

## **HM Treasury**

Treasury Minutes on the Twenty Fourth to the Thirtieth, the Thirty Second to the Thirty Ninth, the Forty Fifth, and the Forty Seventh to the Forty Eighth Reports from the Committee of Public Accounts  
Session 2008-09

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### **CORRECTION**

On the title page (page 1), the title for the 47th Report should read as follows:

DH: Reducing Alcohol Harm: health services in England for alcohol misuse

November 2009  
London: The Stationery Office



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**Presented to Parliament by the Exchequer Secretary to the Treasury  
by Command of Her Majesty  
October 2009**

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## **Treasury Minutes on the Twenty Fourth to the Thirtieth, the Thirty Second to the Thirty Ninth, the Forty Fifth, and the Forty Seventh to the Forty Eighth Reports from the Committee of Public Accounts Session 2008-09**

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TREASURY MINUTES DATED 29 OCTOBER 2009 ON THE TWENTY FOURTH TO THE THIRTIETH, THE THIRTY SECOND TO THE THIRTY NINTH, THE FORTY FIFTH, AND THE FORTY SEVENTH TO THE FORTY EIGHTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2008-09

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# Twenty Fourth Report

## Department for Culture, Media and Sport (DCMS) and HM Treasury (HMT)

### Maintaining the Occupied Royal Palaces

1. The Occupied Royal Palaces Estate (the Estate) consists of Buckingham Palace, St James's Palace, Windsor Castle, and parts of Kensington Place, Hampton Court Mews and Windsor Home Park. The 360-odd individual buildings that make up the Palaces are held in trust for the nation and used to support the official duties of The Sovereign as Head of State. The Palaces are used for a variety of functions including State visits, and receptions and dinners. Buckingham Palace and Buckingham Palace Mews, Clarence House, Windsor Castle and Frogmore House are open to paying visitors at certain times of the year.
2. The cost of maintaining the Palaces falls to the Government. The Department for Culture, Media and Sport (the Department) gives the Household an annual grant to maintain and run the Palaces, which has remained at around £15 million since 2000-01. There are separate grants for which other Government Departments are responsible.
3. The Department is accountable to Parliament for the upkeep of the Estate, but since 1991 has delegated day-to-day responsibility to the Household. The Department and the Household have agreed a Memorandum of Understanding (MOU), which sets out their respective roles and responsibilities. The Household's Property Services Section manages maintenance on a day-to-day basis, and the Keeper of the Privy Purse is responsible for the management of the Property Services Section and stewardship of the grant in aid.
4. The Royal Collection Trust, an independent charitable trust, is responsible for the works of art held in trust for the nation. The Trust manages visitor admission to the Palaces and receives the income generated, which in 2007-08 totalled £28 million. The Trust shares some of the Windsor Castle income with the Household (£1.8 million in 2007-08), and from April 2009 the Trust plans to share income from visitors to Buckingham Palace with the Household.
5. On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department and the Household. In addition, the Committee visited Buckingham Palace, Clarence House, St James Palace, and Windsor Castle to see a selection of the Household's maintenance projects.

**PAC Conclusion (1): The Household has reported that there is a £32 million backlog of maintenance work but this is not supported by rigorous analysis. In the absence of a consistent approach to assessing the condition of the Estate and calculating the backlog, and without an assessment of the practical consequences of the backlog, the Department and the Household cannot be sure how big the problem is or what to do about it. The Household should define criteria for inspecting the condition of the Estate, agree with the Department the basis for calculating the maintenance backlog and, before the end of 2009, set out a plan for managing it.**

6. The Department partially agrees with the Committee's conclusion. The backlog figure of £32 million reported in the Royal Household's 2007-08 Annual Report is an estimate of how much will be needed in ten year's time if the grant in aid remains at £15 million a year, not at the present.
7. The Household is confident that its assessment of the backlog is well founded. However, it is recognised that the records of condition should be improved, so that they are consistent. The Household is considering the use of software developed by Defence Estates, which measures 'target' condition and 'actual' condition based upon specific definitions of condition for each part of a building. It is proposed to evaluate this software by the end of 2009 and, assuming that it is successful and the criteria agreed with the Department, to record all of the Estate on the software by the end of 2011. A member of the Property Section management team has been transferred to the role of Estates Surveyor to undertake this major task.

**PAC Conclusion (2): Work required to repair the Mausoleum, a monument of national importance, has been outstanding for 14 years and its condition is getting worse. Repairing the Mausoleum would cost around £3 million but resource constraints mean the Household has no plans to do the required work. Ultimately, the condition of the estate is a matter for the Department, which should identify how the restoration of the Mausoleum can be funded without impacting on the Household's resources for maintaining the rest of the Estate.**

8. The Department agrees with the Committee that with a project of the complexity of the repair of the Mausoleum, other means of funding may need to be found. Together with English Heritage, the Household is currently assessing the nature of the deterioration and what is necessary to slow or arrest that deterioration. When the Household has updated its detailed estimates for repair and agreed a strategy for carrying out the work, the Department will consider it alongside other priorities, and in the light of the Household's other resources.

**PAC Conclusion (3): The Department for Culture, Media and Sport is accountable to Parliament for the upkeep of the Occupied Royal Palaces but does not have a firm grip on its responsibilities. The Department has set the Household an objective for the condition of the Estate, but does not measure the Household's performance, and has allowed a maintenance backlog to build up despite our warning that this might happen. The Department should establish performance measures that keep it apprised of the condition of the Estate starting in the 2009-10 financial year.**

9. The Department does not agree with the conclusion that it does not have a firm grip on its responsibilities. The Household's property maintenance work is monitored on an ongoing basis by the Department's specialist consultants, Watts PLC, who report to the Department on a regular basis. The reports are shared with the Household, and any issues are discussed and resolved. It is anticipated that the Household will agree performance indicators with the Department to assess actual condition against target condition for each part of the Estate from December 2009 with the whole Estate completed by December 2011. The software provided by Defence Estates may also help focus expenditure to highlight where the most significant improvements can be made.

**PAC Conclusion (4): In 2007-08, the Royal Collection Trust received over £27 million from visitors to the Occupied Royal Palaces, of which just £1.8 million was passed to the Royal Household to top up the resources available to maintain the Palaces. The arrangement by which money paid by visitors to the Palaces goes to fund the Royal Collection Trust dates from 1850, but times have changed. More Palaces are now open to the public and hundreds of thousands of tourists visit them each year, yet only a fraction of the income generated is used to maintain the Palaces. The amount paid over to the Household is at the discretion of the Royal Collection Trust, but some staff of the Household are also involved with the Trust and have potential conflicts of interest. The Department should:**

- (a) work with the Household and Royal Collection Trust to revise the arrangements for the collection and distribution of visitor income to reflect the fact that visitors come to see the Palaces, as well as the works of art in them; and**
- (b) assure itself that the revised arrangements are equitable for the Household.**

10. In 2007-08 the Royal Collection Trust (the Trust) produced an operating surplus of £8.9 million from a total turnover of £29.6 million. The Trust paid £1.8 million (20%) of the surplus to the Royal Household for the use of Windsor Castle towards the maintenance of the Occupied Royal Palaces. Of the balance, £5.6 million was used to pursue the Trust's charitable objectives and £1.5 million was utilised to repay part of the debt incurred in connection with the re-development of The Queen's Galleries.

11. In March 2009, the Royal Collection Trustees agreed to accept a charge from the Household for the use of Buckingham Palace to generate funds for the maintenance of the Occupied Royal Palaces. The charge has been set initially at £250,000 excluding VAT, increasing annually in line with RPI + 1.5%. The charge will be regularly reviewed by the Household and the Royal Collection Trustees and adjusted to reflect increases in the number of days the Palace is open or new income streams.

12. The Household believes that any potential conflicts of interest among its staff are appropriately managed and that involvement in Household and Royal Collection activities leads to greater transparency of transactions between the two entities. Furthermore, the separate Audit Committees of the Royal Collection and the Household closely scrutinise such transactions to ensure that they are equitable for both parties.

**PAC Conclusion (5): The way the Royal Collection Trust manages its resources is not subject to scrutiny by the Comptroller and Auditor General. We can see no constitutional justification for the Comptroller and Auditor General being denied access to the Trust. The Royal Collection Trust looks after a vast number of priceless works of art on behalf of the Nation, and its commercial success impacts directly on the amount of resources available to maintain the Occupied Royal Palaces, but the Trust is not accountable to Parliament. As we have recommended previously, the Comptroller and Auditor General should be the auditor of the Royal Collection Trust.**

13. This matter will be kept under review.

**PAC Conclusion (6): Buckingham Palace generated income of over £7 million from visitors in 2007-08 despite being closed to the public for over 300 days a year. It may be more difficult to open areas of Buckingham Palace to the public when there are other events taking place and when members of the Royal Family are in residence, but it does not follow that the whole Palace needs to be closed. The Household should work with the Royal Collection Trust to assess the practicality and cost effectiveness of extending the opening times, starting in 2009. The review should examine how other organisations, such as the White House and the Houses of Parliament, manage visits by members of the public alongside state business and the associated security considerations.**

14. The Household will continue to explore with the Royal Collection Trust opportunities for increasing the number of days that Buckingham Palace is open to the public. This will include examination of the current arrangements for public access to the Houses of Parliament and the White House.

15. On the basis of the business case previously prepared by the Royal Collection and as submitted to the Committee (Ev 17-21), the Household considers that an extension of the main Buckingham Palace Summer Opening is likely to be the optimal solution for generating a significant increase in income, but this would clearly be subject to consideration as to how the Palace is used by The Queen and members of the Royal Family in support of its official function in July and October.

**PAC Conclusion (7): In 2001, we recommended the Royal Household move its staff to accommodation within the secure perimeter of the Palaces to allow more properties to be let commercially, but since then only one member of staff has been moved. With 18 staff and pensioners accommodated outside the secure perimeter and 28 vacant properties inside, there is scope to reduce the subsidy of over £200,000 being provided by public funds. The Royal Household should relocate staff and pensioners accommodated outside the perimeter to properties inside as soon as is practicable, while taking into account age and health considerations. The Household should also investigate whether adjustments to the secure perimeter can be made, without compromising the safety of the Royal Family, to allow more properties currently within the perimeter to be let at market rents.**

16. Since publication of the NAO report in December 2008, the number of staff and pensioners accommodated outside the secure cordon has reduced from 18 (13 pensioners and 5 staff) to 14 (9 pensioners and 5 staff).

17. Of the 14 properties occupied, it is proposed that six are returned to the Crown Estate and one is returned to the Department. It is considered uneconomical to refurbish two of the properties currently occupied by staff for commercial letting so options for generating capital receipts will be considered.

18. Consideration will be given to moving one member of staff within the secure cordon, but in line with the Royal Household's commitment to its former staff, it would not wish to move the pensioners, who are in their late 70's and 80's, from the four remaining properties outside the secure cordon.

**PAC Conclusion (8): Without a comprehensive estate management plan, the Royal Household risks managing the Estate too reactively and thereby missing opportunities to improve value for money. The Royal Household should prepare a forward looking strategy for the Estate within the next six months setting out:**

- a) the operational needs of the Household, including which members of staff need to be accommodated;
- b) how the current assets, including the principal buildings such as Kensington Palace, will be used to support those needs, and
- c) alternative uses for properties likely to be surplus.

19. The Household regularly reviews the operational requirements of the Estate, including the need for staff accommodation. As part of this review, it also considers opportunities for increasing income from commercial lettings in respect of properties outside the secure cordon as well as the potential for lettings within the secure cordon to bodies such as the Ministry of Defence (MOD).

20. The Household will continue to explore with the Department and HM Treasury the opportunities for realising capital receipts from the disposal of surplus properties, which could provide some of the funding to address the maintenance shortfall as well as reducing future maintenance costs. These activities will be formally documented in a Strategic Plan in accordance with the NAO's recommendations by December 2009.

**PAC Conclusion (9): The Royal Household has not provided all of the additional information requested by the Committee. We expect witnesses to provide full responses to our requests for information. The Royal Household has not provided all the notes we asked for, and, without explanation, those received do not provide all the information we requested. We also expect the Royal Collection Trust to provide the National Audit Office with inventory data by April 2010. The Treasury should make clear to all potential witnesses the importance of providing detailed and thorough notes where commitments have been given during the hearing.**

21. The Household regrets that the Committee found its information less than expected in response to the Committee's requests for information. At no stage, prior to publication of the Committee's report on 2 June 2009, was the Household advised that its submissions after the Committee Hearing on 26 January 2009 were incomplete.

22. The Household has clearly explained the difficulties in providing a full listing of the Royal Collection inventory [Ev 23] and proposes to consider the NAO's request for access to the new Collections Management System (CMS) once it is fully implemented in Spring 2010.

**PAC Conclusion (10):** Since 1998-99, £1.7 billion in hereditary revenues of The Sovereign has been surrendered to the Exchequer in return for funding of £376 million, producing a net surplus for the Exchequer of over £1.3 billion. The hereditary revenues of The Sovereign, based on a £7 billion property portfolio, are surrendered to the Exchequer in exchange for funding to meet the cost of The Sovereign's official duties. We conclude that the hereditary revenues of The Sovereign provide a surplus for the Exchequer which is sufficient for the Department to meet its responsibilities in funding the work of The Sovereign.

23. As matter of arithmetic, the government agrees that this comparison is correct.

# Twenty Fifth Report

## Department for Culture, Media and Sport (DCMS)

### The efficiency of radio production at the BBC

1. In 2007-08, the BBC spent £462 million on ten radio stations that broadcast to the whole of the United Kingdom (Network Stations). There were also two stations each for Northern Ireland, Scotland and Wales (Nations Stations). The BBC has set these 16 stations a combined target of efficiency savings of £69 million over the five-year period to March 2013, representing an annual saving of 3%.
2. Seven of the eight recommendations in the PAC's report are aimed at the BBC. It is for the BBC to respond to these recommendations. One of the recommendations is aimed at both the BBC and Government.
3. The Committee examined the BBC Trust and the BBC on the BBC's management of radio production, including the costs involved and the C&AG's access to the BBC's information.

**PAC Conclusion (1): The BBC Trust proposed unacceptable restrictions on the audit evidence the Comptroller and Auditor General could see and report to Parliament. This is a practical illustration of the inadequate terms of the agreement between the Government and the BBC under which the Comptroller and Auditor General carries out value for money reviews at the BBC. The situation would not have arisen if the Comptroller and Auditor General had statutory rights of access, as he does for other publicly funded organisations. The Government should arrange for the Comptroller and Auditor General to have unrestricted statutory rights of access to the BBC. The BBC Trust should confirm that to the Government that it is willing for this to happen.**

4. The Government agrees that the NAO should have unrestricted access to the BBC. We are encouraging the BBC to discuss with the NAO how this can be achieved while safeguarding the BBC's editorial independence.

# Twenty Sixth Report

## HM Revenue and Customs (HMRC)

### Management of tax debt

1. In 2007-08, HM Revenue and Customs (the Department), collected around £450 billion in tax and National Insurance Contributions from 35 million taxpayers. At 31 March 2008, the Department was owed £17.3 billion in outstanding tax, interest and penalties, £4.5 billion of which was more than a year old. Debts arise when people or businesses forget to pay, do not understand the need to pay or deliberately try to avoid or delay payment.
2. Most tax payments are made on time and the Department has improved the information provided to taxpayers about arrangements for payment and debt recovery and has provided more ways for taxpayers to settle their tax debts. The Department needs to change the behaviour of taxpayers who persistently pay late. In managing tax debt the Department must balance the need to maximize revenue for the Exchequer with that of offering support to individuals and businesses in temporary financial difficulty. Balancing these two objectives becomes more difficult in a recession.
3. On the basis of a report by the Comptroller and Auditor General, the Committee examined the Department on getting taxpayers to pay on time, improving debt recovery and managing debt in a recession. The Committee also considered the Department's recent settlement with Electronic Data Systems (EDS) on the compensation for the Tax Credit computer problems.

**PAC Conclusion (1): Some 30% of tax payments are late. The Department is not yet using recognised good practices in debt management, as recommended by this Committee in 2004. In particular, risk profiling would help improve the management of the growing level of tax debt in this more difficult economic environment. In January 2009, the Department started to pilot a scheme to risk profile taxpayers with self-assessed Income Tax debts. It should extend risk profiling to all the main types of tax debt.**

4. The Department agrees with the Committee's conclusion but wishes to clarify that that in 2007-08 around 30% of taxpayers with a tax liability did not pay on time, and not that 30% of tax payments were late. The report also points out that often payments were made soon after the due date.
5. The Department is increasingly prioritising debt pursuit actions on the basis of risk. This means designing and deploying collection strategies, such as segmenting debtors and tailoring its interventions according to previous behaviour, the risks attached to the debt and the taxpayer's likely ability to pay.
6. The Department has subsequently built on this initiative with further risk-based debt pursuit campaigns to clear further self-assessed tax debts that became due on 31 July 2009, Employer's end of year PAYE/NIC underpayments and Corporation Tax. Later this year, the Department expects to begin using a similar risk profiling approach for Tax Credit debts that are subject to direct recovery rather than being recovered through reductions to ongoing awards. The Department agrees that risk profiling and a risk based approach to debt pursuit should be adopted for all the main types of tax debt and plans to increasingly apply the approach to other parts of its overall debt portfolio.

**PAC Conclusion (2): The Department has not explored all the payment methods it might offer to taxpayers to settle their tax liabilities. It has only recently introduced the facility to pay by credit card and to set up direct debits by telephone and online. It should do more to exploit developments in payment technology. For example, it should evaluate by the end of 2009, the costs and benefits of using autopayment technology and enabling people to settle their debts in cash through schemes such as Paypoint and Payzone.**

7. The Department acknowledges the Committee's conclusion. The Department believes it is important to encourage and support payment on time by making it easy for people to pay. The Department therefore intends to continue to regularly review the range of payment options and to exploit new developments in payment technology where there is an affordable value for money case to do so. Those needing to pay tax liabilities to the Department already have very considerable choice about how to do so. They can pay by cheque or postal order, either through the post or over the counter at banks and post offices. They can pay electronically by direct transfer from their own or a third party bank account, either through their own bank's telephone or online banking service or by using the telephone and online payment facilities offered directly by the Department.

8. The Department also offers the facility to accept payment by direct debit and again this can be set up by the customer directly with their own bank or through the service offered by the Department. For those wishing to pay by debit or credit card, HMRC will accept payment by telephone or over the internet. This is something it began to do so as soon as Parliament had enacted the enabling legislation (s136 Finance Act 2008). The Department has already begun to explore the possibilities of using autopayment technology. Cash payments can already be made over the counter at both banks and post offices, but there are no plans at present to introduce further cash payment options through such schemes as Paypoint and Payzone.

9. The Department prefers to receive payments electronically because this is the safest and most secure method. It gives the customer better control over their money, provides certainty about when the payment will reach HMRC, avoids postal delays, lets customers pay at a time convenient to them through either Internet or telephone banking and minimises the cost of payment processing.

**PAC Conclusion (3): The Department cannot view all the debts of a taxpayer at the same time or automatically link debts across taxes. Such deficiencies are major barriers to effective and efficient debt management. The Department has decided it cannot afford to develop a new IT system to link taxpayer records on different taxes because of other demands on its administration budget. It plans to bring VAT debts into its main debt management system, but it needs a staged programme so that progressively it can link and manage all of a taxpayer's debts as a whole.**

10. The Department agrees with the Committee's conclusion and acknowledges that there could be significant efficiency and effectiveness benefits from being able to automatically link (and view at the same time) all debts for the same taxpayer. However, the Department has concluded that it cannot currently afford the very significant costs involved in developing the major new IT systems that would be required. It does not anticipate being able to prioritise such a major IT development in the foreseeable future. While it agrees a staged approach in principle it cannot, on affordability grounds, commit now to a staged programme to link and manage all of a taxpayer's debts as a whole.

11. In the absence of IT functionality for the automatic linking of debts, the Department has put in place processes enabling debts for the same taxpayer to be linked clerically at key stages of the debt pursuit process, such as when considering time to pay proposals from debtors or when considering action to enforce payment or institute insolvency proceedings. The Department expects it will have made the necessary IT system changes to import VAT debts into its main debt management computer system towards the end of 2010 and this will further increase the scope for automatic linking of debt and, where appropriate, for the joint pursuit of linked debts for the same taxpayer. VAT is currently the only major tax type not already included in the debt management system.

**PAC Conclusion (4): The Department does not follow good practice in measuring the amount of debt collected within 30 and 90 days. The Department's debt management system cannot provide this information routinely. From January 2009, it planned to measure the percentage, by value, of self-assessed Income Tax debt collected within 30 and 90 days. It should extend this to cover all major taxes.**

12. The Department agrees with the Committee's conclusion. It is now developing a new measure, ahead of setting formal targets based on the debt cleared at 30 and 90 days in support of its Departmental Strategic Objective 1 (DSO 1) for 2010-11.

**PAC Conclusion (5): The Department cannot measure the cost effectiveness of different collection activities because it does not know how much debt is collected through each activity. It has made significant changes to its Debt Pursuit work, and is looking at ways of expanding the capacity and work of the Telephone Centre so that it collects more debt. It should introduce activity-based costing so that it can assess the relative success of collection activities, as well as the effect of changes in their scale and organisation.**

13. The Department agrees with the Committee's conclusion. The Department has already begun to expand its Debt Management Telephone Centre (DMTC) and is currently implementing plans to redeploy around 500 full time equivalent (FTE) staff from less cost-effective debt management work. The Department is currently considering options for further expansion of the DMTC over and above the initial 500 FTE posts already planned.

