHS hospitals when trusts are independent of its control.

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

6: There is a risk that, faced with the need to make savings, Trusts will not identify procurement savings and will instead cut elsewhere.

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

1.1 The Government agrees with the Committee's recommendations.

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

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

1.4 The Department agrees that Trusts generally do not know how best to use national and regional organisations and will explore ways in which it can support Trusts in this respect. As well as the activity outlined above, this will include strengthening the existing National NHS Procurement Council and building on relationships with the FTN to develop trusts into an intelligent client of these services to include published guidance, further workshops and raising awareness through existing NHS Chief Executive routes. This programme will be launched by April 2012.

PAC CONCLUSION AND RECOMMENDATION 2

It is not clear how trusts will be motivated to deliver collectively the £1.2 billion savings required from procurement under the Quality, Innovation, Productivity and Prevention (QIPP) programme.

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

2.1 The Government agrees with the Committee's recommendation.

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

PAC CONCLUSION AND RECOMMENDATION 3

Information on what products trusts buy and the prices they pay is poor.

The Committee agrees with the Department that better information would enable effective benchmarking of products and prices, while increased transparency would help to reduce prices through competition. The Department should require all NHS purchasers and suppliers to make use of a standard, comprehensive product bar-coding system so that price comparisons can easily be made and savings opportunities identified. It should ensure that product bar-coding is in place by April 2014, by which time all trusts are expected to have achieved Foundation Trust status and the NHS reform plans are expected to take full effect.

3.1 The Government agrees with the Committee's recommendation.

3.2 MS(H) announced on the 10 June 2011 that GS1 coding was to be adopted as the standard product coding system used by the NHS. The Department cannot mandate the use of the standard, but it is, by a significant margin the dominant code in use in all business sectors. The main thrust of the Departments activity is to raise awareness within the NHS and the supplier community of the advantages and opportunities that employing standard coding systems brings to deliver efficiency and savings. The Department is supporting the implementation of framework arrangements that will promote improved understanding and lower the cost of acquiring software solutions which allow the NHS to interrogate their spend information and facilitate price sharing with other Trusts.

3.3 The Department is also working with the Foundation Trust Network on a price benchmarking club to encourage Trusts to compare the prices they are paying for certain medical products. This work is focused on helping NHS Trusts to identify where the opportunities for savings lie and how the use of procurement information can be an effective management tool. The Department will continue to support this type of collaborative activity. It is important to recognise that for activity of this type to yield benefits the NHS must commit itself to developing the strategy and skills needed to make this a sustainable activity and embed good practice in their day to day activity.

3.4 The Department will work with the market for software and web-based solutions for NHS procurement to increase penetration of tools and technologies which improve transparency of spend and price information. This will include ensuring that NHS Supply Chain adopts technologies and approaches that improve transparency of their offer. This activity has commenced and will be ongoing but explicit targets and timescales will be outlined in the recommended KPIs and the NHS Procurement Strategy due in spring 2012.

PAC CONCLUSION AND RECOMMENDATION 4

NHS Supply Chain is not demonstrating its value to the NHS.

In around half of cases, products available through NHS Supply Chain can be more expensive than through other routes, and trusts are not using NHS Supply Chain to the extent that was expected when the contract was set up in 2006. NHS Supply Chain should provide the opportunity for trusts to bulk buy together and so drive down prices, on the basis of their commitment to purchase. Currently, however, NHS Supply Chain purchases only around 5% of the goods it supplies on a 'committed' basis, mainly on purchases of capital equipment.

The Department should:

- ***review NHS Supply Chain's operations and if necessary revise its contract to provide the incentives to capture aggregated NHS demand;***
- ***develop plans to make NHS Supply Chain's offer more attractive for trusts; and***
- ***assess regularly whether NHS Supply Chain is subject to the right level of competitive pressure and monitor this as other intermediary bodies, such as Collaborative Procurement Hubs, develop, rationalise and reform.***

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

4.2 The Department has already invested some considerable time in ensuring NHS Supply Chain's offer is attractive for Trusts and does not accept that NHS Supply Chain are not demonstrating their value to the NHS, however, the Department does accept that more needs to be done to improve the value.