14. As the Department progressively moves to a risk and campaigns based approach to debt pursuit for the whole of its debt portfolio, it intends to undertake systematic evaluations of each campaign that will include an assessment of activity-based costs and outcomes.

**PAC Conclusion (6): The Department has tended to focus its debt collection activities on standard office hours. Other organisations have increased their effectiveness by staffing debt management activities outside normal office hours, when it is easier to contact customers. The Department should examine the costs and benefits of expanding debt collection work in the evenings and weekends.**

15. The Department agrees with the Committee's conclusion. It recognises that effective debt pursuit and enforcement requires successful contact with debtors, either by telephone or, exceptionally, face to face. The Department also recognises that available resources need to be utilised to match the likely availability of the debtor. For some types of debtor, for example a self employed tradesman owing a Self Assessed Income Tax debt, the Department is unlikely to be able to successfully contact the debtor at home during normal office hours. Conversely, when pursuing a debt from a large employer with PAYE debts, it is much more likely that the Department will be able to make contact by contacting the employer at their business premises during standard office hours.

16. The Department believes that there is significant scope to further increase the amount of debt pursuit activity it undertakes outside standard office hours and is actively working towards this end. In September 2009 the Department began a pilot to assess the costs and benefits of undertaking debt pursuit work involving face-to-face contact on Sundays.

17. Within DMTC, significant numbers of staff are engaged on contracts that give the Department scope to roster them for evening and weekend working without significantly increasing overall departmental paybill costs. All new DMTC staff are recruited on such terms. The expansion of DMTC capacity currently underway will further increase the Department's flexibility to deploy telephone agents already on flexible contracts for out of hours working and the Department is considering a range of further steps it could take to increase out of hours debt pursuit by telephone.

**PAC Conclusion (7): The Department has responded quickly in offering support to businesses in financial difficulty during the recession. The purpose of the Business Payment Support Service is to give time to pay to businesses in temporary financial difficulty. Without a risk profiling system it is more difficult for the Department to assess the risks of debtors defaulting. It should track actual rates of default and assess whether the criteria it applies in deciding applications do, in practice, deliver support to the target audience.**

18. The Department acknowledges the Committee's conclusion. The Department has always taken a sympathetic and flexible approach to businesses and individuals facing temporary financial difficulties. The Department has a statutory duty to collect the taxes that Parliament has decreed must be paid, but also has some limited discretion to grant short extensions in time to pay (TTP) where that would give the best net return for the Exchequer for a particular debt. The best return might be obtained by agreeing a TTP arrangement but only if the Department can satisfy itself that the business is viable, can pay back the debt and will meet tax liabilities over the course of the TTP arrangement.

19. During the latter part of 2008, the Department recognised that in the developing financial climate some taxpayers (particularly businesses) were likely to have particular problems paying their tax bills. As a result, the Department introduced a dedicated service to actively help businesses wherever it could. The Business Payment Support Service (BPSS) was launched by the Chancellor of the Exchequer in November 2008 as part of the 2008 PBR. While the BPSS was, and remains, a high profile initiative designed specifically to give easy access and quick decisions to those businesses requesting TTP, the Department's underlying risk-based approach to TTP and the criteria against which TTP requests are judged, remained the same, in line with the legal framework within which the Department operates.

20. Robust monitoring and statistically valid sample results for agreements made via the BPSS indicate that as at 6 September 2009, of the £3.6 billion of TTP agreed since the BPSS went live, £2.4 billion had already been paid and that over 90% of the payments that the Department expected to receive by this date had indeed come in.

**PAC Conclusion (8): The arrangements to support taxpayers during the recession may be needed for some time. In responding to the current recession in the UK, the Department should seek to draw on the experience of other tax authorities in handling recessions.**

21. The Department agrees the Committee's conclusion. The Department envisages that the BPSS service will continue for as long as it is needed.

22. The Department is continually looking to improve the way it manages debt and compliance. The Department have always kept in touch with developments in the wider credit industry, with academic research, other government departments and with overseas tax authorities and will continue to do so. In particular, the Department regularly discusses debt issues with other tax authorities as members of the Organisation for Economic Co-operation and Development's (OECD) Forum for Tax Administration, Debt Management Group and also with the Intra-European Organisation of Tax Administrations (IOTA). Recent discussions have specifically involved the sharing of experiences and approaches to debt management in the light of the current, and previous, recessions.

**PAC Conclusion (9): The formula for EDS to pay the Department £26.5 million in compensation did not work as intended, so that the Department received less than £1 million in three years. EDS has now paid the balance in a lump sum. In settling future disputes with suppliers, the Department should avoid payment mechanisms which depend on contractors winning future government contracts. The Department should also work with the Office of Government Commerce to make sure wider government learns from the handling of this dispute. The Office of Government Commerce should provide guidance to all departments that, in settling disputes with suppliers, they should not agree to terms which depend on future government contracts to fund compensation.**

23. The Department accepts all but the very last point. The Office of Government Commerce (OGC) will develop guidance for all Departments on the risks which arise from settlements including those which might be dependent on future Government contracts to fund compensation. This guidance will support the PAC's recommendation that any settlement must not be placed at risk by the terms of agreement. However, it will not completely prohibit such dependence as, on a case-by-case basis, it may provide a route, which is advantageous to the Department concerned.

# Twenty Seventh Report

## Department for Children, Schools and Families (DCSF)

### Building Schools for the Future: renewing the secondary school estate

1. The Building Schools for the Future Programme (BSF) plans to renew every secondary school in the country, by rebuilding half of them, structurally remodelling 35%, refurbishing 15% and providing Information Communication Technology to all. Its aim is to use capital investment in new buildings as a catalyst to improve educational outcomes. The Department for Children, Schools and Families (the Department) estimates that the programme will cost £52-£55 billion over its lifetime.
2. Local authorities are responsible for the local delivery of BSF. They plan, procure and manage the BSF school buildings. In 2004, the Department established Partnerships for Schools (PfS) as a specialist agency to manage the national delivery of the programme. It also invited Partnerships UK, a joint venture between the Treasury, Scottish Ministers and private companies with an interest in public-private partnerships, to provide advice and help manage Partnerships for Schools. The Department and PfS encourage local authorities to procure their schools through a Local Education Partnership (LEP).
3. These are 10-year partnerships to procure a flow of projects, structured as joint ventures between the local authority a consortium of private companies that build, finance and maintain schools, and Building Schools for the Future Investments (a joint venture between the Department and Partnerships UK).
4. On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department and PfS about the cost and progress of the programme, the use of LEPs, the efficiency and effectiveness of the central programme management and the effect of the recession on the programme.

**PAC Conclusion (1): BSF is an important part of the Department's efforts to improve educational attainment and the life chances of children, but the Department has not explained what success looks like. The Department should define the full benefits it wants BSF to achieve and develop a set of measurable indicators against which it can monitor the success of the programme and assess options.**

5. The Department agrees that it is important to define the benefits that BSF is expected to bring. However, assessment of the success of BSF cannot be made solely through a set of measurable national indicators, not least because the programme essentially aims to support local transformation. The Government's vision for schools – what success should look like – has been articulated most recently in the White Paper *Your child, your schools, our future: building a 21st century schools system*, (Cm 7588) published in June 2009. The capital investment provided through BSF provides an important catalyst for local improvement and transformation of secondary education, but it is by no means the only lever for improvement.
6. The local contribution of BSF to national and local outcomes is currently described in each authority's Strategy for Change document: this document defines what success looks like locally. BSF is expected to contribute to improvement in a range of areas, some of which already have indicators and targets associated with them, for example: attainment targets. Local authorities are aware of these, and of their own priorities for improvement. The particular contribution that BSF capital investment will make, including the improvement priorities and indicators used for measuring the degree of improvement needed, will vary from authority to authority. This is something that should be clearly articulated in local Strategies for Change.
7. PfS has issued guidance to local authorities preparing their local strategies, and does not allow any local authority's BSF project to proceed until there is a robust Strategy for Change in the authority which sets out what success looks like, which is then approved by PfS.

8. The Department and PfS have already developed a balanced scorecard for monitoring a range of national indicators, including those intended to measure quality outcomes as well as the timeliness and cost of projects. The Department is monitoring these outcome indicators – such as GCSE results and absence rates – to see if they are different from the norm where schools have been in receipt of capital investment through BSF. The Department is also developing these indicators in the light of the new School Report Card, to be introduced from 2011, which will provide the Government’s key statement on the outcomes expected of schools.

9. As well as working with PfS on the development of the balanced scorecard and the broader work on school level indicators that will feed into the School Report Card, the Department has commissioned PricewaterhouseCoopers to conduct an evaluation that will look at the extent to which improvements in attainment and other aspects of school performance can be attributed to the capital investment provided through BSF.

**PAC Conclusion (2): The Department’s poor planning and persistent over-optimism has led to widespread disappointment with the programme’s progress and reduced confidence in its approach and ability to include all schools by 2023. Such over-optimism is systemic across the Civil Service’s planning of major projects and programmes. The Department should review the reasons why it was over-optimistic and, with the help of the Cabinet Office and the Office for Government Commerce, disseminate lessons across Whitehall.**

10. The Department agrees with this conclusion. As has been acknowledged by the Department and PfS for four years now, the initial assumptions for BSF were over-ambitious. The reasons for this are well rehearsed – starting with the most challenged areas in the country meant that the programme was slower in the earlier days than anticipated. The Department deliberately took the decision to give local authorities longer time after seeing early local authorities’ strategies, to ensure they got their strategy and vision for BSF right.

11. Since 2006, all authorities have been required to pass a ‘readiness to deliver’ test before they enter the programme, helping ensure that the programme remains on track. The initial assumptions were revised some four years ago in 2005, and for the last three years, PfS has met or exceeded its key delivery milestones for BSF, including the number of schools opening; and is on track to do so for the current year.

12. The Department has applied the lessons learned in the early stages of BSF in formulating policy for the delivery of the Primary Capital Programme (PCP). Although the programme is lighter touch than BSF it is equally transformational in aspiration. It challenges local authorities to take a long-term strategic approach to capital investment across the primary school estate and commits to renewing at least half of all primary schools by 2023. Early indications are encouraging:

- the vast majority of local primary strategies for change have been fully approved and funding confirmed.
- the 23 regional pathfinders have successfully delivered more than half of their exemplar projects, including 13 new builds opening in September 2009. This will rise to 90% of projects completed during the course of the academic year 2009-10.

13. The Department is also applying the lessons to other areas. For example, the cross-Government steering group overseeing the new co-location fund will, amongst other things, provide opportunities to share information and lessons learned and improve joining up of capital investment streams.

14. The Department will be working with the Cabinet Office and Office for Government Commerce to consider how best to disseminate further the lessons learned from the BSF programme.

**PAC Conclusion (3): The Department and Partnerships for Schools appears complacent about the challenge of renewing all secondary schools by 2023. Doing so requires:**

- a) the doubling of the number of schools in procurement and construction;
- b) 8 or 9 Local Authorities to start BSF a year; and
- c) the construction of 250 schools a year from 2011 onwards.

**Current promises to increase the pace of the programme are not sufficient to meet this. The Department and Partnerships for Schools should set out a detailed plan of how it intends to increase the pace of delivery and finish the programme on time.**

15. The Department and PfS agree that the trajectory to achieve the renewal of all secondary schools by 2023 is challenging, but they are not complacent. It remains the Department's intention to bring the benefits of BSF investment to as many schools and pupils as soon as is practicable.

16. In 2008, 50 schools benefited from BSF investment, this year that number will more than double, bringing the total to 115, with more than 160 school projects due to complete in the following year. This level of committed investment provides the Department with a high level of confidence about the volume of projects in the pipeline (and under contract) and the certainty that provides in terms of meeting or exceeding delivery targets. Such an approach has underpinned the success of the programme for the last two years.

17. Since 2004, 80 local authorities have started in the programme (an average of 16 each year to keep the momentum) bringing unprecedented investment to more than 1,000 schools. Since the Committee's report, the Department announced in July 2009, the start of BSF in the next six authorities, which are now ready formally to enter the programme, followed by six more in three months and a further six three months after, making a total of 18 authorities in the 2009-10 financial year, most of which will be new to the programme. This is a prudent balance, in current circumstances, between affordability and maintaining momentum in BSF, including bringing a steady stream of projects to the market. Future decisions will be taken with the same regard, and the Department aims to accelerate the programme when circumstances permit.

18. As with all Government programmes, the future investment in BSF depends on Government decisions on the overall capital envelope in future spending reviews and on decisions about the balance between different priorities within that envelope.

**PAC Conclusion (4): The Department and Partnerships for Schools has wasted public money by relying on consultants to make up for shortfalls in its own skills and resources. The Department should avoid making false economies in central administration, whilst Partnerships for Schools should target its resources where they can have the most effect. Both bodies should plan their required level of skills and resources to avoid costly reliance on consultants for core roles.**

19. The Department and PfS agree that there was a heavy reliance on consultants in the Department in the early days of the programme, but this was essential to support the set up of BSF. A significant proportion of the consultants was used for setting up appropriate structures for the success of the programme including providing specialist financial and commercial scrutiny. The total cost of consultants used by Department and PfS up to March 2008 was £11.1 million. This is 0.18% of the value of the programme up to that point. This has reduced significantly over time as the programme has matured.

20. Consultants have not been used in core roles at PfS. Consultants have been appointed to carry out fixed term specialist legal work and independent reviews on behalf of the organisation, for example in carrying out the Procurement Review, which will deliver a saving of around £250 million and reduce delivery timescales by a further two months. This saving compares favourably with the £250,000 cost of the consultants i.e. only 0.1% of the saving achieved.

21. Now that the programme is under way, the budgeted central expenditure on consultants is £2.5 million in 2008-09 and is expected to be £1.6 million from 2009-10 onwards including the cost for the independent annual evaluation of the programme. Expenditure on consultants is in line with the size and complexity of the BSF programme.

**PAC Conclusion (5): The value for money of using Local Education Partnerships (LEPs) has still to be proved. LEPs offer the potential to achieve procurement and partnering efficiencies, but only if they can be made to work in practice and if the actual savings over their lifetime outweigh the high upfront costs of procurement. Partnerships for Schools should establish systems to measure the full costs and benefits of each LEP and provide guidance to local authorities, their contractors and schools on how to achieve the benefits.**

22. The Department and PfS agree with the Committee that it is too early to give a definitive answer on value for money. However, early evidence from LEPs is very positive – schemes in both Leeds and Lancashire delivering subsequent schemes through their LEPs at significantly reduced cost and timescales. In Leeds, quicker scoping and agreement of projects has resulted in a 20% cost saving (£200,000) on the local authority's internal procurement costs compared to similar procurement without a LEP.

23. Sharing best practice is an important aspect of programme management and PfS's role in providing leadership and central management of BSF. PfS has published a suite of guidance giving advice and support on the creation and management of successful LEPs. The Toolkit for Effective Local Education Partnerships, consisting of nine practitioner notes, highlights good practice and recommends issues to consider throughout the lifetime of the LEP. Drawing on issues captured as part of last year's review of operational LEPs, carried out independently on behalf of PfS by PricewaterhouseCoopers, the guidance aims to inform both existing and future LEPs and their respective stakeholders who are engaged in BSF.

24. Since the publication of the Committee's report, PfS has launched a programme of BSF Open Days, providing live case studies at BSF schools, where local authority delegates can hear first hand from each of the partners involved in delivering the new school.

**PAC Conclusion (6): Schools and local authorities are provided with little support to achieve the educational aims of BSF. The Department and Partnerships for Schools should provide guidance on how to introduce structured, standardised and systematic benefits realisation processes, focused on achieving the national and local education objectives.**

25. The Department and PfS disagree with the Committee's conclusion. The Department and PfS welcome the Committee's acknowledgement that guidance should be provided to local authorities on how to achieve national and local education objectives. However, they do not agree with the conclusion that this support is in short supply.

26. BSF is a complex programme and individual projects are challenging to manage, so it is absolutely vital that schools get the support they need to take full advantage from local authorities, designers and contractors. Resources for each school vary according to the size of the project and other factors. The Department gives all local authorities entering the programme £100,000 to support additional management costs, which can be shared with schools. They must also support each head from the funding they are required to commit for each project.

27. PfS does not have a remit to work directly with schools. This is the responsibility of local authorities, which do receive support. However, there are a range of support routes offered to schools by PfS, including:

- BSF training programmes from the National College for Leadership of Schools and Children's Services to school leaders;
- a framework of specialist educational advisors for local authorities to access;
- formal guidance on specific aspects of the programme, including a toolkit; and
- guidance for schools on preparing their Strategy for Change document, conferences, workshops and web materials.

**PAC Conclusion (7): The Department plans that most BSF schools will be procured without competitive tendering. Although LEPs have a number of governance and contractual mechanisms to control costs, local authorities will need to rely mostly on cost comparators to assess the value for money of each project.**

28. The Department and PfS agree that many BSF schools will be procured without a specific competitive tendering exercise relating to that project, but the award of all BSF contracts starts with a full competitive procurement. In LEPs, this competition awards to the partner two or more school contracts and an opportunity to deliver other future schemes locally. This opportunity is subject to rigorous tests including competing with target benchmarks from projects across the programme and a range of contractual mechanisms, such as using Key Performance Indicators and use of contracts negotiated during the original competition, to ensure that schools delivered subsequently are of high quality and represent value for money to the public purse.

29. With regards to cost comparators, there is clear evidence that this approach is both driving private sector partners to submit value for money proposals and enabling negotiations to remove costs from proposals. To date, this has delivered up to £1 million cost reduction per school, and has proven to be a robust enabler of value for money to the public purse.

**PAC Conclusion (8): Partnerships for Schools has yet to provide local authorities with enough information to build cost comparators and compare the price of each project. Partnerships for Schools should, as a matter of urgency, produce comprehensive cost comparators covering all costs of new and refurbished schools, including their building, maintenance, information communication technology capital and revenue, procurement, and contract management. Doing so will allow judgments to be made on the value for money of each project and the comparison of procurement routes.**

30. PfS disagrees with this conclusion. Benchmarks are available to all projects on building cost per square metre rates, the associated on costs and facilities management and PfS now has costs on over 100 schools. The detailed cost plans have been analysed and incorporated into a model which when aggregated will equate to the total capital cost of the project.

31. PfS has provided 45 statistically significant benchmarks or cost comparators to projects that have an exclusivity arrangement. Detailed value for money studies have been performed by PfS using benchmarking data on the following schemes: Islington, Lewisham, Bradford and Lancashire, resulting in cost reductions of £700,000 per school. As well as reducing the individual costs of schools, this approach has helped to reduce the time to financial close in the relevant projects, resulting in direct cash savings to the public purse.

**PAC Conclusion (9): The remuneration arrangements for Partnerships UK cost too much and do not help the programme meet its aims. It should not be necessary to develop complex commercial agreements and pay Partnerships UK high investment returns to motivate it to provide the help and support that is central to its mission statement. The Department should pay for support it needs from Partnerships UK through a straightforward fee.**

32. The Department agrees with, and has implemented, the Committee's recommendation, although for different reasons.

33. Through the joint venture between the Department and Partnerships UK, the latter has made a significant contribution to the successful delivery of Building Schools for the Future by providing strategic, commercial, programme and project management expertise, and secondment of key staff in the early years of the programme. The effect of the joint venture arrangement, and the significant level of financial investment from Partnerships UK, has been that top-level attention has been given to BSF, and greater in-depth support and commitment than would have been secured under a simple fee arrangement. This has been crucial in establishing the programme.

34. Following the success in setting up BSF, however, and recognising PfS's increasing maturity as an organisation and the plans to enlarge their remit during 2009, the Department and Partnerships UK have reviewed the governance arrangements for PfS and have agreed that it is no longer necessary for Partnerships UK to engage as intensively as through the joint venture, which was focused primarily on BSF.

35. The result of this review was the termination of the joint venture, with effect from April 2009. As a result of the termination of the joint venture, the Department has paid Partnerships UK £22.4 million. This sum repays Partnerships UK for its share of the funding of the joint venture plus a return on that investment. The return remunerates Partnerships UK for interest on its investment, the risks associated, and the support and commitment to the programmes provided to date.

36. Partnerships UK is maintaining an active involvement in the delivery of BSF and other capital programmes by continuing to provide support through an existing alternative contractual basis rather than through the joint venture. Although the Department expects the costs of engaging Partnerships UK on the delivery of the programme will be less going forward, it is not possible to make a direct comparison because the costs of the joint venture were calculated on an entirely different basis.

**PAC Conclusion (10): The Treasury has recently announced that the Government will provide debt financing of BSF private finance initiative projects where sufficient private debt financing is unavailable and the project has started procurement. For such projects, Partnerships for Schools should help local authorities to assess whether the overall sharing of risks and rewards is still appropriate.**

37. PfS agrees with this conclusion. At the end of 2008, no banks were willing to lend to schemes with PFI. There are now around 20 financial institutions willing to lend to schemes with a PFI component, including the European Investment Bank. Since the start of the year, ten deals have closed, six of which were PFI. Despite the challenging economic conditions, no schemes have yet had to resort to accessing finance via the Treasury Investment Finance Unit (TIFU), although PfS continues to work closely with TIFU as new deals are negotiated.

38. The specialist Commercial Team at PfS work with individual local authorities as their BSF projects progress to market and, where there is a PFI component, liaise with the financial institutions to access senior debt and to ensure that the investment delivers value for money to the public purse.