4.3 The Department believes that NHS Supply Chain does represent good value and that merely comparing the prices they charge does not represent a true picture of the total costs of the service they provide.

4.4 However, the Department does accept that more can be done. The Department in conjunction with NHS Business Services Authority will undertake a review of how the organisation can be incentivised to aggregate NHS demand by the end of 2011 as well as an exercise in benchmarking NHS Supply Chain prices.

4.5 The Department will build into the National QIPP Procurement Workstream a project specific to the NHS making better use of NHS Supply Chain. This will be led by NHS Supply Chain and will include:

- compiling and publishing evidence on where using NHS Supply Chain represents best value;
- offering NHS Trusts opportunities to make savings through standardisation and rationalisation initiatives;
- compiling and publishing evidence of response to customer satisfaction surveys;
- the launch of an NHS Supply Chain Customer Board to ensure customer needs are reflected in the businesses strategy and operations; and
- a programme of NHS Trust Executive engagement to ensure the business is understood and supported at a leadership level.

4.6 The BSA and the Department are already undertaking a review of NHS Supply Chain that will take into account their position in the marketplace and the process of renewing the contract will begin in 2013, which will also be an opportunity to assess the competition.

PAC CONCLUSION AND RECOMMENDATION 5

Regional purchasing structures are confused and lack transparency.

The Collaborative Procurement Hubs are undergoing major changes, with some Hubs becoming privatised or merging with others. Hubs are funded by subscriptions from their members, but trusts may not subscribe if they see membership as an unnecessary and unaffordable cost without tangible benefits. The Department does not directly control Hubs but the Department is accountable for the effective functioning of the NHS system as a whole. Given its need to achieve QIPP savings, the Department should work with Foundation Trusts to ensure Hubs add value and avoid duplication.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Department acknowledges that regional purchasing structures are confused and lack transparency but agrees with the Committee that it cannot control these organisations directly, but should work with Foundation Trusts to ensure they are used wisely, adding value and avoiding duplication.

5.3 The Department has already been working with the Foundation Trust Network to begin this process, and has begun to put in place a programme of raising engagement and awareness at Trust level. The intention is to educate Trust executive teams to understand what collaborative procurement services are on offer and support them in making informed decisions about their use. This will include advice on how to ensure these organisations provide value with clear performance measures.

5.4 Simultaneously, the Department will work with the system in conjunction with the National NHS Procurement Council to address the issues in the landscape. This work will be led by the Department and will identify systemic issues that are common to all organisations as a way of promoting joint working and some shared aims in the market. The intention is this will lead to a market that whilst competitive, has a common language, systems and quality standards, with clarity about how they can deliver value.

Thirty Sixth Report

Department for Business, Innovation and Skills (BIS)

Regulating financial sustainability in higher education

Report Summary from the Committee

The regulated higher education sector in England comprises 129 Higher Education Institutions (institutions), which are autonomous, not-for-profit bodies that received nearly half of their £22 billion income in the 2009-10 academic year from public sources. The Higher Education Funding Council for England (the Funding Council) provides a third of the sector's income and oversees the financial sustainability of institutions. It is accountable to the Department for Business, Innovation and Skills (the Department).

Over the last five years student numbers and income have grown annually by 2% and 6% respectively. In the context of this benign environment, the Funding Council's 'light touch' approach to financial regulation has been cost-efficient. No institution has suffered a disorderly failure since the Funding Council was formed in 1993.

The sector has begun the transition to a new system of funding in which Funding Council grants to institutions will be replaced by higher tuition fees, paid by students through access to publicly-provided loans. As it stands, the Funding Council's influence over institutions will weaken significantly once its funding role diminishes. The Department will need to provide new powers for the Funding Council to regulate these institutions.