# Twenty Eighth Report

## Home Office

### Management of asylum applications

1. The introduction of the new asylum model in 2006-07 allowed case owners to manage all new asylum cases from application to conclusion, at which stage the applicant is either allowed to stay in the UK or returned to their country of origin. This has resulted in the Home Office (the Department) reaching an initial decision more quickly and in cases being concluded faster than in 2006. The Department has also established a separate process to clear the backlog of 400,000-450,000 legacy cases which were unresolved at the introduction of the new asylum model.
2. There still remain significant challenges in bringing cases to a prompt conclusion. Faster, more accurate completion of cases reduces both uncertainties for the applicant and the cost to the taxpayer. The Department is halfway through its programme of stepped improvements in the time taken to conclude cases. Removal remains a challenge and the Department needs to work with the Courts, foreign governments and other bodies to bring about the legal changes needed and diplomatic solutions needed to resolve obstacles outside of its control. It will take another four years until the total detention space reaches 4,000 spaces and the new IT system is fully operational.
3. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department on its progress to date, and on the obstacles to faster, more accurate completion of cases.

**PAC Conclusion (1): The Department has made significant progress in the management of asylum applications through the New Asylum Model. Since our predecessors' report *Returning failed asylum seekers* published in 2006, the Department has made substantial improvements in the management of asylum claims, but still faces major challenges to sustain this improvement.**

4. The Department welcomes the conclusions and findings of the PAC hearing and report into the Management of Asylum Applications by the United Kingdom Border Agency (The Agency). It is positive that the Committee recognise progress made by the Agency in the management of the asylum system. The Agency strives continually to improve its performance and plans to design and deliver further business change towards a faster, more secure and efficient asylum process that is accepted as humane, effective and fair.

**PAC Conclusion (2): The Department still has some way to go to meet its aims of reaching initial decisions in 80% of cases within two months of an application and of concluding all cases within six months. The average time taken to reach an initial decision in Asylum cases had fallen from 22 months in 1997 to seven months in 2007. Whilst the Department's focus is on concluding cases, the Department should continue to reduce the time taken to reach a decision and consequently reduce the cost of managing asylum applications. For example, the Department needs to reach a decision on entitlement to accommodation and support more quickly to reduce the cost of initial accommodation.**

5. The Agency accepts this conclusion. The Agency has anticipated the need to increase resources in line with our targets and recruited sufficient Case Owners in each of the Agency's Regions to continue to improve the time taken to reach an initial decision. The Agency's Regions are now fully responsible for the development of the required flexible workforce. They will be investing in Case Owner development and managing regionally based recruitment campaigns as necessary, so that staff can carry out a variety of functions and respond to fluctuations in intake.

6. The Agency agrees there is potential for further savings to be made on initial accommodation and has been reducing the spend steadily for some time. The Agency will build on this further both via an increased focus on managing applicants out of initial accommodation and via a focus on best value in the tendering process as initial accommodation contracts come up for renewal in 2011.

**PAC Conclusion (3): Following an increase in Asylum applications in 2007, the number of applications awaiting a decision by a Case Owner doubled from the second quarter of 2007 to a total of 8,700 in the second quarter of 2008. The Accounting Officer assured the Committee that the Department was still working on these cases and was not creating a new backlog. The Department needs to be more flexible and responsive to surges in the number of applications, reallocating resources to deal with fluctuations in demand as they arise, addressing variations in performance in different regions, reducing the number of cases awaiting a decision and minimising the cost of processing cases.**

7. The Agency accepts this conclusion. Recent recruitment, increased flexibility for Regions on how they deploy staff and the creation of a Supervisory Framework within which Regions must prioritise work are all designed to address this conclusion.

8. The Supervisory Framework works on the premise that each Region will still need actively to manage all asylum claims that are over six months old. It sets out some parameters according to which Regional Directors must prioritise work on these cases. And stipulates a regular reporting mechanism for Regional Directors to account for the management of the entirety of their unresolved caseload. Within these parameters and the reporting mechanism Regional Directors are afforded a significant degree of autonomy as to the prioritisation of this caseload. It is intended that they exercise this autonomy in consultation with their local partners and stakeholders.

**PAC Conclusion (4): A lack of an initial full screening interview can prolong the time taken to conclude a case, resulting in increased uncertainty for the applicant and increased costs. The Department should conduct a full screening interview in all cases as soon as an Asylum application is made.**

9. The Agency accepts this conclusion. The Agency has reviewed the information to be collected at screening, produced new guidance and has a process in place to ensure that screening is conducted consistently at all points of claim. Further, as part of a wider programme of work to improve the Agency's performance, it will review again the front end of the asylum process, known as Register, to ensure that the process by which it registers asylum claims is efficient, effective and fair. The Agency plans further to review and reform the role and structure of the front-end of the system 'Register' by 2012.

**PAC Conclusion (5): Detention is important in ensuring that failed asylum applicants can be removed from the UK expeditiously once their case is decided. The Department has fewer detention spaces than it needs to meet its operational and business needs. This shortfall is due both to a lack of physical capacity and also to the large number of spaces occupied by foreign national prisoners awaiting deportation. Despite the previous recommendations of this Committee, it will be 2013 before the Department has the number of spaces it thinks it needs. To make best use of the available spaces, the Department should:**

- (a) review how it uses its estate and whether this meets its current and future needs; and**
- (b) press on with implementing our predecessors' recommendation to review all foreign national prisoner cases at the beginning of their custodial sentence to prepare for immediate removal of offenders recommended for deportation on their release from custody.**

10. The Agency accepts this conclusion and is expanding the detention estate to increase capacity to remove more of those with no legal basis to be in the UK. It takes time to deliver new removal centres. Brook House, near Gatwick, opened in March 2009 and took just over four years to complete. The Agency has already delivered a number of expansion projects in its existing centres at Lindholme, Oakington and Dungavel House. Further redevelopment at Harmondsworth will provide another 364 beds in 2010. The Agency has developed a strategy for expanding the detention estate further and has successfully secured planning permission for new Centres at Bullingdon and Bedford.

11. The Agency is also addressing the challenges around Foreign National Prisoners by working closely with the National Offender Management Service (NOMS), to quickly identify these cases and has invested in improving the process with prisons by ensuring referrals are actioned speedily, accurately and effectively. Additionally, NOMS place FNPs into fewer prisons with more Agency staff based in those prisons to work earlier with FNPs and therefore remove them quicker.

**PAC Conclusion (6): Removals of failed asylum seekers have fallen over the period 2006-08, and the majority of removals have been achieved primarily from legacy cases, and cases held in detention, with few successful removals being achieved by the New Asylum Model teams in the regions. The Department should monitor regional variations in removal rates closely to identify best practice, as well as any local issues which may be holding back removals.**

12. The Agency accepts this conclusion. Regional performance on removing failed asylum seekers is under constant scrutiny and the Agency is committed to increasing removals to drive up conclusion rate performance. The Agency's Removals Delivery Plan (RDP) identifies the key actions assessed as important to driving up National and Regional removal performance. The Agency has strengthened its performance governance arrangements and approach to planning and monitoring Regional performance. This includes close monitoring of Regional effectiveness and efficiency on a weekly and monthly basis and spreading of best practise. A number of key actions have also been taken to ensure the Agency is getting the operational fundamentals right, breaking down silo working and removing policy and country-specific barriers to removal.

**PAC Conclusion (7): Making a successful enforced removal of a failed asylum applicant is challenging as it requires the Department to coordinate documentation, transport and escorts against the backdrop of legal challenges and international relations. To improve the chances of a successful removal, the Department should:**

- (a) improve coordination of flights, escorts and detention;**
- (b) press on with its work with the Ministry of Justice, Scottish Executive and courts in the UK to speed up the Judicial Review process and to reduce the number of applications for Judicial Reviews applied for on the same grounds that are allowed; and**
- (c) work with the Foreign and Commonwealth Office to increase the number of countries from which it can obtain Emergency Travel Documents and use more of those documents to effect removals.**

13. The Agency accepts this conclusion. In order to improve the process for booking both flights and escorts, the Agency has developed a new electronic booking system. By providing a one stop shop for both escorts and flights, the new system will significantly streamline the booking process for case owners and will reduce escorting costs through a reduction in cancelled removals. The new process will also ensure that ticketing and escort providers are notified of cancellations at the earliest opportunity.

14. On 3 August 2009, the Agency changed its policy on judicial review challenges for cases where it is seeking to remove people from the United Kingdom. The change to the policy covers situations, where a person's case has been finally determined and they have exhausted all statutory rights of appeal. If they then issue a claim for a judicial review up to three months after their statutory appeal was concluded, the previous policy was normally to suspend their removal.

15. Under the new policy, the Agency will normally proceed with the removal, although it will still defer removal in appropriate cases. These changes in policy will only affect those cases where the claimant has raised nothing new (having lodged the same or virtually identical grounds) to the material that was previously considered or that could reasonably have been raised previously during the statutory appeal. The Agency will inform any individuals affected by the new policy, and their representatives, that the Agency intends to proceed with removal and that they will therefore need to obtain an injunction in order to prevent their removal.

16. The Agency has been working with the Foreign and Commonwealth Office (FCO) to procure more Emergency Travel Documents (ETDs). Some ETDs are time limited and expire before legal proceedings are concluded or before an applicant who has absconded is found again. The Agency has plans aimed at minimising the volumes of these ETDs which cannot be used.

**PAC Conclusion (8): Around 20-25% of appeals against a refusal decision are upheld. Reasons include changes in circumstance in the country of origin, insufficient evidence presented by the Department and poor decisions. The Department is reliant on appeals to overturn poor initial decisions where Asylum is refused. The Department's decision making process would be more effective if it:**

- (a) collected and analysed data nationally on why appeal cases are being upheld and fed the results back to Case Owners;**
- (b) used the findings of its Quality Assurance Team, and systematic checks by line managers to disseminate good practice to Case Owners and to identify and reverse incorrect decisions.**
- (c) set and published targets to increase the quality, as well as the speed, of initial decisions to help increase public confidence in its decision-making process; and**
- (d) collected and disseminated nationally information on the number of decisions reversed as a result of discussions between its quality auditors and local senior caseworkers.**

17. The Agency accepts this conclusion. The establishment of a Quality Audit Team (QAT), which has been assessing asylum decisions against an agreed framework with United Nations High Commission for Refugees (UNHCR) ensured that improved decision-making has been promoted over the last year. The UNHCR has praised the advanced quality assurance system that the Agency uses to assess the quality of asylum decision making. The Agency has been asked to share its approach to quality with EU and international partners.

18. The Agency is committed to improving further the quality of decision making and building on the work it is already doing with UNHCR. A dedicated team conducts regular quality assessments and shares their findings with regional teams. This team has now taken on responsibility for auditing appeals work and the same quality auditing mechanisms will now be used to feed back to case owners on the quality of appeals casework.

19. In April 2009, the QAT began to collate regional feedback from Presenting Officers to case owners who had not presented their own cases at appeal. The QAT plan to develop this into an electronic process in order to capture appeals feedback nationally to identify trends, best practice and to ensure that the results are fed back to case owners and managers alike.

20. The Agency reviews asylum decisions when appeals are lodged and does reconsider decisions before the appeal is heard. It has taken further measures to address performance at the appeal stage including creating country-specific working groups to provide expert advice to staff in court and training on specific technical and legal issues, focusing on improving performance.

21. The Agency will establish a process in the Midlands during 2010 in which legal representation is made available at the asylum decision stage. At present, such representation is only publicly funded at appeal and this may help explain a proportion of appeals that are allowed. This process will be monitored to establish the extent to which less appeals result from higher quality decision making and to establish the impact on whole life cycle costs within the asylum system.

**PAC Conclusion (9): The Department does not have a set formula for dispersing Asylum applicants around the UK. The primary criterion is the availability of accommodation, which can result in individuals becoming isolated. The Department should take a more logical approach to allocating asylum applicants to accommodation in its regions. This approach should not only take account of the availability of dispersal accommodation in an area but also strive to provide applicants with appropriate linguistic and social support networks to avoid isolation, without overburdening any one locality.**

22. The Agency partially accepts this conclusion. Asylum seekers are dispersed within each Region. It is acknowledged that, at the point of dispersal, the primary criterion is availability of accommodation. However, prior decisions on where accommodation is located follow the direction of a network of Regional Strategic Fora, which comprise key local stakeholders and local Agency staff. These fora help decide where within each region is suitable for dispersed accommodation. Ethnicity will form a part of their reasoning, as will the existing linguistic and social support networks mentioned by the Committee.

**PAC Conclusion (10): In the past, asylum applications from family members who arrived in the UK at the same time might not have been dealt with together, resulting in disparities in outcomes and in the time taken to process their cases. The Department should act on its assurance that family groups will be identified, linked and allocated to one Case Owner, whether these are new applications or legacy cases.**

23. The Agency accepts this conclusion. Where related applicants apply at the same time, it would be normal to route them together to the same regional team and it should be possible for decisions to be made in tandem, consistent with each other and within the same timescale. Similarly, Legacy cases are allocated to the relevant team by postcode. Therefore, where families are living as a family unit in the same address or postcode areas, their applications will be dealt with by the same case owner. Where an applicant wishes their application to be linked with a family member it is for the applicant to draw attention to the related claim.

24. Ultimately, every case is dealt with individually and information from one application may not necessarily be relevant or disclosable to an application by a relative, so that there may sometimes be valid reasons for different outcomes.

**PAC Conclusion (11): The Department acknowledged the legacy of underinvestment in IT and new technology. Case Owners use fax machines, paper files, hand-written interview notes and outdated computer systems and will not get a better IT system until 2013. This wastes Case Owner time and carries a risk that personal information could be lost. The Department should continue to develop and expand its use of new technology, for example, digital recording of interviews and electronic information exchange, and prioritise the introduction of those systems which reduce the risk of losing sensitive personal information and increase the productivity of Case Owners.**

25. The Agency accepts this conclusion. Modernising the Agency's case work system is a priority. A new, user friendly and flexible case working and IT system called Integrity is under development. Integrity will replace the Agency's Case Information Database (CID) and around 20 other systems in all. It will provide users with services and case work tools via a single menu based screen. A key function will be drawing together all case working interactions between UKBA and an individual, enabling the caseworker to gain an accurate view of the customer.

26. In March 2009, the first component of the new Integrity System, Integrity Search (I-Search) was launched. It allows users to search six main independent systems using one log on, providing a more complete immigration history for cases than previously possible. Initial feedback from users was positive and, generated

further requirements for the Search capability. Consequently, the I-Search pilot was updated on 4 August in response to user requirements and feedback from March. I-Search will be extended to new users throughout the remainder of 2009 as the Integrity System is further developed and the Agency moves to the next phase of delivery in the programme.

**PAC Conclusion (12): Reviewing refugee status after five years starting in 2010 will be challenging for the Department. In implementing its plan, the Department should:**

- (a) identify and prioritise cases where it has not got the refugee's contact details;**
- (b) put in place a process to maintain contact with new refugees; and**
- (c) identify the resources needed to review their cases from 2010.**

27. The Agency accepts this conclusion. The Agency is developing the process for reviewing the status of refugees and those with humanitarian protection who were granted five years limited leave when this leave comes to an end, including those who are no longer in contact with the Agency. The Agency will ensure that the resource necessary is available to carry out these reviews from August 2010 when the first reviews are due.

**PAC Conclusion (13): The Department's assurance that it will meet the target to conclude all legacy cases by 2011 is welcome, as some of these old cases may prove challenging. The Department should provide the Committee with a report in 2011, confirming that all legacy cases have been cleared and identifying the lessons learned.**

28. The Department accepts this recommendation and will report to the Committee when it has concluded the asylum backlog.

**PAC Conclusion (14): Backlogs have built up in other areas of the Department's core immigration work. The Department acknowledged that it had pockets of immigration cases awaiting resolution, for example, applications for leave to remain on the basis of marriage to a UK spouse, where decisions have been outstanding over a period of three or four years or more. We look to the Department to conclude these cases and eradicate the backlogs with the same degree of effort and in the same timescales as the legacy asylum cases.**

29. The Agency accepts this conclusion. The backlog of legacy cases for marriage and other charged applications is held by a dedicated team in Liverpool. Liverpool Charged Casework has a target to clear this backlog of cases by July 2010, and extra caseworker resources have been deployed to help this target to be achieved. The cases are being dealt with in date order, oldest first, unless there are compelling or compassionate circumstances for taking a case out of turn. It is expected that all cases will be cleared by the target date.

# Twenty Ninth Report

## Department of Health (DH)

### NHS Pay Modernisation in England: Agenda for Change

1. Agenda for Change (AfC), the pay modernisation programme for 1.1 million NHS staff in England, representing a pay bill of £28 billion in 2007-08, was implemented between December 2004 and December 2006. It covered all NHS staff, except doctors, dentists and senior managers, who were subject to separate pay modernisation programmes. AfC introduced a job evaluation scheme and harmonised employment terms and conditions for the multitude of jobs within the NHS. A key part of the programme is a process for encouraging staff development and improving staff performance known as the Knowledge and Skills Framework (KSF).
2. AfC was expected to bring about new ways of working, which would contribute to improved patient care and to more efficient delivery of services. In its business case to the Treasury, the Department of Health (the Department) predicted that AfC would bring about total savings of £1.3 billion over the first five years. These were to come from improvements in productivity of 1.1%-1.5% a year, reductions in equal pay claims, reduced use of agency staff and more controllable pay costs.
3. The Department and NHS Trusts did not establish ways of measuring the effects of AfC and there is no active benefits realisation plan. The NHS pay bill for the staff employed on AfC terms and conditions of service has risen by 5.2% a year on average since 2004-05 while productivity fell by 2.5% a year on average between 2001 and 2005. By autumn 2008 (nearly two years after Trusts had completed transferring staff to AfC terms and conditions and pay rates) only 54% of staff had had a knowledge and skills review.
4. On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the NHS and the Department on the benefits resulting from AfC, and on the implementation of the KSF across the NHS.

**PAC Conclusion (1): Between December 2004 and December 2006, the Department and the NHS successfully transferred around 1.1 million staff on to a new simplified pay system. This was a considerable achievement requiring a major job evaluation process to assess each role within the NHS and to transfer staff to new pay bands. The new pay system replaced previous complex pay arrangements which prevented staff developing new roles and obstructed the creation of modern team-working, focused on patient care.**

5. The Department agrees with this conclusion and welcomes the Committee's acknowledgement of the major achievement of transferring over 1.1 million staff to a new pay system within a very short timescale, sweeping away old Whitley Council arrangements that had become outdated and were not suitable to support delivery of a 21st century NHS.

**PAC Conclusion (2): Agenda for Change has not yet brought about service-wide changes in the ways in which staff work despite the new pay system having been in place for nearly three years. The Department should identify and promote good practice examples of where Trusts have used Agenda for Change to make measurable improvements in efficiency and patient care, for example, by staff taking on new roles and working more flexibly. Trusts should also identify a champion at board level to highlight such opportunities and provide the necessary leadership to drive productivity improvements from staff working differently.**

6. The Department agrees with this conclusion. Although some Trusts are making full use of the flexibilities offered by AfC, the Department recognises that more needs to be done to achieve its full benefits.

7. NHS Employers led on the collection and dissemination of examples of good practice and published a Report (2006), *From Pay Reform to System Improvement: Making the Most of Agenda for Change*. The report contains examples of good practice and lessons learned from using the new pay system in a number of areas including productivity, service improvement, and managing service reconfiguration.

8. However, the Department recognises that identifying and sharing good practice needs to be a continuous process. It will continue to use its Service Level Agreement with NHS Employers to ensure that examples of good practice are identified and disseminated through conferences such as the annual NHS HR Conference managed by NHS Employers, awards ceremonies such as those promoted by the Health Service Journal and other communications routes such as the NHS Employers website.

9. The Department agrees that support at Board level is crucial and Ministers wrote to the NHS in May 2008 requiring each NHS Board to have a named Board member with key responsibility for the KSF, the key mechanism to promote staff gaining the competencies to take on new roles, work differently and improve productivity. By October last year, nearly 70% [67%] of organisations had board champions. The Department will continue to monitor progress.

**PAC Conclusion (3): In spite of the Knowledge and Skills Framework having been re-launched twice, by autumn 2008 only 54% of staff had received an annual knowledge and skills review. Full implementation of the Framework is crucial to bringing about improvements in patient care and efficiency. The Department and Strategic Health Authorities should simplify the guidance and processes that serve to support the Framework (in partnership with the NHS trade unions), and highlight examples of what it has achieved in Trusts where it has been implemented well. In keeping with good management practice across the public and private sector, all Trusts should ensure that every member of staff has received a Knowledge and Skills Framework annual review by 1 April 2010.**

10. The Department agrees with this conclusion and that more needs to be done to improve uptake of the KSF, believing uptake may have been slower than anticipated. Many employers report that this is because the KSF, which was designed to accommodate appraisal of a very wide range of staff, is seen as overly complex, and daunting to some staff and their supervisors.

11. To address these concerns, NHS Employers, on behalf of the parties on the NHS Staff Council (the employers and staff side body that oversees AfC), have commissioned an independent review of the KSF. The review, which will consider the KSF structure, processes, and barriers to implementation, is due to report early in 2010. It will make proposals for maximising the usage and benefits of KSF and increasing appraisal rates across the NHS.

12. The KSF review has emerged from ongoing work to improve the uptake of the KSF since its re-launch in 2007, the success of which was assessed by Ministers in 2008. The KSF was not re-launched twice, but further impetus was given to improve its uptake following the Ministerial assessment including, for example: Trusts' appointing Board level KSF champions.

13. The KSF is part of the UK wide AfC agreement and employers using AfC should implement KSF as part of that agreement. The Department has, and will continue to work with NHS Employers, the NHS Staff Council and the NHS via the Strategic Health Authority KSF to encourage Trusts to implement the KSF and ensure every member of staff receives a KSF review. NHS Employers, for example, has been collecting good practice case studies in the use of KSF, which it hopes to publish in time for its HR conference in November.

**PAC Conclusion (4): The Department did not require Trusts to measure productivity improvements and other benefits from Agenda for Change. To motivate Trusts to deliver change the Department needs to put in place a clear framework of indicators to allow for comparison of performance between Trusts. At a local level, when using Agenda for Change to reconfigure roles and teams, Trusts should specify in advance the likely benefits, and establish the means to assess (against baselines) whether those benefits have been achieved.**

14. The Department partially agrees with this conclusion. The Department did not require Trusts to monitor productivity improvements and other benefits of AfC.

15. AfC provides tools which NHS Trusts can use to help them improve productivity and quality, for example: by enabling jobs to be redesigned to more specifically meet patient needs. The Department does not agree that providing a framework for Trusts is the best way to achieve effective change. It believes that Trusts will be motivated to deliver change through:

- top down pressure using the tariff system to incentivise trusts to improve productivity.
- bottom up assistance by encouraging the sharing of best practice to support achievement of benefits from AfC.
- improving use of the KSF.

16. The Department agrees that it is good practice for business cases to include the expected benefits of change and how they will be measured. However, it is for Trusts themselves to decide when and how this should be done.

**PAC Conclusion (5): No reliable figure is available for the extent to which the £1.3 billion net savings promised by Agenda for Change have been achieved. The Department considers Agenda for Change to be an ‘enabler’ and that its specific effects cannot be measured. When formulating business cases for major reform programmes where cause and effect may be difficult to measure, the Department should set realistic targets, differentiating between aspirational objectives and those where more practical measurement is possible.**

17. The Department partially agrees with the conclusion. It agrees that it is necessary to identify realistic measurable benefits for all major reform programmes wherever possible and to differentiate between aspirational and more concrete, measurable targets.

18. The Department acknowledges that it is difficult to separate out the savings that could be attributed solely to AfC when a range of other initiatives were also being introduced at the same time. However, the Department has estimated savings attributable to AfC as between £1.1 and £2.2 billion during its first five years. This was done by assessing the potential range of impact that AfC had on a few key performance indicators e.g. reducing length of stay in hospital and increasing the proportion of surgical procedures done as day cases, alongside the introduction of technology improvements and redesign of services.

**PAC Conclusion (6): Between 2001 and 2005 NHS productivity, as measured by the Office for National Statistics, fell by 2.5% a year on average, as growth in the amount of healthcare provided failed to keep pace with the growth in NHS staffing and resources. The Department and the NHS need to close this gap by having in place clear and transparent measures of productivity to identify areas where the pace of reform needs to be stepped up. Specifically:**

- (a) the Department should provide a clear framework to enable Trusts to separate improvements in service quality which are attributable to greater productivity from the impact of increases in resources. The Department and Strategic Health Authorities would then have the means to challenge Trusts on whether their productivity improvement plans are sufficiently challenging and sustainable, and**
- (b) the Department should, after discussions which have lasted several years, set a timetable with the Office for National Statistics to reach an agreed methodology for measuring NHS productivity that fully reflects improvements in the quality of healthcare.**

19. The Department partially agrees with this conclusion. It will set a timetable with the Office for National Statistics (ONS) to reach an agreed methodology for measuring NHS productivity that fully reflects improvements in the quality of healthcare. The agreed methodology will be informed by work on NHS productivity commissioned by the Department from York University Centre for Health Economics which comes to fruition in December 2009.

20. It would be wrong to believe a measure of NHS output that fully reflects improvements in quality is just around the corner. The best outcome from this work is an agreed and continuous improvement of the quality adjustments used by the Department and ONS.

21. The ONS has revised its assessment of NHS productivity. Between 2001 and 2005, it fell by 1% a year on average, not the previous estimate of a 2.5% fall per year, as growth in the amount of healthcare provided failed to keep pace with the growth in NHS staffing and resources.

22. In 2006 and 2007 NHS productivity actually increased by 0.7% and 1.3% respectively. The Department and the NHS need to build on this performance having in place clear and transparent measures of productivity to identify areas where the pace of reform needs to be stepped up. Specifically further work is required to support the NHS in separating improvements in service quality which are attributable to greater productivity from the impact of increases in resources. How this can best be achieved is likely to emerge from the work commissioned by the Department from York University.

**PAC Conclusion (7): Some £15 billion of NHS efficiency improvements are planned over the next three years, but more clarity is needed as to how these will be delivered. The Department should set out how Agenda for Change will be used to support the savings promised.**

23. The Department partially agrees with this conclusion. The Treasury has not yet set Departmental allocations beyond 2011, so the precise scale of efficiency savings required is not yet known. However, in order to prepare for every eventuality, David Nicholson, the Departments CEO, has asked staff to be ready for a wide range of future funding scenarios. This includes the challenge of achieving £15-20 billion efficiency savings during the period from 2011-14.

24. This is a challenge for the whole NHS system and cannot be addressed through a national programme or top-down initiatives. The NHS itself is best placed to know where and how efficiency savings can be made locally. Playing an enabling role, the Department will work together with the NHS regionally and locally and with other delivery partners to identify and prioritise detailed actions required to meet the challenge by focussing simultaneously on quality, innovation, productivity and prevention, not on compromising services. To support this process, a NHS National Director for Improvement and Efficiency has been appointed.

25. Specific actions and initiatives are subject to detailed work with the NHS over the coming months, Agenda for Change can contribute to this agenda by providing the flexibility to enable role and service redesign. The Department will continue to work with NHS Employers to collect and disseminate examples of good practice that demonstrate how Agenda for Change can contribute to the efficiency agenda.

# Thirtieth Report

## Ministry of Defence (MOD)

### Type 45 Destroyer

1. The Type 45 Destroyer is being procured to form the backbone of the Royal Navy's air defence capability for the next 30 years, and will provide a very impressive capability compared to the Type 42 Destroyers which is it designed to replace. There have been a number of problems on the project, meaning it will enter service over two years late and £1.5 billion over its original budget.
2. The Ministry of Defence (The Department) has had to extend the life of the Type 42 Destroyers for longer than originally planned as a result of the delays to the Type 45. These ships are increasingly expensive to maintain, provide a more limited capability than the Type 45 and are more vulnerable to the most up to date threats from a modern enemy.
3. On the basis of a report by the Comptroller and Auditor General the Committee took evidence from the Department on capability provided by the Type 45 Destroyer, the reasons for the cost increases and delays on the project, and the lessons learnt for the future ship projects and support contracts.

**PAC Conclusion (1): The Department made serious mistakes in the early stages in the procurement of the Type 45 Destroyer, and set unrealistic cost and time objectives. In line with our recommendation in our report on the Major Projects Report 2008, when making the main investment decision on projects, the Department should develop quantified measures against which to assess how well it has:**

- (a) understood the capability required and avoided over-specification;
- (b) assessed whether the technology can be delivered by industry within the agreed cost and time envelopes, and
- (c) assessed whether there is sufficient funding available to deliver the project.

4. The Department accepts this conclusion. The Type 45 is a highly complex programme with around 80% of the equipment used on the Platform being new to service. The Department has previously acknowledged that some of these new systems were not at a sufficient level of maturity at the time the contract was placed, and the integration challenges were not matched by an incentivised commercial arrangement. The Department has responded to these issues with a series of improvements and the programme is now performing well. Since renegotiation of the contract in 2007 the programme has stabilised and there have been no further cost increases or delays.
5. Through recent acquisition reform the Department has been working to counter the tendency towards over-optimism including through the rigorous use of shared cost and other benchmarking techniques.
6. Specific recent initiatives include the introduction of Through-Life Capability Management (TLCM), which seeks to ensure that contributions from all Defence Lines of Development are understood and managed coherently to achieve the desired effect. The recent introduction of Programme Boards, as part of TLCM, will further strengthen both the specification of projects and the measures of their contributions to the desired Capability. A key function of Programme Boards, which are chaired by the relevant Head of Capability, is oversight and trading of the funding allocated to component projects to balance affordability.

7. The Department recognises its important responsibility to understand, and intelligently assess, the ability of Industry to deliver the technology required. Subject matter experts are available to assist project teams during contract negotiations with this responsibility. In addition, a senior officer at Director level and accountable to the Defence Equipment and Support (DE&S) Investment Board has been recently appointed to help projects better assess and manage the risk presented by technology.

**PAC Conclusion (2): Although the Type 45 was based on 80% new technology, the Department failed to take sufficient account of this in its assessment of technical risk or in the commercial construct that it agreed. The Department needs to improve its understanding of technical risks at the start of its projects. It should factor in more realistic allowance for risk on its more technically complex projects.**

8. The Department accepts the need to better understand technical risk at the start of projects and now includes this assessment as a mandatory element of the approvals and governance processes.

9. To assist project managers delivering technically complex projects and managing the inherent risk involved with new technology, the Department now deploys Technology Managers within project teams, with support from science & technology specialists across the Department. The resulting improved quantification of technical risk, particularly on complex projects, will be reflected in Business Case submissions. In addition, DE&S is undertaking an investigation to confirm that Risk Management and Estimating techniques are sufficient for the most complex projects.

**PAC Conclusion (3): As we see on so many defence projects, the Department was over-optimistic in its estimates of the costs to deliver the Type 45. The Department needs to spend more time at the start of projects to ensure its cost estimates are robust and realistic. In particular, it should:**

- (a) build time in at the start of projects to estimate costs more thoroughly, and**
- (b) routinely check the realism of its cost estimates using different methods such as historical trend analysis.**

10. The Department accepts this conclusion. Through the Department's SMART Acquisition system, guidance is provided on the proportion of investment and time that should be spent in the various stages of a project life-cycle in order to reduce risk and quantify cost. Work is also underway to introduce an additional early review point to ensure that the foundations for project success have been properly established before any significant expenditure is committed.

11. The construction of cost estimates is undertaken by functional experts and assured as part of the financial governance process. In addition, cost estimating processes will be embraced within the work underway to confirm that risk management and estimating techniques are sufficient for the most complex projects.

**PAC Conclusion (4): Many of the problems on the Type 45 result from the commercial arrangements the Department put in place. Inappropriate commercial structures are a major cause of slippage and cost growth in the early part of the lifecycle of large projects. The Department needs to give greater consideration that the arrangements it agrees with industry are realistic, sensible and appropriate for specific types of project. It should:**

- (a) build in time at the start of projects to get the arrangements right;**
- (b) agree an appropriate means of incentivising the contractor;**
- (c) make sure that it does not set a fixed price too early, and**
- (d) assess whether the risks in the commercial arrangements are appropriate and develop a joint strategy with industry for addressing risks, in line with the Committee's recommendations in its report on the Major Projects Report 2008.**

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

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

14. Where the Department and the Contractor have reasonable confidence that the risks around a contract are sufficiently understood, then the parties will determine which is the most appropriate pricing mechanism for the contract. Where it is accepted by both parties that the risks are fully understood, can be accurately costed and properly managed, then the parties may determine to agree a firm or fixed price for a clearly defined package of work. Where there is limited or no confidence then the Department will not authorise work until such time as both parties can agree that it is sensible to do so and at that time will select the appropriate pricing mechanism that both incentivises the contractor to perform and safeguards the Department from cost growth.

15. The management of risk of delays to major projects, especially those with the potential to create gaps in capability, would be explicitly covered in the Main Gate Business Case.

**PAC Conclusion (5): Project management arrangements on the Type 45 project were poor and allowed the culture of over-optimism to persist for too long. For its high risk projects, the Department needs to ensure someone sufficiently senior has a high level overview of the project, and aligns responsibility with budgetary authority. The individual tasked with the overview must be in a good position to oversee capability delivery across all the Defence Lines of Development.**

16. The Department accepts this conclusion and recognises the importance of senior ownership of programmes and projects. The Department applies the Office of Government Commerce (OGC) best practice guidance. The most significant capability and business change projects in MOD have a Senior Responsible Owner (SRO) appointed by the Permanent Under Secretary. All other programmes and projects have an equivalent role undertaken by the relevant Head of Capability.

**PAC Conclusion (6): Following the contract renegotiation, project management is much improved and there have been no further costs increases and delays. Much of this is because of the work of the Project Director. The Department needs to recognise the importance of the role that good project managers play and keep key individuals in place during the critical stages of projects, albeit without hampering their career development. It should align the career development of such individuals with significant developments on projects, and if necessary keep them in high risk posts for longer periods of time. The Department must be prepared to promote key individuals in post so that people do not compromise their career development by remaining in projects to provide important continuity.**

17. The Department accepts this conclusion and recognises the key role of project and programme managers including at senior levels, and the importance of keeping individuals in place through the critical stages of a project. The processes for appointing people into posts already provide the scope for tour lengths to be aligned to key project milestones and these arrangements have recently been strengthened. The aim is to keep individuals in post to ensure delivery of key programme milestones, but provide an agreed point at which individuals can move to continue their career development.

18. There are a range of measures and incentives that can be used if the needs of the programme require an individual to remain in post longer than originally planned. These include the ability to promote in situ where individuals are successful in Departmental promotion processes and the use of temporary promotion to incentivise individuals where there is judged to be a good business case to do so.

**PAC Conclusion (7): The first Type 45 – Daring – is forecast to meet its Key User Requirements when it enters service in 2009, but will not achieve full operational capability until 2011. There are a number of improvements in capability that will be installed incrementally after Daring comes into service. The Department needs to measure the delivery of its equipment against milestones which are meaningful, and which correspond to the provision of capability. It should:**

- (a) avoid working to two different sets of dates (target and most likely), which can cause confusion and a lack of clarity;**
- (b) develop a clear route map of when it will achieve capability, which is not necessarily linked to the Key User Requirements, and**
- (c) approve a series of milestones for the introduction of meaningful capability, rather than basing plans around the In-Service date alone.**

**PAC Conclusion (8): Equipment which will enhance the ship's ability to conduct anti-air warfare operations will not be fitted until several years after the ship enters service. This is in line with the Department's planned approach to improve the capability of the ship incrementally to meet changing threats. While the development and addition of the new technologies progressively is a sensible approach, the Department needs to be clear as to how the destroyers can be tasked until full capability is achieved.**

19. The Department partially agrees with these conclusions. The In-Service Date (ISD) for projects is approved by the Department's Investment Approvals Board normally at the 50% confidence level. This includes a carefully judged allowance for risks that might occur, and is the most likely point that the Capability will be delivered. In order to maximise the chances of meeting or delivering earlier than the most likely date, project teams are encouraged to work to more demanding Stretch (or target) project milestones. Through managing the project to meet these more ambitious target milestones, the emergence of any unforeseen events (or risks) should only delay the project beyond the target date, but not critically, beyond the approved most likely date.

20. The ISD is the date that the minimum usefully deployable military capability is accepted by the relevant Customer and thus comes into Service. It is normally coincident with the achievement of Initial Operating Capability (IOC), and is the point at which all Key User Requirements for the project are met. The SRO of a project confirms formally at the time of ISD that the capability is integrated across all relevant Defence Lines of Development (DLODs) and with existing systems, with all elements at a sufficient maturity for IOC.

21. The nature of Full Operational Capability (FOC) may vary from one case to another, but generally represents delivery of the total military capability which is envisaged for a particular project. All DLODs are required to have achieved their fully mature state by FOC. Both Initial and Full Operational Capability have an expected date of achievement.

22. Recently on Type 45, a number of further milestones have been introduced which provide a clearer and more comprehensive articulation of Type 45 capability delivery, building on that provided through the achievement of the ISD. These milestones provide a meaningful differentiation between individual platforms achieving their ISD, and the number of Type 45 platforms available for tasking at certain readiness levels. Through this suite of platform and class based milestones there is a demonstrable and progressive generation of the Type 45 class as a capable force that is ready for operational tasking.

**PAC Conclusion (9): The Department has learnt a number of lessons from the Type 45 project, which it needs to apply to other projects and, in particular, to its other surface ship projects, the Carrier and Future Surface Combatant. The Department needs to manage its surface ship capability in the round. It should maximise the transfer of technology from the Type 45 to these projects, and should build on the improvements it has made in its relationships with the Industry as it takes the Carrier project forward.**

23. The Department accepts this conclusion. The Department has learned a number of lessons from the Type 45 procurement, which are being transferred to other programmes. For example, the Future Carriers (Queen Elizabeth class) and Future Surface Combatant (FSC) programmes have a much reduced technology risk by the extensive use of existing technology. This includes the combat management system, electric propulsion and long-range radar from Type 45. This contrasts with Type 45 where 80% of the equipment was new to service.

24. The Future Carrier programme is an example of how more open and effective relationships with industry are being established from the beginning, learning the lessons from the recent and more successful period on the Type 45 programme. The Aircraft Carrier Alliance enables the Department to draw on the strengths, resources and expertise of all parties, providing more effective ways to manage risks, exploit opportunities and promote 'best for project' behaviours. On both the Future Carrier and the FSC programme a common (MOD / industry) understanding of both projects is being achieved through shared schedules, risk registers, cost models and 'open book' accounting.

25. A range of fora exists which facilitate the exchange of lessons learned across surface ship programmes. In particular, the Maritime Platform Programme Board, which draws together all stakeholders including the end User on a quarterly basis to review progress and discuss issues, reviews all three of these key surface ship programmes jointly.

**PAC Conclusion (10): The Department has access to the contractor's Integrated Cost Model for support cost data, but only has limited resources available to enable it to understand and challenge the information. The Department needs to ensure it is able to benefit fully from the access it has gained to the contractor's cost model for the support solution, and that it has the appropriate skills and resources in place to be able to challenge the contractor's costs and assumptions where appropriate.**

26. The Department accepts this conclusion. The Department appointed in November 2008 a dedicated resource to work with BVT Surface Fleet Ltd (the Prime Contractor for the Type 45 warship) to fully understand, verify and where necessary challenge the Type 45 Support cost data used in the Integrated Cost Model operated by BVT.

**PAC Conclusion (11): The reduction in the number of destroyers to be procured from eight to six means it will be more challenging for the Department to meet its policy requirement of five destroyers available for tasking at any one time. The Department believes that the longer-term support arrangements for the Type 45 will help give it the best chance of meeting this requirement. The Department is already later than planned in putting support arrangements in place. The Department must avoid repeating the early mistakes of the procurement of the destroyers in finalising its support arrangements. It should:**

- (a) spend time ensuring that the costs and timescales are realistic and that the commercial arrangements are appropriate to the project;**
- (b) put in place affective ways to incentivise industry, linked to the need to have five ships operational at all times, and**
- (c) maintain the good relationship with industry going forward, ensuring it continues to improve in the medium and long term.**

27. The Department accepts this conclusion. The Type 45 Support Cost Model has been developed jointly and is available to both BVT and project team staff, and has been assured by independent experts. In the early stages, development of the support solution was assisted by experts from the Department's Equipment & Support Continuous Improvement Team who specialise in delivering, with project teams, optimised support solutions.

28. A contract for up to seven years of support for the Type 45 warship was placed on 10 September 2009 with BVT. Following this initial support period, Type 45 support is expected to migrate to the developing Surface Ship Support Programme. This programme is designed to transform how the Department in future provides support to its surface Fleet through an alliance between MOD, BVT and Babcock.

29. A key tenet of both of these arrangements is the creation of industry led Class Output Management (COM) organisations for each platform type. The role of the COM will be to provide the day-to-day management to ensure all individual components of support (in both Fleet Time and Upkeep) are integrated to provide platform availability. The COM will be incentivised with contract payments based on maintaining agreed levels of Platform Availability, not through put of work.

# Thirty Second Report

## HM Treasury (HMT)

### Financial Management in the European Union

1. In 2007, European Union expenditure totaled €114.0 billion and revenue was €117.6 billion. In that year, the United Kingdom's net contribution was €6.1 billion, the highest after Germany. The sums involved emphasise the need for sound financial management and control within European Union Institutions and the Member States.

2. For the first time the Court did provide a positive Statement of Assurance on the *reliability* of the accounts because the accounts accurately recorded the underlying transactions. But for the fourteenth successive year, the European Court of Auditors did not provide a clear audit opinion (known as a Statement of Assurance) on the *legality and regularity* of expenditure. It found that an unacceptably high level of the account's underlying transactions did not comply with the rules and regulations. The lack of a clear opinion year on year significantly damages the Union's reputation for financial management and action urgently needs to be taken.

3. The fundamental review of the European Union budget, currently underway, offers the Commission the opportunity to modernise the budget and strengthen its financial management. If the Commission does not take this opportunity, a positive Statement of Assurance is extremely unlikely and European Union citizens will continue to think that their funds are badly managed.

4. On the basis of a report from the Comptroller and Auditor General, the Committee visited the European Commission, the European Court of Auditors (ECA), and the European Anti-Fraud Office (OLAF) to discuss financial management and to examine progress made since the Committee's last visit in March 2005.

**PAC Conclusion (1): The Commission, working with Member States, has made a significant effort over recent years to improve the financial management of the European Union, and this effort is reflected in some progress since our last report. The introduction of accruals accounting helped the Commission, for the first time, to achieve a clear opinion from the Court on the *reliability* of the 2007 accounts. On *legality and regularity*, the Court gave a clear opinion on some 45% of European Union expenditure, compared to an estimated 5% in 2003.**

5. The Government agrees with the Committee's conclusion that the Commission has made significant effort over recent years to improve the financial management of European Union (EU) funds. The Commission has improved financial control by strengthening the Commission's central internal audit service, the internal audit capabilities of each Directorate General (DG) and introduced Financial Activity Reports, which are published by all DGs, and accompanied by declarations certifying expenditure to increase accountability.

6. The Commission has also implemented the Action Plan towards an Integrated Internal Control Framework. This aims to simplify the management of EU funds, establish common control and audit principles for new programmes and ensure cost effectiveness of controls already in place. The Impact Report on the Action Plan provides a useful update of the Commission's implementation of the Plan. Additionally, the Commission has introduced an accruals-based accounting system to give a clearer picture of the EU's accounts – leading to an unqualified positive ECA opinion on the reliability of the accounts.