The Department and the Funding Council need to decide how effective regulation will be maintained in a more challenging financial environment. To ensure the transition to a market-based system is smooth, the Funding Council must monitor risks as they emerge and respond quickly. Uncertainty exists over how student demand for places will be affected by the higher fees. The Funding Council is not expecting any disorderly failures to occur, but a market-based system will increase risks to institutions and there is no guarantee that institutions in difficulty will necessarily be supported. The Department and the Funding Council need to develop contingency plans in the event of an institution failing.

The Funding Council also has a responsibility for promoting value for money, although it does not assess the value for money of institutions. In future, prospective students will need better information to make an informed choice about where they will study, including comparable information on the financial health of, and value for money provided by, individual institutions. The Funding Council does not normally publish the names of institutions it judges to be at financial risk, so as to protect them while they are in recovery. Now that students are required to make a substantial financial investment in their degree, the Funding Council needs to strike a suitable balance between the interests of institutions and those of prospective students. The Committee welcomed the review process subsequently announced by the Quality Assurance Agency.

Institutions are in the process of declaring their fees for new students in 2012-13, and initial declarations have been higher than the Department had anticipated, with the majority proposing to charge the maximum fee of £9,000 a year. Nevertheless, any proposal to charge fees of more than £6,000 a year is subject to the approval of the Office for Fair Access. Having to provide student loans to meet this level of fee could create a funding gap of several hundred million pounds for the taxpayer.

On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department, the Funding Council and representatives from three institutions on financial regulation and the introduction of new funding arrangements for higher education.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

From 2012-13 onwards, the change in higher education funding arrangements will require a new system of regulation and accountability.

The Funding Council has operated a cost-efficient regulatory framework during a period of growth in the sector. It is unclear however whether this 'light touch' approach will be fit for a more uncertain financial environment for institutions. In the new environment, funding for teaching in higher education institutions will follow the student with an increasing proportion of cost borne by students and the student loan system. At present the Funding Council's influence on the sector comes from its funding role. In the future all institutions will receive less money from HEFCE and some will receive none at all. The Department will need to design and implement a new system of regulation. It will also need to provide new powers to regulate institutions that receive little or no direct public funding but whose students have access to publicly-provided loans.

1.1 The Government agrees with the Committee's recommendation. The Funding Council has provided value for money in delivering their regulatory role.

1.2 The Department has already set out in the Grant Letter to the Funding Council (published 20 December 2010) that managing the transition to a new funding framework will be a priority for HEFCE for the 2011-12 financial year.

1.3 Following the publication of the White Paper *Higher Education: Students at the Heart of the system (Cm 8122),* the Department will be consulting this summer on the detailed proposals for the future regulatory framework. This will set out possible powers and sanctions that the future regulator will need. The Department intend to bring forward the necessary legislation (the Higher Education Bill is provisionally scheduled for 2012 session) to establish a new regulatory role for the Funding Council from 2013-14 academic year.

PAC CONCLUSION AND RECOMMENDATION 2

The transition to new funding arrangements will create new risks to the financial health of institutions.

At present, the main risks are whether higher fees will reduce student demand for undergraduate and postgraduate degrees; whether the demand from overseas students can be maintained and whether institutions will be able to scale down their costs quickly enough if their income falls. If the funding Council is to ensure there is a smooth transition to the new funding environment, it will need to closely monitor risks as they emerge. It must also strengthen its monitoring arrangements so that it has early warning of any institutions that are struggling to manage these risks to their financial health. The Department should write to the Committee by March 2012 to set out how well institutions are coping with the transition and what it is doing to manage the risks.

2.1 The Government agrees with the Committee's recommendation.

2.2 The Funding Council is closely monitoring the potential risks facing higher education in its transition to the new funding system. They will provide advice to the Department in early 2012 to allow it to respond to the Committee by March 2012.