7. The Government welcomes these improvements and the impact they have had on the percentage of expenditure receiving a clear opinion from the ECA. Although this improvement is significant, more action is needed, by both the Commission and Member States, to achieve a clear opinion from the Court on legality and regularity of underlying transactions. The Government continues to work closely with Member States and the Commission to that end.

**PAC Conclusion (2):** There remains an unacceptably high level of error in some key budget areas and consequently, for the fourteenth successive year, the European Court of Auditors has not provided a positive overall Statement of Assurance on the legality and regularity of the underlying transactions. Qualification of the accounts year after year undermines public confidence in the financial management of the European institutions and of Member States and devalues the significance of the qualification. Qualification should be an exceptional procedure not the norm, and yet, although the Court has noted improvements, the same criticisms are repeated year after year.

The new Commission, in late 2009, in consultation with the European Parliament and the Council of the European Union, should publish a timetable for obtaining a positive Statement of Assurance. Concerted action is needed by the Commission, the Court of Auditors and Member States on a number of fronts to achieve a positive audit opinion.

8. The Government fully agrees with the Committee that it is unacceptable that, for the fourteenth year in succession, the ECA has been unable to give a positive Statement of Assurance on the majority of EC Budget expenditure. The Government welcomes the improvements made so far, but agrees with the Committee that more action must be taken to achieve a positive Statement of Assurance and to increase public confidence in the management of EC Budget expenditure.

9. The Government notes that the area of the budget with the highest level of error is cohesion funds. Expenditure under these funds is jointly managed by the Commission and Member States. The Government therefore considers it necessary for Member States to take increased responsibility for their management of these funds to help achieve a positive Statement of Assurance. Concerted action is needed by both the Commission and Member States and the Government would welcome an ambitious approach from the new Commission.

**PAC Conclusion (3):** In 2005, we highlighted the inherent complexity of some European programmes as a major factor leading to error, but this complexity persists, as do the resultant errors. Some of the most complex programme expenditure in the budget continues to be in the Cohesion policy area, which is responsible for some €42 billion of expenditure in 2007. It is usual for auditors to set a threshold before the audit opinion must be qualified. The Court set the threshold for the value of error which can be tolerated at 2% of the expenditure. In Cohesion policy the Court estimated that at least 11% of spending is subject to error. This level of error is unacceptable. Challenging targets should be set for the Commission to simplify regulations as much as possible and the relevant national delivery bodies should prioritise simplicity when interpreting Commission requirements.

10. The Government fully agrees with the Committee that the 11% error rate found by the ECA for cohesion policy is unacceptable and that effective action is required to improve this situation. The Government agrees with the Committee's conclusion that complexity of legislation is a key contributor to the high error rate for cohesion funds, and simplification is therefore necessary.

11. A new general regulation was introduced for the 2007-13 programmes in 2007 covering all the Structural and Cohesion Funds. This regulation strengthens the financial control environment, including increasing the separation functions of the authorities responsible for managing the funds from those responsible for certifying expenditure to the Commission. It also establishes a new body, the Audit Authority, to audit expenditure and report to the Member State authorities and to the Commission. Member States continue to work with the Commission to identify further simplifications that maintain a high standard of financial control while minimising the administrative burden.

**PAC Conclusion (4): The Commission has proposed introducing higher levels of ‘tolerable error’ in areas of expenditure where the implementation of programmes is riskier and more prone to error, for example, in Cohesion policy. The solution to such complexity does not lie in adjusting the level of tolerable error. This would undermine the accountability of European Union funds rather than enhance it, and European citizens would see this as lowering the bar; whether a €1 million error occurs within a complex or a simple area of expenditure should not make a difference to its acceptability. The European institutions concerned should consider the repercussions of such a change, including the risk of removing the incentive to simplify rules governing European funding at a time when simplification is needed.**

12. The Government welcomes the Commission’s communication ‘Towards a common understanding of the concept of tolerable risk’ as a useful basis for further discussion, but does not believe that the proposal can form the basis for agreeing different levels of tolerable risk for different areas of expenditure, or that this is the right time to do so. Before an informed view can be taken on the proposal for different levels of tolerable risk for different expenditure areas, further simplification of guidance and regulations must take place, and the impact of simplification must be analysed. In addition, both the methodological basis of the Commission’s proposal and information relating to 2007-13 programmes should be further analysed.

**PAC Conclusion (5): Ongoing problems with controls over Cohesion policy expenditure are, in effect, condemning the European Union accounts to qualification for many years to come. The Court’s ‘traffic light’ assessment of performance across expenditure areas, produced since 2007, has brought much needed clarity to where the challenges in financial management lie. This clarity should help in targeting activity to overcome those challenges. The Court could bring further clarity by providing a Statement of Assurance on each individual expenditure area in addition to that for the whole budget. If necessary, the Court should seek changes to its treaty obligations to effect this.**

13. The Government warmly welcomes the ECA’s traffic light assessment of performance, which provides useful clarity on which areas of the Budget have high error rates. Under the current arrangement, the Statement of Assurance provides an overall opinion on the EC Budget and the traffic light system highlights the areas within the budget where there are concerns, and gives an indication of the extent of the problem. At this time, the Government believes that this arrangement provides sufficient clarity.

**PAC Conclusion (6): The Commission has increased its focus on recovering ineligible expenditure through financial corrections. Where the Commission identifies ineligible expenditure it seeks to recover the funds from the Member State. The Commission’s activities in this area are to be commended and it should seek to recover all irregular expenditure. We hope that the threat of correction will lead to improved administration by Member States to ensure that corrections are, ultimately, unnecessary.**

14. The Government welcomes the Commission’s increased focus on recovering ineligible expenditure. Financial corrections provide an effective incentive for Member States to improve their financial management, which should be encouraged throughout the EU. The Government assesses that the identification and recovery of ineligible expenditure would also be assisted by further simplification of guidance and regulations.

**PAC Conclusion (7): The United Kingdom authorities made provisions for possible future financial corrections of over £400 million in 2007-08, and some £100 million of corrections have since been imposed. Financial corrections made by the Commission often result in a loss to exchequer funds and it is unacceptable that the United Kingdom authorities, through mismanagement, have exposed the taxpayer to this level of recovery. The United Kingdom authorities must ensure they manage European funds more effectively in the future to minimise the likelihood of financial corrections.**

15. The Government agrees that there is scope to minimise the likelihood of financial corrections in future. The Government's initiative to produce a Consolidated Statement on the use of EU funds in the UK is designed to help identify any weaknesses in the management of these funds so that these can be effectively and rapidly tackled. The Statement also improves Parliament's scrutiny of EU funds and the Government's accountability of them.

16. The fact that provisions have been made does not mean that this is the final figure that will be paid back to the EU. Discussions will take place between the Commission and those UK departments and Devolved Administrations responsible for the management of these funds to try and resolve differences of opinion on the way EU funds have been managed. These discussions and the related disallowance provisions do not relate to deliberate misuse of funds or any kind of fraud.

**PAC Conclusion (8): The number of Special Reports on value for money produced by the European Court of Auditors has increased but it could do more to assess whether European Union programmes are achieving their objectives in an efficient and effective manner. The Court has increased the number of Special Reports it produces from five in 2005 to 12 in 2008. This is an improvement but still short of the level required to provide the necessary assurance that European Union funds are well used. We would like to see the growth in reports continue and encourage the Court to focus on the efficiency and effectiveness of programmes.**

17. The Government agrees that the rise in the number of special reports produced by the ECA is an improvement. The UK has campaigned for increased analysis from the ECA on the effectiveness of programmes and for this information to be used in the budget setting process. A further increase in the number of special reports from the ECA would be welcomed by the Government and should be used to inform financial management and the objectives and expenditure of the EC Budget.

**PAC Conclusion (9): The level of fraud and irregularity within the European budget is unclear. OLAF continues to report that the reliability of published information on fraud and irregularity depends on the quality and timeliness of information submitted by Member States and should be treated with caution. To resolve this longstanding issue, on which we reported in 2005, OLAF and the Commission should press Member States to work with them to develop a consistent arrangement for recording and reporting irregularity and fraud across the European Union. OLAF should state alongside its published figures where it has concerns about the quality and timeliness of the information submitted.**

18. The Government agrees with the Committee that OLAF and the Commission should encourage Member States to work with them to improve and simplify their national administrative procedures to provide timely information, and to develop consistent arrangements for recording and reporting irregularities and fraud across the EU. While OLAF's investigations into fraud rely on information from Member States, OLAF also receives a significant proportion of information from informants, with the quantity of information increasing annually. This indicates heightened public awareness of OLAF's role and reputation in combating fraud and their ability to make effective use of the information they receive, which the Government welcomes.

19. The Government notes that one reason why the extent of fraud and irregularity in the EU is unclear is because the financial impact of fraud and irregularity cannot be known until legal proceedings are completed.

20. The Commission's recently published annual *Fight against Fraud* report shows a decrease in the estimated financial impact of suspected fraud for expenditure in the EU from 0.22% in 2007 to 0.07% in 2008. The Government welcomes this improvement, but believes that no level of suspected fraud is acceptable. The Government welcomes action to combat fraud in the EU and beyond.

**PAC Conclusion (10): The Fundamental Review of the European Union budget presents the Commission with a rare opportunity to make long term changes to improve financial management. The Commission, the Court and Member States should work together to ensure that suitable, practical changes are implemented, using this review as a springboard for large scale constructive action to resolve the issues which have blighted European Union financial management for years.**

21. The Government continues to attach great importance to the budget review as an opportunity for the principled re-evaluation of the budget, outside the constraints of a negotiation. It is an important opportunity for European leaders to commit to modernisation of the budget and for EU funds to be reoriented to three priority areas: building a prosperous Europe; addressing the challenges of climate change; and ensuring security, stability and poverty reduction.

22. The Government believes that EU funding should only be provided where there is clear EU added value, budgetary intervention is a proportionate and flexible instrument, and where there is sound financial management. The Budget Review should be used to bring forward proposals for improving the propriety and effectiveness of the EC Budget, and for more cost-effective administration of the EU institutions. The Government will continue to work with our partners to build support for genuinely fundamental, strategic and ambitious reform.

# Thirty Third Report

## Department for Communities and Local Government (DCLG)

### Planning for homes: speeding up planning applications for major housing developments in England

1. Housing developments require the approval of planning applications by local planning authorities (Authorities) before they can proceed. The Department for Communities and Local Government (the Department) has implemented a number of measures in recent years to improve the performance of the development management stage of the planning process, in which Authorities consider applications, and to boost planning capacity. The measures include the setting of national targets for the speed of Authority decision-making, and the allocation of Planning Delivery Grant (since replaced by the Housing Planning and Delivery Grant) to Authorities as an incentive for meeting targets.
2. The Grant, together with the setting of a 13-week target for decisions, has provided Authorities with an incentive to determine applications more quickly. Between 2002-03 and 2007-08 the percentage of major residential planning applications decided within 13 weeks almost doubled to 67%.
3. On the basis of a report from the Comptroller and Auditor General, the Committee examined the Department on the incentives to encourage Authorities to perform well, the changes made to the development management process and the Department's efforts to increase planning capacity.

**PAC Conclusion (1): Through its incentive and target regime to encourage Authorities to determine planning applications more quickly, the Department has successfully increased the number of major residential planning applications decided within the target of 13 weeks from 37% in 2002-03 to 67% in 2007-8. There is some evidence that the target has created perverse incentives, with rejections being decided more quickly and applications which exceed the 13-week target receiving lower priority. The Department should consider the introduction of a new performance measure, which is based on the average time taken for a decision to be made, and which enables the average time taken to reject or accept applications to be separately monitored.**

4. The Department recognises the concerns about the 13 week measure and has recently issued a consultation document on indicators of planning performance, within the document *Taking Forward the Government's response to the Killian Pretty Review: Progress Report*<sup>1</sup>, which also picks up the recommendations of the Killian Pretty Review to monitor quality of service. The Department intends to review the current indicator when the Local Government performance framework is reviewed in 2011. The Department will consider the responses to the Consultation Document and is currently commissioning research on options for a revised indicator which will be piloted January-March 2010.

**PAC Conclusion (2): The Department's ability to influence the overall time taken to deliver new housing is limited by its lack of data on the elapsed time from pre-application stage to start of construction. The National Audit Office found that the pre-application stage can be over 30 weeks, and the time between approval and start of construction almost 35 weeks, with the whole process taking on average almost two years. The Department should collect data on the average time for each stage of the planning process to better inform future actions to speed up the planning system.**

<sup>1</sup> <http://www.communities.gov.uk/publications/planningandbuilding/killanprettyprogress>

5. The Department agrees with this conclusion and proposes to collect data on how long the whole process takes via regular surveys of a sample of major residential applications. The first of these will be commissioned for 2010-11.

**PAC Conclusion (3): Pre-application discussions can improve the quality of planning applications and the timeliness of subsequent decisions, but there is a lack of clarity over their purpose and an inconsistent approach across Authorities on resourcing and funding these discussions. In consultation with Authorities, the Department should seek to clarify the purpose and expectations of pre-application discussions for applicants. It should also research whether having a formal charging regime for major applications leads to more experienced Authority staff being deployed on such activities, and to better quality applications which result in quicker decisions, and ultimately an overall cost saving for Authorities and developers.**

6. The Department accepts that there is a need for further clarity around pre-application discussions and will consult in the Autumn on our approach to, and guidance on, pre-application discussions. The importance of pre-application discussions has already been emphasised through the series of Development Management Seminars that have been running throughout the country. The planning fees research that is currently being undertaken by the Department includes looking at the way that Local Authorities charge for pre-application discussions within its scope.

**PAC Conclusion (4): Action is needed to tackle the concerns of developers and some Authorities about the time taken to comment on planning applications by statutory consultees such as the Highways Agency, Environment Agency, Natural England and English Heritage. As part of its current review the Department should put in place processes to collect and monitor Authority and developer satisfaction with the performance of statutory consultees, covering both timeliness and quality of response.**

**PAC Conclusion (5): Action is needed to determine whether the current list of statutory consultees is adequate. Based on an understanding of the risks attaching to sites with potential for development, the Department should review the completeness of the list of current statutory consultees and consider, in particular, whether water companies should be added.**

7. In order to facilitate the more rapid and efficient exchange of planning applications and responses between local planning authorities and consultees, the e-Consultation Hub was launched by the Planning Portal in Autumn 2008. This is the preferred method of consultation for both the Environment Agency and English Heritage. Further consultees are using the hub on a regular basis. The Department agrees that further work on the issue of consultation with statutory consultees would be valuable. This issue is being taken forward as a response to the Killian Pretty Review. Draft proposals for changes to the current arrangements will be consulted upon in Autumn 2009. Satisfaction levels regarding engagement with statutory consultees will be explored through the new performance indicator.

**PAC Conclusion (6): Authorities have increased the number of conditions attached to planning approvals in recent years, but have not prioritised monitoring the proper discharge of these conditions, partly because of their focus on meeting the 13 week decision target. In revising the performance management regime for speeding up planning applications and approvals the Department should work with Authorities to develop measures, which encourage performance improvement across the planning process as a whole.**

8. The Department agrees that action should be taken in conjunction with Authorities to develop measures that encourage performance improvement across the planning process as a whole. A comprehensive review of the planning condition stage in the planning process is currently being undertaken and proposals will be published for consultation in Autumn 2009. Performance in this area will be covered by the new performance indicator that is currently being explored.

**PAC Conclusion (7): The Department's bursary scheme has been successful in increasing the number of students taking post-graduate planning courses but the fall in planning applications arising from the economic downturn may threaten medium term enhancement of Authorities' planning skills base. The Department should seek data from Authorities on the impact of the economic downturn on planning department resources and determine whether further action is needed to preserve and enhance public sector planning skills to meet future requirements.**

9. The Department agrees that it is important to assess the impact of the economic downturn on planning skills and capacity. An update to the *The Mind The Skills Gap* report arising from the *Egan Review* will be undertaken by the Homes and Communities Agency Academy in the Autumn. This report will allow the Department to determine the impact of the economic downturn on planning departments and also highlight skills gaps issues and future action that is needed.

# Thirty Fourth Report

## Department for Environment, Food and Rural Affairs (DEFRA)

### DEFRA: Natural England's role in improving sites of special scientific interest

1. A Site of Special Scientific Interest (SSSI) is an area of land containing habitats and wildlife, which are of national or international importance. There are over 4,000 SSSIs in England. SSSIs have been afforded legal protection since 1949, mainly through restrictions on activities and development, which would adversely affect the sites. This protection has helped conserve habitats and wildlife in England, which would otherwise be at risk. Natural England, a non-departmental public body sponsored by the Department for Environment, Food and Rural Affairs (the Department), has statutory responsibilities for the identification, protection and management of SSSIs.

2. In 2000, the Department agreed a Public Service Agreement (PSA) target to bring 95% of SSSI area into a 'favourable' or 'recovering' condition by 2010 (later specified as December 2010). The reported condition of sites has increased from 57% in target condition in March 2003 to 89% in September 2009. Some sites in recovery may take many years to reach favourable condition.

3. On the basis of a report from the Comptroller and Auditor General, the Public Accounts Committee (PAC) took evidence from the Department and Natural England on the steps taken to conserve sites and raise public awareness of SSSIs and on related costs of bringing sites into target condition.

**PAC Conclusion (1): Natural England expects to meet the Public Service Agreement target for 95% of SSSIs to be in 'favourable' or 'recovering' condition by December 2010, but it may be many years before some sites reach a 'favourable' condition. At the end of the current target period the Department and Natural England should set targets for managing and monitoring the progress of sites currently in the 'recovering' classification, alongside actions to monitor progress in bringing more sites into this group.**

4. The Department and Natural England agree with the conclusion. The target is achievable with concerted action by partners. The Department and Natural England will continue to work with these partners to meet the December 2010 target. The Department and Natural England agree that future targets should be set to ensure that SSSI condition is maintained and continues to improve steadily towards 'favourable condition' whilst recognising that monitoring will also need to continue. These targets will be agreed before the end of the current target period.

**PAC Conclusion (2): Natural England's reported performance in managing SSSIs is based on out of date information and incomplete records. Around a quarter of sites have not been assessed within the six year timescale set out in national guidelines, and around 35% of SSSIs do not have written descriptions of the monitoring requirements for the special features that they were notified to conserve, nor the specific conservation actions necessary to provide protection. Natural England should develop a programme for the forward management of SSSI inspection. This would match resources to the work required to meet the national guidelines, building on the approach taken to address the existing weaknesses, by April 2009 for conservation objectives and December 2010 for six yearly inspections.**

5. The Department and Natural England partly agree with the conclusion. Natural England has been addressing these issues and by the end of March 2009 it had successfully completed the programme to develop conservation objectives for all SSSIs. Since then, Natural England has developed a similar programme to ensure that all SSSIs have up to date Common Standards Monitoring condition assessments in place by December 2010. Natural England is on track to achieve this.

**PAC Conclusion (3): Natural England's record keeping is inconsistent and there is no comprehensive quality assurance system in place to check that conservation objectives and condition assessments for each site comply with national guidelines. Inconsistencies exist in the information recorded for each site. Natural England should define the mandatory data to be maintained for each site such as the extent and location of all features of the SSSI, the dates of field visits, compliance checks and contact with the landowner/occupier. It should introduce quality assurance mechanisms in accordance with ISO 9000 such as peer review and process mapping, to confirm, for example, that the conservation objectives recorded and condition assessments completed meet required standards.**

6. The Department and Natural England agree with the conclusion. Natural England will define the mandatory data to be maintained for each SSSI and will explore the cost benefit of developing its national database to store a greater proportion of this information electronically. Whilst there are a number of measures already in place to address quality assurance, Natural England will review these processes and identify what improvements can be made.

**PAC Conclusion (4): Natural England cannot demonstrate that all SSSI sites, some of which were designated 60 years ago, still demonstrate features of special importance, nor whether other currently undesignated locations may not provide more valuable wildlife and habitat conservation opportunities. The changing nature of biodiversity means sites may lose the special feature or features for which they were first designated, or may acquire new features worthy of conservation. New locations may provide a better opportunity for meeting specific conservation objectives. To make sure that public investment in SSSIs is directed to those sites and locations which offer the best value for money in conservation and cost terms, Natural England should establish a systematic approach to reviewing the designation of existing sites and to identifying and designating new sites.**

7. The Department and Natural England agree with the conclusion. The Common Standards Monitoring (CSM) condition assessment programme will ensure that Natural England monitors the condition of all special features for which SSSIs are notified. The full condition assessment programme will ensure that the backlog is dealt with by December 2010. In November 2008, Natural England's Executive Board agreed a SSSI Notification Strategy, which committed Natural England to keeping the SSSI series under review. This will ensure that the features and boundaries of existing designations are reviewed and potential new designations considered systematically. Implementation of this strategy is already underway.

**PAC Conclusion (5): The current approach of designating individual locations or sites may not be the most appropriate as biodiversity responds to increasing climate and environmental pressures. Enabling species to move between sites may be essential if they are to adapt, for example, to a changing climate. Natural England should research and report on the effectiveness of the current approach for designating SSSIs to establish whether wider issues, such as the need for corridors to enable longer-term movement of flora and fauna between sites, are adequately addressed.**

8. The Department and Natural England agree with the conclusion. The need for ecological coherence in a protected areas network is well known, but how this might be best delivered is less well understood. Natural England's SSSI notification strategy, and the Department's wider biodiversity and climate change policy recognise these issues.

9. The Department has recently announced a review of England's wildlife and ecological network, including its links with the National Parks, and its ability to adapt to climate change and other pressures. The review is to report by June 2010 and will explore if the present range of designations represents a coherent and robust ecological network for England, capable of responding to the challenges of climate change and other pressures. At the same time, Natural England is designing a research programme to establish the value and effectiveness of SSSIs in climate change adaptation.

10. Furthermore, as part of the implementation of its SSSI Notification Strategy, Natural England aims to ensure that, where appropriate, sites are able to respond dynamically to natural processes and that the SSSI series as a whole is resilient to such processes and pressures, including the predicted effects of climate change. Accordingly, existing sites will be kept under review to ensure new features are adequately protected and site boundaries reflect needs of dynamic systems.

**PAC Conclusion (6): Natural England has failed to use its enforcement powers to take action against landowners and occupiers who persistently refuse to manage land in a way which conserves the SSSI, allowing negotiations to become protracted at a financial and conservation cost. Senior management in Natural England should monitor the action taken to reach agreement on the management of SSSI sites with landowners/occupiers on an exception basis, based on elapsed time against an internally established benchmark. Natural England should pilot the use of a specialist team to enforce the body's powers where negotiations exceed the benchmark.**

11. The Department and Natural England agree with the conclusion. Whilst voluntary negotiations with land managers have delivered large improvements in SSSI management, Natural England agrees that in some cases where voluntary negotiations have not succeeded, the time has come for enforcement powers to be exercised to achieve appropriate management of sites (in part or whole). This process is already well underway. Natural England's national regulatory team work closely with a newly established network of dedicated Regulatory and Enforcement leads in each region to deliver an efficient and effective approach to its regulation and enforcement responsibilities. Corporate targets have been set for the delivery of recovering condition through use of enforcement powers where there is a high risk that voluntary negotiations will fail.

**PAC Conclusion (7): The Department and Natural England should improve the financial management of the SSSI programme by improving the reliability of the underlying data on which expenditure forecasts have been produced. It took some three to four years after the Public Service Agreement was set in 2000 for an estimate of the total costs of bringing SSSI sites into target condition to be finalised. Forecasts were based on incomplete information as not all sites had conservation objectives in place. The Department and Natural England should establish a programme and detailed plan of work for moving all SSSIs into a favourable condition, and use the plan to establish reliable financial forecasts and commitments, and to prioritise actions annually based on available funding.**

12. The Department and Natural England agree with the conclusion. An accurate costing to achieve the 2010 PSA target could not be undertaken until detailed site-based planning of recovery had been undertaken. Natural England will continue to work with the Department and other partners further to improve the completeness of forecasts and commitments. This will continue to work from the bottom up using detailed site-based information to drive planning.

13. Continued financial commitments, to undertake annual management, are of critical importance to prevent land, in target condition, slipping into an unfavourable condition and to ensure that recovering sites steadily continue on their path to a favourable condition. Natural England's corporate plans from 2011-12 will define the target area to move from unfavourable to recovering/favourable condition. Such targets will take account of progress under the above within the context of the Notification Strategy and subject to other priorities and the availability of resources.

**PAC Conclusion (8): Natural England's role in protecting SSSI sites can appear obstructive and public understanding of the role, existence and accessibility of sites is low. The majority of sites are open to the public and provide recreational opportunities. Some, such as blanket bogs, help to combat climate change and the risk of flooding. The public is often unaware of the accessibility of sites. Raising awareness of SSSIs and Natural England's role would help public understanding of apparently controversial decisions on planning and development work, and also increase accessibility. Through its website and other media, Natural England should pilot approaches to encourage responsible public use of sites and to explain Natural England's statutory powers in relation to conserving SSSIs.**

14. The Department and Natural England agree with the conclusion. SSSIs will play an important role in achieving one of Natural England's strategic outcomes: *'People are inspired to value and conserve the natural environment'*. Natural England will continue to work to increase the public understanding of the role, value and accessibility of SSSIs, by continuing to build on the success of its websites, *Natural England*<sup>2</sup> and *Nature on the Map*<sup>3</sup>. Natural England's own estate of National Nature Reserves (NNR) also offers an opportunity to engage directly with the public and Natural England is currently developing an NNR strategy that will ensure that the NNR estate is managed in a way that maximises the opportunities to develop public appreciation, understanding and engagement of wildlife sites in the natural environment.

15. A number of innovative pilot projects are already underway including: the development of selected NNR as high quality visitor destinations and the use of NNR as a platform to launch *Family Wildlife Activity Days*<sup>4</sup> with a commercial partner. The Department is about to go to tender for new research to look at the benefits of protected area designations. This will include estimating both the economic and wider biodiversity benefits of SSSIs.

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<sup>2</sup> <http://www.naturalengland.org.uk>

<sup>3</sup> <http://www.natureonthemap.org.uk>

<sup>4</sup> <http://www.redletterdays.co.uk/Experience/Animals/Family-Wildlife-Days>

# Thirty Fifth Report

## Ministry of Justice (MOJ)

### The administration of the Crown Court

1. In 2007, the Crown Court received from magistrates' courts 87,000 cases for trial, 40,000 cases for sentencing and 13,000 appeals by defendants. HM Courts Service (HMCS), an executive agency of the Ministry of Justice (the Department), administers the Crown Court, providing its estate, staff and IT. In 2007-08, HMCS have spent around £380 million to operate the Crown Court, including paying for the judges who hear all Crown Court cases. Under the direction of judges, HMCS's staff allocate dates when cases are to be heard in court (known as listing) and manage the progress of cases to trial. In 2008, a new Board was established to provide leadership and broad direction for HMCS.

2. HMCS achieved its overall target for timely commencement of Crown Court cases in 2008-09, for the first time since it was established in April 2005. HMCS did not, however, meet its target for commencing cases committed for trial (78% within 16 weeks), which arise when a defendant opts to have a case heard in the Crown Court, or magistrates decide that this should happen. Performance varies widely across the HMCS's 24 areas. In 2007-08, the six best performing areas on average commenced 87% of cases committed for Crown Court trial within 16 weeks; the six poorest performing areas began 56% of cases. HMCS is facing a tight budgetary position and Crown Court workload is forecast to increase until 2011.

3. On the basis of a Report by the Comptroller and Auditor General, the Committee examined HMCS and the Department on improving the performance of the Crown Court, getting the right resources for the Crown Court and modernising Crown Court technology.

**PAC Conclusion (1): HM Courts Service's overall performance in commencing Crown Court cases improved significantly during 2008-09, but the Service did not expect to achieve its target for starting cases which have been committed for trial. To reduce delays in starting cases committed for trial, HM Courts Service should:**

- a) **categorise cases, identifying those which require limited preparation and court time, and those which are more complex, such as fraud cases, and are thus likely to take longer; and**
- b) **work with its partner, including the Crown prosecution Service, to examine the main causes of delay for each category of case, and use this analysis to develop business processes that address the different barriers cases face in progressing promptly.**

4. HMCS accepts this conclusion. HMCS already has processes in place to categorise cases in relation to seriousness and assessments of length of trial such as those suggested and are working with the judiciary and other agencies to achieve more consistency.

5. Cases are categorised during or following the Plea and Case Management Hearing (PCMH) that takes place on every case committed or sent for trial within a specified time of receipt. At the PCMH, all issues in the case are identified and a time estimate for the trial agreed. The Judge then directs the timetable for the preparation of the case for trial, which the case progression officer monitors.

6. HMCS has already appointed case progression officers who check with the parties to ensure they are progressing to timetable. Additionally, most courts hold case progression meetings with the local prosecution teams at some level to check the readiness of forthcoming trials and to discuss and review recent cases that have cracked or been ineffective.

7. Every time a trial is listed, a form is completed and signed by the prosecution, the defence, the court clerk and the judge, giving information such as reasons for the case not proceeding or whether tried in the absence of the defendant if effective. These forms are then used at the local meetings to discuss the issues that have caused the problem and / or used by the court case progression team or Resident Judge to analyse trends that can be addressed or that need action taken.

**PAC Conclusion (2): There are wide variations across England and Wales in the time taken to commence Crown Court trial cases. HM Courts Service is seeking to address these variations by targeting resources at locations facing the greatest demands in terms of the number and complexity of cases. The Service should consider introducing local targets for those locations with longer waiting times.**

8. HMCS accepts this conclusion. The Crown Court is a single entity, which sits at many locations. It should therefore have a single target for commencing all cases, including trials. Performance at court, area and regional level is regularly reviewed. HMCS recognises that there is variation in performance and in order to continue to drive up performance in those centres, those significantly missing the target will set locally agreed improvement targets as part of the in year review process (June, October, and March). The Crown Court model, introduced for the financial year 2009-10, also enables resources to be targeted.

9. HMCS has allocated an additional 1,800 Crown Court sitting days for 2009-10 compared with those sat during 2008-09. Sitting days have also been redistributed to those areas with the greatest need, including London and the South East, to equalise timeliness performance. The court-building programme is also being redistributed to increase capacity where it is needed in the longer term.

**PAC Conclusion (3): HM Courts Service does not have targets for increasing the proportion of planned Crown Court trials which are effective, and despite recent improvement, fewer than half of all trials proceed on the date scheduled. Case progression officers should identify key reasons for trials not being effective. Where necessary, they should identify whether particular lawyers are regularly involved in trials, which do not proceed when scheduled and work with them to improve performance.**

10. HMCS accepts the recommendation, however, whilst HMCS notes the Committee's conclusion that 'fewer than half of all trials proceed on the day scheduled' it disagrees with the statement. 12% of trials were ineffective, 41% cracked on the day with the defendant pleading guilty (or where the prosecution end the case) and 47% of trials were effective. When a defendant pleads guilty on the day of trial, HMCS views that hearing as an effective disposal of the case. In effect, over 80% of hearings were effective. HMCS accepts that efficiency would be improved if defendants intending to plead guilty did so earlier. But despite the incentives within the system for early guilty pleas, the Court ultimately has no control over these decisions.

11. HMCS is working with the judiciary and other agencies to ensure proper and more effective use is made of the Cracked and Ineffective Trial forms, used to record the reasons for the cracked or ineffective trial, and that they are completed in detail. The Cracked and Ineffective Trial Guidance will be reviewed and re-circulated in January 2010. Trends in performance by specific Crown Prosecution Service teams or defence firms can be identified and referred to the judge.

12. The HMCS Performance Database and CREST produce reports summarising the reasons for every cracked or ineffective trial by court, area or region. This will be used by performance teams for analysis when required.

13. HMCS is working with the Department and the Legal Services Commission (LSC) to ensure that publicly paid lawyers involved in the trial contribute to the process in a positive manner. The judiciary have the power to issue wasted cost orders in appropriate situations.

**PAC Conclusion (4): Many of the factors that influence the time taken to commence cases, and their length, are outside the Service's control. Some of them, such as the availability of legal aid and the powers of magistrates courts, are policy issues and therefore beyond our remit. It is nonetheless crucial that those dealing with such policy issues are aware of the impact their decisions are likely to have on the practical administration of crown courts.**

14. HMCS accepts this conclusion and is working with the Department and LSC in respect of legal aid and with the Department in respect of the policy on the powers of the magistrates' courts to ensure that the impact on the Crown Court is considered as part of any policy decision.

15. The number of 'either way' offences in Crown Court has increased significantly, from 48,668 in 2004 to 55,302 in 2008. Part of this is due to an increase in the number of defendants electing for trial and there is some suggestion that legal aid has contributed to this behaviour, as there has been means testing in Magistrates' Court since October 2006. The Department will be introducing means testing in Crown Courts from January 2010 and it is expected to be fully rolled out across all Crown Courts by June 2010.

16. However, the significant part of the increase is the number of cases that Magistrates have transferred to Crown Courts. Further work to address this is in hand, part of which will be drawing to the attention of Magistrates that sentences issued by the Crown Court for 'either way' offences are often within the sentencing power of Magistrates.

**PAC Conclusion (5): Judges are responsible for the administration of justice, and their decisions on listing and trial proceedings can significantly impact on the efficiency of the courts. The establishment of a new governing Board for the Service provides its executive team with regular opportunities to discuss performance issues with the Board's three judicial members, one of whom is the Senior Presiding Judge, responsible to the Lord Chief Justice for the judicial management of the Crown Court. To inform these discussions the Service should provide the judiciary with an assessment of the performance of individual court locations, taking account of their workload and resources.**

17. HMCS accepts this conclusion and has already reviewed the way performance data is reported to the judiciary. A standard approach across HMCS has been proposed to the Senior Presiding Judge. This is to provide the judiciary with a monthly national and local jurisdiction (Crown, magistrates', county and family) based report. This includes regional, area and court level performance data and workload figures. HMCS proposes to start this new process from October 2009. In addition, HMCS is improving the way in which it presents information to the HMCS Board to provide a more cohesive report that links finance and performance data.

**PAC Conclusion (6): HM Courts Service has introduced a model for determining the number and type of staff required at each court, but this cannot guarantee a good match on each court day between the work to be undertaken and the staff available. The Service should, therefore, provide appropriate training and support so that its ushers, clerks and administrative staff can work flexibly and undertake a range of Crown Court tasks.**

18. HMCS accepts the conclusion. The training provided includes specific training for ushers, court clerks and a range of 22 courses aimed at administrative staff. The Department has recently asked all Crown Court managers to provide details of any staff training needs by the end of August 2009. These will be met by the end of December 2009.

19. From 2010 Crown Court managers will assess any training requirements on a quarterly basis, to enable staff to be trained fully and deployed flexibly according to local operational needs. These requirements will be met within 12 weeks, by full or part time trainers, as appropriate.

**PAC Conclusion (7): By moving cases between Crown Court locations in parts of London and the South East to improve waiting times, HM Courts Service has placed burdens on victims, witnesses and other parties attending court. When planning and reviewing its estate, HM Courts Service should give high priority to providing good local access to justice.**

20. HMCS accepts this conclusion. HMCS has to balance a number of competing factors such as ensuring access for victims, witnesses and other court users, providing value for money, increasing efficiency and balanced with taking into account witnesses requirements for a timely outcome. HMCS also has to provide courts in strategic locations that allow greater flexibility and efficiencies in listing practices in order to enable increased courtroom utilisation.

21. HMCS agrees that the care of victims and witnesses is of paramount importance in the justice system and their needs must be respected at all times. The Court Standards and Design Guide for new court buildings recommends the provision of a special witness waiting suite for vulnerable witnesses or those liable to intimidation.

**PAC Conclusion (8): Reducing the number of courts where magistrates hear criminal cases risks dividing magistrates from their localities. We welcome the Service's assurance that there are no plans to close any more magistrates' courts. The Service should only consider centralisation of the magistrates' courts if it has undertaken a full assessment of the impact on the local community.**

22. HMCS accepts this conclusion but it must always balance the importance of local justice against keeping magistrates' courts open at public expense when those courts are significantly under utilised. By the end of the year, HMCS will review and re-issue the standing instructions to Operational Directors on "Court and courthouse closure, and jurisdictional guidance" to re-emphasise the importance of assessing the impact on the local community.

23. A discussion paper on the future provision of magistrates' courts in London was published on 13 October 2009 aimed at court users and others affected by the provision with regard to the possibilities presented by virtual courts. It will form a basis for HMCS managers to discuss how magistrates' courts services should best be arranged to meet the needs of the communities they serve. The conclusions from this will form the basis of a formal consultation on a proposed way forward.

24. The HMCS estate is kept under constant review, so that operational decisions that achieve efficiencies can be made. There is already a commitment that potential magistrates' court closures are subject to consultation and ultimately any decision to close a court rests with the Justice Secretary.

**PAC Conclusion (9): HM Courts Service cut staff absence levels during 2008-09, but at around 10.1 days a year, the level remains high, exceeding the civil service average by 6%. The Service should strengthen incentives for staff and managers to reduce absence levels by incorporating its targeted level of absence of 7.5 days per year into the models it uses for determining the staff required at each court.**

25. HMCS accepts this conclusion and is committed to reducing its absence levels to meet the Department's target. HMCS's experience is similar to that of other front line delivery organisations with large numbers of administrative staff and tends to have a higher level of absence associated with a greater proportion of junior grade staff (where sick absence is often most pronounced) than is found in non frontline organisations<sup>5</sup>. HMCS has incorporated the 7.5-day target into the assumptions for the model for the resourcing of the Crown Court. Provision already exists within the model used for the resourcing of magistrates' courts.

26. HMCS is also introducing further measures to help managers tackle sick absence and continue to reduce absence levels. Each region will be undertaking an absence audit to identify areas which need to be addressed. In addition to this, there will be targeted interventions, piloted first in the Midlands region, to reduce absences and ensure long-term sick absences are dealt with appropriately. This will involve regular reviews with senior managers and additional occupational health support being provided. The successful measures identified from this pilot will then be rolled out across HMCS before the end of the financial year.

<sup>5</sup> Paragraph 1.9, Managing Sick Absence in the Public Sector (A Joint Review by the Ministerial Taskforce for Health, Safety and Productivity and the Cabinet Office), 2004.

**PAC Conclusion (10): The 20 year-old case management system CREST has been reliable but its limited functionality increases the risk of error and reduces efficiency. During 2009 to 2011, when CREST is being put onto modern supported software and hardware, the Service should work with its IT partners to establish realistic plans for improving the system's functionality.**

27. HMCS accepts this conclusion. As recognised by the Committee, CREST is reliable and has been kept up to date with legislative and business requirements. However, the underlying technology has aged and a project is already under way to modernise this technology, which is due to complete in 2011. This will allow for the electronic transfer of cases between Crown Court sites, addressing concerns about risks of errors and inefficiencies, and will also provide other efficiency benefits. HMCS will continue to work with its suppliers to develop plans to improve the functionality of the system to maximise the benefits of this updated technology.

**PAC Conclusion (11): Three years after the Government's target to implement by 2006 new procedures to enable automatic updating of the Police National Computer with court results, the police still have to input data manually. Later this year the new automatic procedures are due to go live, but some cases will still be too complex to use them. HM Courts Service should, as a matter of urgency, work with its partners to increase the range of cases that can be automatically updated on the Police National Computer, thereby reducing the risk that police investigations are hindered by poor information on court results.**

28. The Department accepts this conclusion and is already working with partners to increase the range of cases that can be automatically updated on the Police National Computer via the Bichard 7 solution.

29. The Bichard 7 solution has been developed under the Office of Criminal Justice Reform, in partnership with both HMCS and the police. The project team is continuing to work closely with the courts, police and non-police prosecutors, both at the local criminal justice board level and nationally, in order to identify best practice and maximise automation levels.

30. The project is also under the oversight of the Criminology Information Unit at the Home Office, which holds the policy lead for the cross-Government improvement agenda to strengthen criminality information management in support of public protection arrangements. This includes supporting a number of critical IT-enabled criminality information initiatives such as Bichard 7. These initiatives are designed to increase the range of cases that can be automatically updated and to improve the quality and timeliness of the information held on the Police National Computer, by the end of 2009.

**PAC Conclusion (12): From April 2009, network constraints limiting the number of courts able to use prison video links should have been removed and HM Courts Service should decide whether to seek the funding necessary to increase provision. In preparing its business case, HM Courts Service should work with HM Prison Service to identify potential levels of use and confirm that the consequent reduction in prisoner movements would deliver savings.**

31. HMCS accepts this conclusion. Prison Court Video Links play an important role as part of a range of measures to facilitate attendance at court and reduce the impact of prisoner movements. HMCS is committed to working with HMPS to ensure that the links are used efficiently and effectively.

32. Whilst contract negotiations have delayed the expected enhancements to service, these are expected to be delivered by the end of 2009. HMCS and HMPS have worked together to develop best practice guidance on the use of video links and HMCS will ensure that this is effectively embedded in court business by the end of 2009.

33. HMCS is considering whether to seek funding to increase provision of video links in the next spending review. This will take account of demand for the service, current availability, the benefits that may be accrued through the reduction of prisoner movements and ensuring that the needs of justice are fulfilled.

# Thirty Sixth Report

## Department for Environment, Food and Rural Affairs (DEFRA)

### The health of livestock and honeybees in England

1. Animal disease can have a significant impact on the farming industry and the wider- rural economy. The incidence of Bovine Tuberculosis and of honeybee losses continues to increase, and the actions by the Department for Environment, Food and Rural Affairs (the Department) to tackle these issues cost £80 million and £1.5 million respectively in 2007- 08. Whilst cattle and honeybees are plainly very different, the challenges facing the Department in halting the rising number of cases of disease are similar.
2. Around 39 commercial crops grown in Great Britain, with an estimated value of some £200 million a year to the agricultural economy, rely on insect pollination. There are around 250,000 colonies of honeybees in England and Wales. Beekeepers are reporting an increasing frequency of losses, a trend also reflected in findings from the Department's inspections of hives. There are four notifiable bee diseases and pests in England and Wales, and cold, wet weather as well as poor husbandry may also be a factor in colony death. Reports of a new threat of Colony Collapse Disorder may be the result of a combination of factors, such as changes to habitat or food supply.
3. Bovine Tuberculosis has a major foothold in England and Wales, particularly in the South West. Between 2002 and 2007, an average of 16,500 cattle were slaughtered each year as a result of the disease. The reservoir of disease in wild animal populations is thought to play a significant, although unquantifiable, role in disease incidence, but more rigorous bio-security measures might help to limit the impact.
4. On the basis of a report by the Comptroller and Auditor General, the Committee examined the Department on what measures it is taking to prevent, identify and control notifiable diseases affecting livestock and honeybees.