2.3 The Funding Council has a regulatory duty to ensure that universities in receipt of public funds provide value for money and are responsible in the use of these funds. The Chief Executive, as Accounting Officer, has a personal responsibility to safeguard public funds and achieve value for money.

2.4 The Funding Council's internal Assurance Service is responsible for monitoring financial dealings with institutions and their overall financial health. It undertakes audit work in institutions and assesses institutional risk. Where an institution is identified as at higher risk, the institution receives intensive expert support and to a lesser extent financial assistance. No institution has failed and been unable to continue teaching students since the creation of the Council.

PAC CONCLUSION AND RECOMMENDATION 3

The funding council's capacity to respond to difficulties at institutions will be stretched in the new environment

Like other public bodies, the Funding Council is under pressure to reduce its administrative costs. However, as the financial risks to institutions increase, there may be greater need for the Funding Council's involvement. The Department should assure itself that the Funding Council is able to fulfil its regulatory function in the new environment.

3.1 The Government agrees with the Committee's recommendation.

3.2 The Funding Council has reduced its administrative costs in line with Government requirements, and is confident that it has the requisite capacity and resources to fulfil its current statutory responsibilities. The Funding Council's ability to fulfil its regulatory functions in the new environment will depend not only on the financial position of the sector, but also on the range of duties and responsibilities required by the new regulatory framework. The Department will work with the Funding Council to ensure that it is appropriately resourced to deliver any new regulatory functions that arise from the White Paper consultation and / or future legislation.

PAC CONCLUSION AND RECOMMENDATION 4

A market-based environment is designed to provide opportunities for existing institutions to expand and for new providers to enter the market. At the same time, some institutions may shrink and possibly close or fail

The Funding Council is not expecting any disorderly failures amongst Higher Education Institutions this year. The Department and the Funding Council assured the Committee that well-managed institutions will have ample warning of problems. Nevertheless, the Department and the Funding Council must, by the start of the 2011-12 academic year, develop contingency plans for protecting students, and the taxpayer, should unexpected failure occur.

4.1 The Government agrees with the Committee's recommendation.

4.2 The Funding Council will work with the Department to develop the Committee's recommendation, which builds on work already under way. The key aim will be to protect the interests of students. The change in funding regime, with more tuition funding following the student, will not affect the route of funding to institutions until the start of academic year 2012-13. However, overall, the Funding Council will still be providing direct funding for teaching of around £2bn by financial year 2014-15.

PAC CONCLUSION AND RECOMMENDATION 5

Students will need information to assess and compare the value of studying at different institutions, and to make an informed choice.

The Funding Council's activities to promote value for money in the sector do not include assessing the value for money of institutions. In promoting value for money, the Funding Council has seen its role as obtaining assurances from institutions that money has been used for the intended purposes, and encouraging benchmarking and collaboration between institutions. The Department must ensure that students are provide with relevant and reliable information which is accessible and easy to use and which will allow them to make informed judgements in time for applications from 2012-13 academic year.

5.1 The Government agrees with the Committee's recommendation.

5.2 The Funding Council recently consulted on the information requirements of current and potential students and published its outcomes in June 2011 (*Provision of information about higher education*, HEFCE 2011-18). The report sets out how the higher education sector intends to improve the accessibility and usefulness of information about higher education courses, from September 2012. It also sets out how the National Student Survey will be developed, and what wider information should be made available by universities and colleges.

PAC CONCLUSION AND RECOMMENDATION 6

The Committee does not accept the Funding Council's practice of not disclosing which institutions are at higher risk for a three year period.

The Funding Council needs to strike a different and better balance between the interests of institutions and those of prospective students. The review should consider the introduction of a more graduated scale that distinguishes institutions facing insolvency from those that face higher risks for other reasons, and ensures earlier public disclose where students' investment and education is at risk.

6.1 The Government agrees with the Committee's recommendation.

6.2 The Department has agreed with the Funding Council that, in the new regulatory system, consideration should be given to a more graduated risk assessment system. Following the Higher Education White Paper, there will be a consultation on the new regulatory system. The publication of information relating to risk assessments needs to take into account the interests of current students as well as prospective students. At present, the Funding Council does release information about institutions at higher risk if they judge it to be in the public's interest to do so.

PAC CONCLUSION AND RECOMMENDATION 7

The Department faces a potential funding gap of several hundred million pounds if the fees set by institutions significantly exceed its expectations

So far, evidence from those institutions which have declared their fees for the 2012-13 academic year suggests that its forecasts were too low, increasing the cost to the taxpayer of providing student loans. The Department needs to develop a financial model which will allow it to test the impact of the decisions being made across the sector, and to assess the options available, which might range from finding more money through to reducing university places.

7.1 The Government agrees with the Committee's recommendation that BIS should build on existing work and continue to update the Department's financial model to allow us to test the impact of the decisions HEIs are making a across the sector on their tuition charges, and to assess the options available.

7.2 The Department expects there will be about 350,000 new full-time undergraduates arriving at English HEIs in autumn 2012 who will be eligible for tuition loans. The Department has been open in the assumptions it has used to model the future costs of student finance. The Department will closely monitor the situation, but currently expects the overall costs to be broadly within its Spending Review plans.

7.3 The Department will monitor the fees set by institutions over the coming months. After mid-July, when the Director of Fair Access delivers his assessment of Access Agreements for academic year 2012-13, information will be available on the maximum tuition charge allowed for each institution. This assessment will not set out exactly what level each institution will charge for which course. However it will provide some indication of the level of fee waivers and bursaries that institutions will be expected to deliver within their agreements.

7.4 From the end of the 2012-13 academic year, the Department will know how much is actually being borrowed, when it will see how much students actually draw down in loans. If borrowing is higher than originally anticipated, then this is something that the Department would have to address to stay within its spending totals. The Department would first examine options to rebalance within its overall Higher Education budgets.

Thirty Seventh Report

HM Treasury (HMT) and the Cabinet Office

Departmental Business Planning

Report Summary from the Committee

The Spending Review 2010 set out the Government's policy and financial priorities, and a spending framework requiring significant cuts to most Departmental budgets. Subsequently, the Government published 17 Departmental Business Plans which focus on the priorities set out in the Coalition Agreement and are designed to provide a basis for accountability for delivery of those actions. The Plans do not cover all Departmental responsibilities or spending and must be supported by more detailed planning across all budgets within Departments.

The Business Plans provide detailed coverage and accountability for implementation of the Coalition Programme. The plans set out a policy intention to shift power from central government to local communities and locally based public, private and voluntary bodies. The Government wants to empower local people and embed local accountability by making more data more freely available so that people can assess value for money and services providers can be accountable. However, the planning to support the implementation of the reforms and new models of service delivery is at different stages in different Departments, with much of the detail under development or not yet in the public domain.

The Business Plans also contain key indicators of input and impact which the Government intends should provide high level accountability to Parliament and others for overall Departmental performance. The Plans will also be a source of information for Parliament as they underpin the allocation of resources within Departments and the subsequent accountability for the use of those resources. The management of the full range of Departmental activity, however, will require more detailed operational planning and information.

The Committee took evidence from officials from the Cabinet Office and the Treasury; and from two line Departments - the Department of Business, Innovation and Skills and the Home Office. The Committee also heard evidence from the Minister of State for the Cabinet and the Chief Secretary, HM Treasury who explained the political rationale for the Plans and the structural reforms.

The Committee examined the business planning process as a basis for managing reform, for reducing costs, and for Departmental strategic management and accountability. This report identifies a number of important areas that Departments should consider, that will aid them to: clarify accountability; support cost-effective implementation of Government policies; and secure effective performance management.