**PAC Conclusion (1): Success in tackling disease incidence in honeybees and livestock will require the Department to work more collaboratively with farmers, beekeepers and leading academic researchers in these areas. The Department should pilot local consultative arrangements in livestock disease hotspots involving farmers, veterinarians and local authorities to adopt a collaborative approach to risk assessment, preventative actions and enforcement. A similar approach between beekeepers and the Department's inspectors would help to involve the key stakeholders actively in minimising risks and enforcing good bee husbandry in local areas. Before allocating its new honeybee research funding, the Department should discuss priorities with beekeeping associations and leading academic researchers in this area.**

5. The Department agrees with this recommendation. In relation to honey bees, the following actions are underway or committed to:
  - the Food and Environment Research Agency (Fera) (an executive agency of the Department) is leading the Department's engagement with beekeeping associations in implementing the Healthy Bees plan through their inclusion on the Project Management Board (PMB). Fera is disappointed that the British Beekeepers' Association (BBKA) has recently decided to withdraw from the PMB. However, Fera is continuing to work with the BBKA outside of the Board to improve bee health and hope that they will feel able to rejoin the Board at some point in the future;
  - the number of colonies inspected by Fera's National Bee Unit's (NBU) Bee Inspectors this year is the highest level since 1988 (over 38,700 colonies). These inspection visits also include 1:1 training with beekeepers. As part of the Healthy Bees plan, work is also underway with the beekeeping associations to establish and deliver a coordinated beekeeper education programme to improve both husbandry standards and the management of pests and diseases;

- local training events on key beekeeping skills, (this year over 700 attended by over 22,000 beekeepers) currently delivered through Fera's NBU and beekeeping associations, will be augmented and better publicised; and
- regional forums will be increased from three to seven providing full geographic coverage of England and aligned with the NBU's regions. All forums will have met by the end of the 2010 beekeeping season. These are consultative events for beekeeping associations, bee inspectors and the NBU to explore specific local issues and share the latest advice.

6. The allocation of the Department's new research funding will be decided by the Insect Pollinator Initiative funding consortium of which the Department is a member. The consortium met beekeeping associations and other insect pollinator stakeholders in September 2009 to identify priority research questions to help inform the consortium's funding decisions. In addition, the Department is maintaining and expanding a range of communications with a wide range of stakeholders and researchers to develop an overall view on priorities.

7. In respect of bovine tuberculosis (bTB) the Department recognises that working with industry and other stakeholders, offers the best chance of reducing and ultimately eradicating the disease. To this end, the Bovine TB Eradication Group for England (TBEG) was established in 2008 with a membership representing the Departments Food and Farming Group, Animal Health, the farming industry and the veterinary profession. TBEG is developing a programme of measures to reduce the incidence of bTB and support farmers affected by the disease.

8. The Group will develop a national framework for tackling bTB and will tailor it to take full account of the local and regional variations in disease prevalence. Animal Health already participates in a number of regional and local collaborative initiatives involving farmers, veterinarians, local authorities designed to reduce disease incidence and will consider how best to incorporate this element once a national framework is agreed.

**PAC Conclusion (2): By widening the focus of the additional research funding to cover other pollinating insects as well as honeybees, work into the underlying causes of the decline in honeybee numbers might not be enough to reverse this trend. The Department should specify which aspects of honeybee health it plans to research and what proportion of the additional funds are likely to be ring-fenced for this purpose.**

9. The Department understands the Committee's concerns regarding the widening of the research scope to other pollinators in the Insect Pollinator Initiative (IPI). Although the Department recognises the role of honeybees in the pollination of certain crops, their relative importance compared to other pollinators has not yet been defined. As regards the decline in honeybee numbers, improved weather conditions this season have resulted in a lower number of colonies (6.8%) being found dead during inspections than at the same time last year (12%).

10. The Department has contributed £2.5 million to the IPI, the purpose of which is to promote innovative research aimed at understanding and mitigating the biological and environmental factors that adversely affect insect pollinators. It is noteworthy that by scoping the IPI to cover all insect pollinators, substantially more funds are available (total funding for IPI – £10 million) from other parties, than if the research had been targeted simply at honey bees.

11. This will enable cross cutting and complex science questions raised about factors affecting the health and lifespan of all pollinators to be tackled, and holistic solutions to be identified. As a result of this wider approach there will be engagement from a broader range of researchers, generating new insights and leveraging better value from the research spend.

12. Under the terms of the consortium, no single member, including the Department, can ring-fence funds for any particular area or research body. The Department and the other members of the consortium will jointly make final decisions on the projects to be funded. They will consider the recommendations from peer review, the overall balance and scope of the proposals, as well as the specific merits of individual projects.

**PAC Conclusion (3): Adopting rigorous bio-security measures might limit disease impact and incidence, but the Department has made little progress in establishing minimum standards of bio-security with the farming industry to allow for effective farm risk assessment. In consultation with the farming industry and veterinarians from farming practices, the Department and its Agency, Animal Health, should develop bio-security guidelines and standards appropriate to different livestock sectors sufficient to enable Animal Health Officers to assess the risk exposure on each farm.**

13. The Department has issued a significant amount of guidance about biosecurity since 2001, which sets out clearly the key actions and behaviours all livestock keepers should adopt. In addition, *Codes of Recommendations on Welfare* published for different species include biosecurity measures. Whilst setting standards for biosecurity, it is also important to be able to demonstrate to a sceptical audience how effective different biosecurity measures are, and how the investment in effort and resources makes a difference in protecting against disease spread.

14. The Department is investing in research studies that will provide evidence about the relative effectiveness of different biosecurity interventions and the economic benefits gained, but the practical difficulties in gathering this evidence should not be underestimated. Given the diversity of different types of livestock rearing practices it is difficult to establish generic biosecurity standards. For this reason, DEFRA promoted and provided pump-priming funding to encourage the farming and veterinary profession to establish farm-health planning; essentially an approach by which livestock keepers and vets work to identify animal disease risks taking into account the specific circumstances on the farm.

15. As part of the Department's Responsibility and Cost Sharing Programme it is intended that financial and other incentives will be established under partnership, working to encourage effective biosecurity, reduce disease risks and strengthen business resilience to the impacts of responding to disease outbreaks.

16. In relation to bovine TB (bTB), the Department agrees that rigorous bio-security measures might reduce the risk of the disease in a herd. In 2007, the BTB Husbandry Working Group; a partnership of key farming, veterinary and wildlife groups, and Government produced advice recommending precautionary measures and a common sense approach that farmers can take to help reduce the risk of bTB transmission between cattle and wildlife. The advice is based on the best available evidence, and was trialed with some farmers before it was disseminated more widely.

17. The Department recognises that a greater understanding of the disease transmission routes between wildlife and cattle could contribute greatly to the development of biosecurity advice and controls for bTB. However, a conclusive answer on the transmission of the disease cannot currently be produced. The epidemiology of bTB is complex and it is known that in cattle and badgers it is primarily a respiratory disease. However if it is uncontrolled in either species, the disease may become disseminated and *M bovis* can be excreted, intermittently, in sputum, saliva, pus, urine, faeces and milk. The Department continues to fund research into the cost and feasibility of practical husbandry measures.

**PAC Conclusion (4): The Department has failed to implement a cost sharing compensation system for farmers which takes account of farmers' actions to prevent and minimise the risk of disease. In our Ninth Report of Session 2005-06 we recommended that the Department should make quick progress on consultation on a levy scheme which would transfer the cost of future disease outbreaks from the taxpayer to farmers, and provide incentives to improve farm bio-security by, for example, linking the levy contribution to bio-security standards on the farm. Three or more years later the Department's consultations are still ongoing. The Department should establish a firm timetable to bring implementation of such a scheme to an urgent conclusion.**

18. The Department accepts the Committee's conclusion and following three public consultations, intends to publish a draft Bill by the end of the year for pre-legislative scrutiny in early 2010, with a view to its introduction in the new Parliament. The planned legislation will include provisions for livestock producers contributing directly to Departmental costs of dealing with exotic notifiable animal diseases and establish financial and other incentives to encourage effective biosecurity.

19. The Department introduced new cattle compensation arrangements for cattle affected by bTB in February 2006. The previous compensation system had resulted in significant and widespread over-compensation, which provided a perverse disincentive for some cattle owners to put in place robust on-farm bio-security controls. Under the current system, compensation payments are directly linked to average market prices, and as a result, the risk of over-compensation has been significantly reduced (as have payments to cattle owners).

**PAC Conclusion (5): The Department should enforce rigorously the compulsory testing regimes and the timely testing of contiguous farms, to minimise the risk of disease spread and the impact for neighbouring farms where a farmer resists inspection. Animal Health should work with local authorities to determine the level of enforcement actions available and to agree the circumstances, which trigger enforcement action. The latter should take account of the wider risk of disease spread and the potential inconvenience for neighbouring farms which non-compliance causes.**

20. The Department agrees that enforcement of Bovine Tuberculosis (bTB) controls is a critical part of tackling the disease. In February 2005, the 'zero tolerance' movement restrictions policy was introduced to reduce TB risks to neighbouring farms by prohibiting cattle movements to / from herds with overdue tests

21. This year, Animal Health introduced new enforcement protocols, to tie-in with a more robust and standardised approach for dealing with herds with overdue bTB tests. These new protocols have resulted in better co-ordinated and more consistent enforcement of bTB control measures, including the requirement to test within stated timescales.

22. As a further measure to reduce the risk of disease spread, herd tests are carried out on farms contiguous to identified bTB infected herds. The precise timing of these tests are determined following a veterinary risk assessment. Further contiguous tests will be carried out six months (discretionary) and 12 or 18 months after the first contiguous test. If any contiguous test is not completed by the due date, the herd is placed under zero tolerance TB movement restrictions.

**PAC Conclusion (6): Only half of active beekeepers are registered with the Department and subject to the Department's inspection regime because, unlike in some other countries, registration is not compulsory. In maintaining a voluntary approach to registration and inspection, the Department should develop a strategy to increase significantly the number of registered beekeepers. This would enable it to enhance its data on bee disease incidence and better target advice on good husbandry and its research programme.**

23. The Department agrees with this recommendation. Increasing the numbers of beekeepers known to the National Bee Unit (NBU) is a key objective of the Healthy Bees plan. So far this year, the number of beekeepers registered on the NBU's BeeBase database has increased by 15% (over 2500), which has partially been achieved through the increased number of Bee Inspectors in the field and possibly increased self registration by beekeepers (30%).

24. The strategy to increase registrations further is being developed and includes:

- a publicity campaign to reach beekeepers who are not registered on BeeBase, as part of the communication strategy for the Healthy Bees plan, for implementation during 2009 and 2010; and
- collaboration with beekeeping associations in encouraging their members to register.

25. Depending on the success of the strategy, compulsory registration may be considered but the Department's preferred approach remains one of encouraging voluntary registration in line with the principles of better regulation. Other countries' experience of compulsory registration indicates mixed levels of success.

**PAC Conclusion (7): Reports of notifiable disease in honeybees are much lower in Scotland than in England and Wales, but the Department has no strategy for collaborating with the devolved administration in Scotland to manage the risks to honeybee colonies across the United Kingdom. The Department should work with bee inspectors and bee keepers in Scotland to obtain a greater understanding of the incidence of disease and colony loss, and to establish a common system for registering beekeepers and for measuring and reporting disease.**

26. The Department will strengthen existing links with the Devolved Administrations. The Department will set up more regular formal discussions and developing opportunities to collaborate, and in particular will work closer with the devolved administration in Scotland on Bees. The Department co-ordinates bee health policy on behalf of the UK and does this through planned meetings and regular informal discussions with the Devolved Administrations.

27. Recent examples of closer collaboration are:

- the Department is sharing information, and providing advice and help with diagnostics in response to recent outbreaks of European and American foulbrood in Scotland;
- the Department has initiated discussions with the Scottish Government regarding the registration of Scottish beekeepers and possible use of the NBU's BeeBase database; and,
- the Scottish Government has been invited to attend the Department's Healthy Bees plan's Project Management Board as an observer.

**PAC Conclusion (8): Farmers can be subject to numerous unco-ordinated inspections from central and local government bodies, alongside inspections arising from independent quality assurance schemes and food buyers such as the major supermarkets. The Department should take the lead in co-ordinating routine inspection visits carried out by the public bodies it sponsors, and facilitate information sharing between them and local authorities to minimise disruption to farmers.**

28. The Department supports the Committee's conclusion that improved coordination between farm inspection bodies would minimise disruption to farmers. The Department is taking steps to reduce burdens on farmers through the sharing of information and encouraging more joined up inspections. An On Farm Inspections Steering Group (OFISG) has been set up to explore the opportunities for joining up farm inspections. Membership of this group includes representatives of the Department, its key delivery partners, Animal Health (AH) and the Rural Payments Agency (RPA), and customer representation such as Assured Food Standards and the National Farmers Union.

29. The Group set up a pilot project to enable a number of inspections to be done at the same time; Cattle Identification inspections, led by the RPA with certain types of TB tests, managed by AH. The conclusions drawn from the pilot, recommended that the scope for joining up visits to farms should be extended to include other TB tests, and that joined up visits should become part of business as usual and farmers are being notified accordingly. RPA and AH are working together to take this forward.

30. A further pilot involving the Food Standards Agency and AH is underway to reduce the burden of official controls on dairy production holdings in England and Wales by recognising the results of audits carried out by Assured Dairy Farms (hygiene aspects only). It is anticipated that the proposals for a change in inspection regime for certain risk categories will be sent for public consultation later this year.

31. In addition, RPA is seeking to collaborate more closely with the Departments' bodies such as Natural England and the Environment Agency and other third parties to identify opportunities for more joint working; AH is working with local authorities to ensure a more joined up approach where appropriate, and Fera has a risk-based, proportionate, targeted and flexible approach to bee inspections.

# Thirty Seventh Report

## Cabinet Office

### Building the Capacity of the Third Sector

1. The third sector includes voluntary and community organisations, charities and social enterprises, ranging from small, local community groups to large, established, national and international organisations. The Government's objective in working with these organisations is to strengthen communities, improve public services, encourage social enterprise and support the conditions for the third sector to thrive.
2. In 2003, a Treasury review found that third sector organisations did not have the appropriate skills and resources (capacity) to contribute to the delivery of public services to the extent that the Government wanted. In 2004, the Home Office introduced two programmes to build the capacity of the third sector. Both programmes – ChangeUp and Futurebuilders – are now the responsibility of the Office of the Third Sector (OTS), part of the Cabinet Office.
3. ChangeUp aims to improve the support services available to frontline groups. It invests in various programmes, including national support services on key topics such as governance and income generation, and regional and local support providers, who form partnerships or 'consortia' to make their services to frontline organisations more effective. ChangeUp is managed by an executive non-departmental public body, Capacitybuilders. The total investment in the programme will be £231 million by 2011.
4. Futurebuilders is a £215 million investment fund that invests directly in frontline third sector organisations that would otherwise not have access to commercial sources of finance. It enables them to build their capacity and bid for public service delivery contracts. Income from these contracts is then used to repay the investment. It is managed under contract by Futurebuilders England Fund Management.
5. On the basis of a report by the Comptroller and Auditor General, the Committee examined OTS, Capacitybuilders and Futurebuilders England on the performance of ChangeUp and Futurebuilders programmes in building capacity in the third sector.

**PAC Conclusion (1): The design of the ChangeUp programme was complex and took longer than planned, leading to less time than intended for consortia and national hubs to spend the initial funding of £80 million. Effective consultation and good programme design are important foundations for successful programme delivery. But spending too much time on these elements and then squeezing delivery is counter-productive, leading to waste, poor value for money and adverse impacts on funded organisations. In the event of delays in implementing future programmes, the Cabinet Office should assess the risk to successful programme delivery before deciding whether to enforce or revise original timescales.**

6. The Department agrees with the Committee's recommendation. The OTS aims to achieve the right balance between ensuring excellent programme design with appropriate consultation, and ensuring funding reaches the sector efficiently when it is needed. For future third sector programmes, where delays are being experienced, OTS will assess the risks to delivery, before deciding whether to enforce or revise original timetables.
7. The Department tracks progress on delivery of programmes, including OTS programmes, through the production of a monthly performance pack, which includes monitoring of programme milestones. The governance committees of the Department use this mechanism to monitor whether programmes are slipping from their original timetables, and if this occurs will make an assessment of what action should be taken as a result.

8. The majority of current OTS programmes are set out in the strategy *The future role of the third sector in social and economic regeneration: final report* (known as the third sector review). This publication followed a year-long consultation and was published in July 2007, with a start date for a series of three year investments in the third sector in April 2008. This lead-in time, coupled with the commitment to three-year investments, has resulted in a more stable and productive series of programmes. OTS programmes not included in the third sector review are particularly focused on responding to the recession: within six months of the publication of a recession action plan for the third sector, over 1,600 third sector organisations had been offered £16.7 million of support.

9. OTS and Capacitybuilders have implemented improvements since ChangeUp was first developed and rolled out in 2004 to 2006. Since the transfer of responsibility for management of the programme to Capacitybuilders in 2006, funding levels for ChangeUp have stabilised and all Capacitybuilders' current ChangeUp programmes run for three years.

**PAC Conclusion (2): The period for which funding is given to organisations can affect the ability of those organisations to use it fruitfully. A review of the national hubs led to a prolonged period of uncertainty around their future and funding. Such uncertainty creates problems for funded organisations, diverting time and attention from their primary objectives into, for example, raising further funds in order to continue their work. While some progress has been made in providing longer-term funding for third sector organisations, Cabinet Office and its associated bodies should further reduce uncertainty through greater clarity around terms and conditions of funding and investment where possible, and by more prompt and timely decision-making.**

10. The Department agrees with the Committee's recommendation. In the third sector review, the Government made a commitment to see longer-term funding for the third sector, recognising that short-term funding arrangements can create uncertainty. The OTS champions three year funding across Government. The Department agrees to ensure that all terms and conditions of funding and investment, including the timescales, are clear in grant funding agreements and contracts, and is taking steps to ensure that this happens currently.

11. The majority of OTS funding programmes for the third sector are for three years, the exceptions largely being the additional support that the Department is providing to the sector through the recession, as detailed in *Real Help for Communities: Volunteers, Charities and Social Enterprises*. Latest figures provided to OTS (December 2008), also show that 85% of all Government grant funding (by value) to the third sector is for three years or more.

12. Grant recipients and organisations entering into contracts with OTS are informed at the beginning of the term of the grant or contract, and agree to these before it commences. Moreover, each OTS project grant recipient receives a letter annually, confirming their grant amount for that year and stating, where appropriate, whether the grant is part of a multi-year funding settlement and detailing future years' grant payments. This will provide further ongoing certainty to the third sector organisations involved.

13. Since 2008, Capacitybuilders has published detailed programme prospectuses for new funding streams. These include a range of information, such as eligibility criteria for applicants, clear timescales for the submission of applications, and decision-making deadlines. Furthermore, in its 2009-10 Business Plan, Capacitybuilders has set itself the corporate target of making funding decisions at an average of less than six weeks after the deadline for grant applications has passed. The Department monitors Capacitybuilders' progress against this commitment through Key Performance Indicators (KPIs) and it will be reported on in Capacitybuilders' future Annual Reports.

**PAC Conclusion (3): The lack of a planned evaluation of ChangeUp is a major failing, and is particularly alarming given the inherent risks in the programme, its untested approach, complex delivery mechanism, and devolved decision-making arrangements. The Cabinet Office should ensure in the future that proper evaluation is built into the design of all its programmes. Such evaluations should include clarity around the baseline, objectives and outcomes of the programme, as well as how they will be achieved and measured, and a system of review which enables adjustments to be made and lessons disseminated. The costs of effective evaluation should be built into the programme budget from the outset.**

14. The Department agrees with this recommendation. OTS aims for robust evaluation to be embedded into its programmes, in order to ensure effective monitoring and assessment of objectives and outcomes. Within OTS, all current major funds, including Futurebuilders, Grassroots Grants, v, Community Assets and those arising from Real Help for Communities, incorporate clear and thorough evaluation from the outset. OTS has set clear aims and objectives, commissioned suitable evaluators using appropriate methodology, and employed and set a monitoring framework. The research team within OTS work with OTS staff to ensure that policy leads are aware of the evaluation needs of their programmes, and that they have support in ensuring effective evaluations.

15. In the case of ChangeUp, the Department recognises the problems with early evaluation. To address this, Capacitybuilders has commissioned an independent evaluation that will use quantitative data to build a national baseline of the impact of ChangeUp on the capacity of infrastructure and frontline organisations. In determining the degree to which any changes are attributable to ChangeUp, the evaluation will look at its outcomes in specific case study areas. Capacitybuilders will publish findings from the interim evaluation report in autumn 2009, and the final report in March 2011. The evaluation team will also arrange a series of knowledge sharing events for third sector organisations to take place in 2009, 2010 and 2011.

**PAC Conclusion (4): It is unacceptable that these significant and costly programmes were established without setting any proper targets against which the performance could be measured. Both programmes were set up without performance targets that were sufficiently aligned to the programme objectives and outcomes. In respect of Futurebuilders, in particular, the lack of appropriate targets is likely to have contributed to the sluggish rate of drawdown of investments in the early years. Before approving all future programmes, the Cabinet Office should require managers to develop meaningful indicators and targets to drive performance and measure progress towards the intended outcomes.**

16. The Department agrees with the Committee's recommendation. The Department enters into a range of different contracts and grant agreements with organisations to deliver programmes. All contracts and grant agreements specify the outcomes intended and are monitored on that basis. For example, all project grants entered into by OTS are monitored against an agreed work plan and budget, revised each financial year. The Finance Director in Cabinet Office signs new contracts on behalf of the Department and for future programmes will ensure that contracts set out clearly the indicators and targets to ensure delivery and drive performance.

17. In regards to the Futurebuilders programme, the Department has built on the learning from the first phase of the fund and has aligned the fund's targets more closely with the objectives of the fund. Specifically, one of the KPIs on which the success of the fund manager is measured, is directly linked to the amount of money disbursed by the fund manager. To date, Futurebuilders England has disbursed over £72 million to frontline third sector organisations.