Government responses to the Committee's conclusions and recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Business Plans set out the actions which the Coalition Government will take to achieve the priorities in the Coalition Agreement, although Departments are still working on the detail of implementation.

The Business Plans do not, and are not designed to, cover the range of each Department's activities and spending and must therefore be supported by further planning to cover all areas of activity with the Department's remit.

1.1 The Government agrees with the Committee's recommendation.

1.2 Business Plans were not designed to hold detailed information about each area of Departmental activity. Business Plans are intended for the general public and Parliament to hold the Government to account and for delivery of key reforms and commitments as set out in the Coalition Programme for Government.

1.3 Detailed lists of actions and milestones set out in the Structural Reform Plan are designed to show the steps the Government will take to implement its reform agenda and are not designed to set out every action it will take across every area of business. However, many Business Plans set out both their structural reform priorities and their 'other major responsibilities'. The Transparency sections, including the input and impact indicators do cover a broader range of Departments' activities at a high level, and not just those around structural reform.

1.4 Activities and spending should be supported by additional planning. The Government believes that operational management is the responsibility of each Department who should have more detailed operational plans that sit below their high-level Business Plans. Departments are encouraged to publish these plans on their websites. The Information Strategies in Departmental Business Plans set out the wider data that Departments will publish.

PAC CONCLUSION AND RECOMMENDATION 2

The Committee's role is to hold the Government to account for the stewardship of all public funds and assets and the achievement of propriety and value for money in Government spending.

Our remit covers both the Coalition Agreement programme and the business-as-usual operations, and we expect sufficient information to enable us to hold Departments to account on costs, outcomes, and value for money on both the Coalition agreement and across all of a Department's work.

2.1 The Government agrees with the Committee's recommendation.

2.2 The Government firmly believes in effective accountability for Departmental expenditure and has an ambitious transparency agenda to make unprecedented volumes of information on the cost and performance of public services available to the public. In Business Plans, there has been a greater focus on transparency of Departmental spending through the inclusion of "Bubble Charts" clearly showing the indicative budget allocations. In addition, Business Plans set out the cost of areas of spend which are common to all Departments. During the baseline year, few data standards were available, and therefore comparison across government is not always possible. Over time the Government will set clear central standards and departments will improve their data quality, such that comparison across common operational areas within the public and to the private sector becomes possible.

2.3 Department and local public service providers regularly publish a substantial amount of other data – for instance, on every item of spending of £25,000 for central Government and £500 for Local Government. Whilst a large amount of information has been released, this volume of information will continue to increase under the Government's transparency agenda. We believe that the release of this information will enable the Committee, Parliament and the Public to hold Departments to account on all areas of business. Each Department's approach to transparency and the key examples of data they will publish is set out in the transparency section of the Business Plan.

2.4 The input and impact indicators in Departmental Business Plans are the key metrics they have selected to demonstrate the cost and effectiveness of the public services they are responsible for at a high level. Information on progress against these indicators will be published regularly in an accessible, easy-to-use format through a Quarterly Data Summary (QDS). The input and impact indicators should reflect the Department's key high-level priorities. Each Department consulted on these indicators so that key stakeholders, including Select Committees could identify any major gaps and the indicators were amended to reflect those comments as part of the May refresh.

2.5 Indicators have purposely been kept high level in order to prevent the creation of bureaucracy and reporting burdens. Any gaps should have been identified over the course of the consultation on the Transparency sections and amended when the plans were refreshed in May. The input indicators currently cover the majority of spending for most Departments. For instance, the Department for Transport input indicators cover around 70% of its spending.

PAC CONCLUSION AND RECOMMENDATION 3 and 4

3: This report draws on the experience of this Committee over many years.

While different Governments may adopt different approaches to business planning there are some essential elements which ensure effective accountability and good value for money which are set out below.

4: The ability to secure effective accountability for departmental expenditure depends on:

- ***Being clear and precise about objectives;***
- ***Establishing monitoring arrangements which align costs and results for all significant areas of Departmental activity and spending;***
- ***Providing reliable, timely, accessible data to support that monitoring;***
- ***Establishing robust processes for assessing assurance on propriety and value for services that are delivered locally; and***
- ***Putting in place mechanisms to deal with failure and continuity of services where appropriate.***

3.1 The Government agrees with the Committee's recommendation.

3.2 The Government firmly believes in effective accountability for Departmental expenditure and are addressing the recommendations in the following ways. Departmental Business Plans clearly set out the vision for what each Department wishes to achieve over the spending review period. The Coalition Priorities show the high-level Departmental objectives and the Structural Reform Plan section shows in detail the actions aligned to achieve these objectives.

3.3 Every year Departments lay Annual Reports in Parliament, which set out their performance over the previous year. We are currently in the process of updating the reporting framework, and in the future Departments will report on their performance against their Business Plans. We are currently looking into how Departments should link up their spending with their performance in their Annual Reports. A Department's breakdown of spend should align with their Business Plans, but in a way that is not overly burdensome or bureaucratic. The Business Plans contain clear financial information which can be linked to performance including Departmental budget allocations, spending review settlements and common areas of spend.

3.4 The Government's commitments on transparency will allow much greater scrutiny on the propriety and value for money of local services. For example, the Transparency sections set out a large number of data sets and indicators, many of which will be published to a local level – by police force, by Local Authority, by area etc. By publishing data on cost, impact and structural reforms in a standard format, the public will be able to compare the performance of their local services to those in other areas and the country as a whole. This data will empower the public to hold their local services to account, armed with better information than has been available before.

3.5 The Government's response to the Committee's report on accountability, which sits alongside this report, will set out the Government's intended approach to ensure accountability for taxpayers' money spent locally.

3.6 Business Plans allow timely monitoring of Departmental performance and enable internal monitoring of implementation of reforms.

3.7 Greater transparency of data at all levels of Government and public services will allow the public to hold local service providers to account and to choose alternatives where provision is not good enough with the objective of driving up standards at a national level. Ensuring continuity of service in the face of individual provider failure is of key importance. The Open Public Services White Paper published 11th July sets out six principles that Departments should consider when designing regimes to ensure continuity of service.

PAC CONCLUSION AND RECOMMENDATION 5

Both innovation and good design are important for good value for money.

But the Committee's experience has been that high quality management of implementation is equally important. In the context of substantial cuts in Departmental budgets, combined with structural reforms, that highlights the need for:

- ***A robust assessment of the capability of Departments to deliver the reforms, and effective plans to deal with any gaps in skills, systems or relationships;***
- ***Strong governance arrangements to identify and manage risks, and secure effective partnership working, across Government and beyond Government;***
- ***Accurate costing of the transitional costs of reform and restructuring, to check on affordability and the impact of reform on service delivery budgets;***
- ***Monitoring arrangements to ensure that a reform in one area does not lead to increased expenditure in another and thus damage the value for money of the reform proposal;***
- ***Systems to track the benefits of reform and to ensure they are both sustainable and cost-effective and that they properly meet the policy intent set; and***
- ***All reform programmes to be sufficiently flexible to respond to changed circumstances and unexpected pressures. That is crucial for ensuring continued value for money.***

5.1 The Government agrees with the Committee's recommendation.

5.2 The Business Plans were announced as part of the Spending Review, and will be one of the key ways of ensuring that it is being implemented. The process for developing Business Plans was integrated with the Spending Review process and this is continuing through implementation of Business Plans and the Spending Review. HM Treasury were heavily involved in ensuring affordability and consistency between the two processes, and all of the plans were signed off by the Chancellor before they were published.

5.3 The Government agrees with the Committee's emphasis on effective partnership working and Business Plans were revised in May to incorporate actions from two key cross-Government strategies on social mobility and growth. Both these strategies have strong governance arrangements in place to monitor implementation.

5.4 One of the Treasury's core functions is the identification and management of spending risks across Government and the Department is working collaboratively with Government Departments to implement Spending Review savings and reforms. As a part of this process develop a shared understanding of spending risks and, where necessary, ensuring that mitigating actions are taken. Naturally the Chief Secretary to the Treasury is kept regularly informed of all spending risks and takes a view across the board. This provides the opportunity to identify risks that cross Departmental boundaries. In addition, Business Plan impact indicators, and other data sets will allow Departments and the public to see at a high level whether they are having the desired effect of improving public service outcomes. Non-Executive Directors and Departmental Boards will review the data to help identify any areas at risk of under-performing.

5.5 Business Plans set out in detail actions Departments will take, and by when, in order to deliver the structural reforms. The transparency provided by the Business Plans, the Quarterly Data Summary and other publications will provide the information needed to assess policy effectiveness and respond flexibly where needed. In addition, as Business Plans will be refreshed annually structural reform actions can flexibly reflect the previous year's progress.

PAC CONCLUSION AND RECOMMENDATION 6

Whatever the delivery model appropriate controls and incentives must be in place to secure effective performance management.

Key factors to address include:

- ***The qualification and capabilities of those charged with implementing the reforms;***
- ***Clear definitions of outcomes and standards, rigorous timelines and appropriate strategies to intervene when expectations are not met;***
- ***Effective incentives and sanctions to influence and drive performance;***
- ***Appropriate standardisation of relevant data and indicators to permit performance comparison, for local and central use; and***
- ***Regular reviews to test, assess and review whether the reforms are delivering intended outcomes. Arrangements to secure evaluation to understand what works and to secure changes if these are necessary.***

6.1 The Government agrees with the Committee's recommendation.

6.2 The Government is continuing to bring about fundamental change in how Departments are held to account for implementing policy commitments; replacing the old top-down systems of targets and central micromanagement with democratic accountability. This is being brought about by giving the public unprecedented access to data enabling them to scrutinise how the Government is using taxpayer's money and the effectiveness of the Government's reforms.

6.3 Progress has been made in strengthening the leadership of Government's major projects and programmes under the leadership of the Efficiency Reform Group (ERG), which is simultaneously improving the skills and capability of senior project team members who are tasked with implementing reforms. The Government fully accepts the need to continuously develop the skills of civil servants and is already taking action to achieve this. For example, the Government will publish an ICT Capability Strategy that will include detail on talent management, the continued growth of the Technology in Business fast stream, and measures to increase the exchange of skills and best practice from the private sector. In addition the Government's "interchange" programme, designed to transfer commercial skills, facilitates an exchange of skilled employees between suppliers and Government.

6.4 Consistent comparison of key performance data will be facilitated in a single user friendly document through the Business Plans Quarterly Data Summary (QDS). The QDS will include an update on the latest data from the Structural Reform Plan actions/milestones and the Business Plan input/impact indicators. The QDS is designed as a standardised tool for reporting selected performance metrics for each Government Department, in a way that facilitates comparison across departments where this is appropriate. The QDS will also provide a useful summary of Departmental business that can be scrutinised by Non-Executive Directors and boards and to support internal discussions between Departments and the centre.

6.5 Every year Departments lay Annual Reports in Parliament, which set out their performance over the previous year. Under the previous Government, these reports were based on Public Service Agreements and Departmental Strategic Objectives. The Government is currently in the process of updating the reporting framework, and in the future Departments will report on their performance against their Business Plans. The Government is in contact with officials from the PAC, the Liaison Committee and the NAO to meet Parliament's needs in terms of providing accountability through this process. The Government is looking into how Departments can better link up their spending with their performance in their Annual Reports, without it becoming an overly burdensome or bureaucratic process.

6.6 The Government is committed to refreshing Business Plans on an annual basis. This will provide an opportunity to assess effectiveness of policies tracked in the Business Plans and to improve the format and content based on feedback and lessons learned.

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