18. The ChangeUp framework published in 2004 included targets, initial actions, milestones and high level objectives setting out how the programme would meet the needs of the third sector overall, and in six key areas such as governance and finance, which have largely been met. However, the Department recognises the

need for a more robust ongoing assessment of impact. The evaluation of ChangeUp will assist in improving the measurement of impact, including the establishment of a baseline against which progress can be assessed and future targets set.

19. The Department has a range of mechanisms for accountability and oversight of Capacitybuilders, including KPIs and financial monitoring. Capacitybuilders sets out annual objectives and milestones in its Business Plan.

**PAC Conclusion (5): Judging value for money is hampered by limited and uncertain financial information from the early days of the ChangeUp programme. Even with adequate evaluation, any judgement on the value for money of ChangeUp is undermined by the uncertainty surrounding the financial data about the programme. The Cabinet Office and Treasury should strengthen their guidance to departments on collecting adequate data on costs and benefits to enable effective evaluation, and on ensuring that accurate records are preserved in the event of machinery of government changes or the introduction of new financial systems.**

20. The Department agrees with this recommendation and that guidance to departments needs to be clear to ensure that records are preserved. The Department will review its guidance to departments on machinery of Government changes, to consider how this aspect can be strengthened.

21. The complex financial management of ChangeUp within Home Office was recognised in 2005 (see *Developing Capacity: Next Steps for ChangeUp*, March 2005, Home Office). Addressing this complexity was one reason why Capacitybuilders was established. Financial records and management are now vastly improved under Capacitybuilders, with a clear audit trail and accurate financial management.

22. HM Treasury is responsible for guidance on evaluation. An interdepartmental group of chief economists recently considered evaluation in central Government, and produced recommendations. As a result, the two main Government publications aimed at ensuring high quality evaluations are being aligned and updated. These are the Magenta Book (focusing on user-friendly guidance on research methods for policy evaluation) and the Green Book (on economic appraisal and evaluation). A new interdisciplinary interdepartmental group bringing together economists, social researchers, statisticians and operational researchers aims to foster and support improvements in evaluation across Government.

**PAC Conclusion (6): Management of the ChangeUp programme has been undermined by problems since it started. Third sector bodies have complained of short timescales for applications, delays in receiving grant payments and pressure to spend money quickly. The processes that Capacitybuilders has in place still do not appear to be working adequately and satisfaction among funding recipients is low. Capacitybuilders should address these concerns as a matter of urgency by setting clear targets for the time allowed for applications, the timeliness of payments to fundees and the speed at which money has to be spent.**

23. The Department agrees with the Committee's recommendation. The allocation of ChangeUp funding has now improved to give greater certainty for grant applicants, and avoid the delays that could result in increased pressure on grant holders to spend money more quickly than is optimal.

24. For the spending period 2008-11, Capacitybuilders allocated approximately 90% of ChangeUp investment at the start of the funding cycle. This means that grant holders receive stable funding with a clear idea as to when payments will be made and the time period in which money must be spent.

25. A new risk-based approach to monitoring and payment, introduced for 2009-10, has enabled Capacitybuilders to improve the speed with which grant holders receive funds. For example, in Quarter Two this year (July-September 2009), 97% of low risk-grant holders were paid within four weeks of the start of the quarter. This improves cash flow for high performing grant holders, and allows a longer time period in which to use funding, while providing Capacitybuilders and the Department with the appropriate level of risk assurance in respect of proper stewardship of public funds.

**PAC Conclusion (7): The application process for a Futurebuilders investment was lengthy and costly for both the fund and applicants. On average the process took 127 days, whilst costs were estimated at 40% of Futurebuilders total fund management costs and up to £9 million for applicants in the three years to February 2007. The Committee has commented before on the importance of funders identifying the cost to themselves and to applicants of making grants. Such concerns are equally relevant to investment decision processes. Although Futurebuilders considers it has secured better performance under the second management contract, it should track the burden of the application processes on applicants on an ongoing basis.**

26. The Department agrees with the recommendation and will work with Futurebuilders England to ensure that the length of time and cost of applying to Futurebuilders is tracked.

27. Since April 2008, Futurebuilders England has taken steps to ensure that the application process is streamlined. Futurebuilders England has redesigned the application and assessment process, making it quicker and reducing the administrative burden on the customer. It is now a much faster process, taking an average of 56 days. Of those who are rejected, 75% are informed within five days.

28. One of the three KPIs agreed between Futurebuilders England and the OTS measures the level of customer satisfaction. As part of this KPI, Futurebuilders England commissions an independent survey every six months, which captures applicants' views on the application process, decision making process, and overall satisfaction levels of rejected applicants, applicants in assessment and shorter and longer term investees.

29. Sheffield Hallam University is also independently evaluating the programme and has an on-going oversight of the application and assessment process and the implications on the applicants and fund manager.

**PAC Conclusion (8): Public money is invested and repaid by Futurebuilders, so the taxpayer will have a substantial and long-term financial interest in the Futurebuilders loan book. This interest will continue long after the active investment period ends in 2011 and, under certain broad assumptions, annual capital and interest payments in 2030 could be £8 million. The Government should set out a clear plan for the management of the asset. This plan should provide the Committee with assurance that action will be taken to protect its value and, as a minimum, should set out how the loan book will be managed beyond the current contract, its expected value, the key financial risks and how they will be managed.**

30. The Department agrees with the Committee's recommendation and is currently considering options for the longer-term management of the loan book. The current services contract with Futurebuilders England has the option to be extended for another three years post-2011. The services contract also provides flexibility over the future arrangements for the fund, which could allow the Cabinet Office to assign its rights to the loan book to another body. For each option assessed, the expected value of the loan book, the key financial risks and how they will be managed will be taken into account to ensure the best outcome.

31. The Department will work closely with HM Treasury and the National Audit Office when drawing up options for the longer-term management of the loan book beyond the current contract with Futurebuilders England. The long-term future of the loan book will be subject to ministerial decision in the normal way.

**PAC Conclusion (9): A key part of the ChangeUp vision is that the needs of frontline organisations will be met by services that are ‘sustainably funded’, but insufficient thought has been given to the long-term sustainability of improvements. Capacitybuilders currently intends to fund projects which consider sustainability, but should do more to identify examples of sustainable services, how these were achieved and support the spread of best practice. Best practice should include material on managing the impact of the recession.**

32. The Department agrees with the Committee’s recommendation. Capacitybuilders has a significant focus on securing the long-term sustainability of improvements to third sector support services. The principles that underpin ChangeUp funding are inherently focussed on improving the sustainability of support services at a local level. A primary aim of ChangeUp was to encourage greater partnership working between support providers, resulting in a number of sustainable benefits, which ultimately improve the support provision available to frontline organisations.

33. These benefits include better identification of support needs at a local level, reduced duplication, better co-ordination of services, and stronger relationships between the third sector and local statutory partners. Improved collaboration and planning by local support providers can contribute significantly to the sustainability of service provision, particularly important given the key role of local government funding of advice and support services.

34. The Department accepts, however, that where ChangeUp funding has supported the establishment of new initiatives, not all of these have been successful in securing alternative revenue streams when ChangeUp funding came to an end. In response to the Committee’s recommendations, Capacitybuilders has commissioned research to look at examples of sustainable services and the critical factors that contribute to this sustainability. Findings will be published in December 2009<sup>6</sup>, which will include a wide range of information and best practice for third sector support providers.

**PAC Conclusion (10): Both programmes were set up to provide additional capacity building support to the third sector, not replace existing provision. ChangeUp provides funding to help support providers improve the way that their services are planned, developed and co-ordinated. It was not intended to provide core funding for services. Futurebuilders is intended to invest only in third sector organisations that do not have access to commercial sources of finance, and it is important that these funding streams do not displace what is available from other sources. The evaluations for both programmes should provide an independent and objective assessment of whether these programmes have in fact filled gaps that would not have been addressed by other funders.**

35. The Department agrees with the Committee’s recommendation. The OTS has invested substantially in research into the effectiveness of third sector organisations and of policy designed to support them, including £5million in the Third Sector Research Centre led by Birmingham University.

36. Since 2008, Capacitybuilders has more clearly focused its investment on achieving changes in the way support services for the sector are developed, delivered and funded. This focuses investment on delivering impact for frontline organisations by improving support services in the long term. This aims to be distinct to the approach of core funders of sector support, and should not displace funding that would have been provided by other organisations or agencies.

37. The independent evaluation of ChangeUp will look at the links between ChangeUp investment and changes in overall income. Through case studies, the evaluation will look at the range of income sources for individual recipients of ChangeUp funding and consider how this has changed over time.

<sup>6</sup> [www.improvingsupport.org.uk](http://www.improvingsupport.org.uk)

38. The Futurebuilders programme is being independently evaluated by Sheffield Hallam University. The Department has ensured that this evaluation includes an assessment of whether Futurebuilders has filled a gap in the market that would not have been addressed by other investors. The full evaluation report will be published in March 2010.

# Thirty Eighth Report

## HM Revenue and Customs (HMRC)

### The control and facilitation of imports

1. In 2007-08, HM Revenue and Customs (the Department) processed some 22 million import declarations from 16,000 traders, accounting for over £186 billion of goods imported from outside the European Union (EU). It collected £2.5 billion in Customs Duty and £19.3 billion in Import VAT. It is responsible for enforcing controls over imports to collect revenue and protect the United Kingdom from social and physical threats, such as drugs and firearms, whilst making it quick and easy to import legitimate goods.
2. Customs rules are set by the EU and are complex, with 34 categories of prohibited and restricted goods, 30 different regimes that traders can use to reduce or defer payment of duty, and 16,000 different goods classifications that define the level of duty payable and any restrictions.
3. The Department controls imports by undertaking documentary checks, physical checks at the frontier (the UK Border Agency took over responsibility for carrying out such checks in April 2008), and trader audits.
4. On the basis of an audit report by the Comptroller and Auditor General, the Committee examine the Departments activities to help traders to comply with customs rules and to control imports into the UK, its organisation and management of customs activities, and the gathering of intelligence.

**PAC Conclusion (1): Customs rules are complex, making it difficult for traders to comply with their obligations. There are 34 categories of prohibited and restricted goods, 30 different regimes and 16,000 different codes for classifying goods. The Department should propose to the European Commission an EU taskforce to reduce the complexity and number of rules.**

5. The Department agrees with the conclusion and views the reduction of the administrative burdens for international traders as crucial to making the UK and the wider European Union (EU) an attractive and more competitive place to do business. The Department is currently a co-sponsor, with the Department for Business, Innovation and Skills of a Government initiative, announced as part of the 2008 Pre-Budget Report (PBR), aimed at de-regulating international trade and reducing the associated costs for UK businesses. The work involves a number of other agencies, and includes a wide-ranging trade consultation. This work is due to report as part of the 2009 PBR.
6. The Department makes regular representations to the European Commission to simplify its rules and to reduce the associated burden on business. In March 2009, the Czech Presidency hosted a high level seminar in Prague for the heads of all member states' Customs Administrations. At the seminar the Director of Customs, representing the Department and the UK, called for a fundamental simplification of current Customs requirements. The Director also promoted a vision of a better regulation approach to customs developments, with a better understanding of the impact on trade before passing legislation. This approach was embraced in the resulting *Prague Declaration*.<sup>7</sup>
7. At the subsequent EU Customs Policy Group (CPG) meeting in April 2009 the Department pressed the Commission to develop a vision for customs that would incorporate the key elements of the *Prague Declaration*, including the simplification and reduction in the number of tariff and customs procedural codes.

<sup>7</sup> [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/policy\\_issues/conference\\_events/2009/Prague/prague\\_declaration\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/policy_issues/conference_events/2009/Prague/prague_declaration_en.pdf)

8. In May 2009 the Customs Club (an informal gathering of Customs Heads from all EU member states and the Commission) met in Budapest. The Department presented a paper to the meeting on the customs response to the global economic crisis. This paper was aimed at stimulating debate on the need for Customs administrations working together to consider actions that would have a positive impact on international trade, with a view to simplifying procedures and reducing administrative burdens. It requested that the Commission take a leading role in formulating community-wide proposals for quick-win initiatives to improve flexibility and to promote international trade. The Department will continue to take every opportunity to press the European Commission to take steps to reduce the administrative burden on legitimate business arising from customs obligations.

**PAC Conclusion (2): Simple errors on import documentation can lead to large demands for back duty payments. Traders also find it frustrating to take assurance from a successful audit only for errors to be discovered in subsequent audits, which result in back duty demands. Where traders can demonstrate they have taken reasonable steps to comply with the rules, the Department should be able to waive demands for back duty payments.**

9. The Department partially supports the conclusion. The adverse impact on business of unexpected duty demands is fully recognised. However, EU legislation only allows a Member State to waive an established duty debt in very narrow circumstances – that is where the trader concerned cannot be considered to have been clearly negligent. A recent test case has established that a trader’s size and experience will be relevant factors to be considered when assessing whether or not that trader has been clearly negligent. Audits do not routinely cover all import activities undertaken by a business, and there are circumstances where subsequent audits will look at areas not examined on previous occasions.

10. Wherever possible, the Department will exercise its powers of discretion in as far as EU legislation allows, including full consideration of the circumstances of the identified irregularity. A customs debt may be repaid or remitted only where permitted by EU legislation.

11. All of the EU processes and procedures for international trade are governed by the Customs Code. The Customs Code is due to be replaced by the Modernised Customs Code (the implementing provisions of which are currently being negotiated). During its development, the Department successfully obtained an amendment to the Modernised Customs Code that will give Members States more flexibility to ensure that sanctions applied in cases of detected non-compliance are proportionate to the irregularity.

**PAC Conclusion (3): The Department has performed well in providing help to traders, although traders find it difficult to get correct and timely advice on more complex matters. The Department’s systems allow traders to manage their declarations and payments electronically, and it provides a range of help and support on customs matters. It should allow the National Advice Service to refer customers with more complicated questions directly to its specialist trade teams.**

12. The Department partially agrees with the conclusion. It accepts that the EU rules governing international trade can be very complex and that it must support its customers and help them to be compliant. The Department’s National Advice Service (NAS) is a key component of this support. However, its specialist international trade policy teams are very small, often comprising of only one or two members of staff covering a specific area of detail. It would not be practicable for these small teams to provide the real-time service in support of the NAS as envisaged.

13. In 2008-09, the NAS handled some 165,000 enquiries on customs and international trade issues, of which 98.8% were successfully dealt with on the spot. The remainder were referred for further research and in 95% of these cases the NAS called the customer back within 24 hours. The Department has commissioned an analysis of international trade enquiries handled by the NAS with a view to better understanding the most commonly asked questions. This will allow the Department to update and improve its guidance available to importers, and to ensure the NAS are equipped with the most up to date and relevant information.

14. The very largest businesses, dealt with by the Department's Large Business Service, are assigned a Customer Relationship Manager (CRM). CRMs are responsible for fielding technical enquiries from their customers, although this will often require contact with an internal tax specialist. The Department recently assigned a CRM to the next tier of large businesses falling within the Large and Complex category. The remainder of the Large and Complex customer base are allocated a named customer co-ordinator to act as a single point of contact with the Department on all compliance related issues.

**PAC Conclusion (4): The UK reported a 0.1% rate of physical examination of goods, which is one of the lowest in the EU. This rate did not, however, include examinations selected locally by detection officers, so the actual rate was likely to be 2-3%. The EU average is 9% but comparisons are difficult as the remit of national customs authorities and their frameworks of control vary widely. The Department should work with the European Commission and member countries to improve the robustness of reported data, publish that data and develop minimum standards for the level of physical examination.**

15. The Department partially agrees with the conclusion. The UK Border Agency (UKBA), which is responsible for actioning the vast majority of physical examinations of import freight and for recording details of those examinations, is currently testing a revised and more robust version of its examination recording system. This will greatly improve the accuracy and reliability of the associated management information.

16. Both the Department and the UKBA have concerns about the extent to which physical examination data should be published. The publication of examination rates at different ports risks giving smugglers an insight into the UK's enforcement activity that could increase the opportunity to successfully evade import controls. Furthermore, to avoid presenting a misleading picture of controls on imports, the level of physical examinations must be set out alongside the level of documentary checks.

17. The Department's Customs Tactical Plan for 2010-11 will include bespoke tactical control plans for each international trade regime. These will be informed not only by the regime risk, but also by our understanding of the impact of our operational activity. For each regime, the plan will specify the level and type of intervention activity required to control the identified risks, both at the frontier and inland.

18. The Department will continue to work with the European Commission to improve the quality of reported examination data to enable more meaningful international comparisons to be made.

**PAC Conclusion (5): The Department has sought to speed up clearance of imports at ports by shifting the emphasis of its work from physical examination to documentary checks and trader audits, but in practice this has led to an erosion of control. Even though the number of imports has increased, the Department is carrying out a lot fewer documentary checks and trader audits and levels of detected non compliance have increased. The Department is re-examining the risks of each customs regime to generate a complete picture of the risks by the end of 2009. In the light of that assessment, it should re-assess the level and nature of the controls it should deploy to manage the risks identified.**

19. The Department agrees with the conclusion. Its work to develop a prioritised picture of risk is on course to be completed by the end of 2009. The Department also has a programme of Strategic Risk Assessments and the International Trade Risk Team now routinely analyses of all types of operational activity (including risk testing). The results of this work will provide the Department with a much-improved assessment of the compliance risks associated with any one customs regime. This assessment, together with an improved understanding of the impact of our interventions, will inform the design of a bespoke tactical response to tackle the risks identified for each regime, to be implemented through the annual Customs Tactical Plan during 2010-11. Each response will specify the level of control required, both inland and at the frontier.

**PAC Conclusion (6): The Department detects irregularities in 27% of those consignments selected for examination using risk profiles in its trade system, whereas irregularities are found in only 1% of the consignments selected locally by detection officers. Despite this, each month there are 7,000 to 10,000 locally selected examinations, but only 200 trade system examinations. The Department should achieve a better balance by including additional risk profiles in its trade system.**

20. The Department agrees with the conclusion. It acknowledges that risk profiles set on its trade system are currently a more effective means of targeting high-risk consignments (both for fiscal irregularities and for prohibited and restricted goods) than selections made locally by UKBA officers. The Department will work closely with UKBA in an effort to increase the number and range of its trade systems profiles, in lieu of local selections. In doing so, the Departments will need to take great care to accurately forecast the likely impact on the UKBA front line resources, in terms of the number and location of the examinations that will result.

21. UKBA have commissioned work to better understand the effectiveness of its targeting capability and to test that against its officers' own selections based on real-time visual information. This information will be collated via the UKBA's examination database and will be used to better balance resourcing levels between physical examination staff and those who work behind the scenes in making selections based on risk and the latest profiles. In addition, the new Freight Targeting System continues to be developed allowing UKBA to rapidly screen high levels of traffic against risk profiles.

**PAC Conclusion (7): The Department and the UK Border Agency lack robust processes to assess risk and manage intelligence. This weakness is a major barrier to identifying new and emerging risks and making sure they introduce effective mechanisms to counter them. They should integrate their customs risk and intelligence processes and carry out structured risk testing to identify new and emerging risks.**

22. The Department agrees with the conclusion. Underpinning the HMRC / Home Office Partnership Agreement is an Operating Protocol concerning the sharing of intelligence and risk information between UKBA and HMRC. From March 2009, the Department has centralised all International Trade risk work at a single site in Leeds, the International Trade Risk Team. The team receives and processes risk information from all available sources, including UKBA.

23. Activity to test potential and emerging risks is driven by the International Trade Risk Team based on their analysis of operational results, both at the frontier and from inland audits. Proposals for risk testing activity are considered and, where appropriate, endorsed by the Department's Customs Strategy Delivery Group (CSDG) Working Group. This risk-testing programme will allow CSDG to monitor risk across the Customs regimes and to set in place controls (through the Customs Tactical Plan) at the appropriate level to tackle each risk.

**PAC Conclusion (8): The Department's management structure for customs activities is fragmented and disjointed, accountabilities are blurred and management information is poor. The transfer of responsibility to the UK Border Agency for carrying out physical examinations of goods creates a further division that requires careful management. The Customs Strategy Delivery Group should define responsibilities, set clear objectives and performance targets and report on its performance every six months to the boards of HM Revenue & Customs and the UK Border Agency.**

24. The Department agrees with the conclusion. The formal transfer of some 4,500 ex-HMRC staff to the UKBA took place on 5 August 2009. The respective roles and responsibilities of the two departments and Key Performance Indicators will be set out in a new Partnership Agreement, and a supporting Customs Delivery Agreement. These agreements, based largely on the interim arrangements that were in place during the de-merger process, are currently being finalised and will be signed off by the two Chief Executives shortly. The UKBA's performance is reported and monitored at the HMRC / UKBA Partnership Committee, chaired jointly by the Department's Director responsible for Customs and the UKBA Head of the Border Force.

25. The Customs Strategy Delivery Group will report performance of the customs and international trade business to the Departments top-level management (and to the UKBA via the Partnership Committee) through the performance management system.

**PAC Conclusion (9): There is a risk that the physical examination of goods may become of secondary importance to the UK Border Agency as it seeks to manage customs work alongside its other responsibilities for immigration and visas. The Agency plans to train all Border Force staff in these activities so it can use them flexibly. It should publish in its annual report the rate of customs examinations undertaken at airports, seaports and ferry ports, the level of irregularities identified, in addition to currently published data on seizures of drugs and other prohibited goods.**

26. UKBA does not agree with the conclusion, and wishes to highlight the significant risks (to controlling international trade and to protecting the UK from physical and social threats) of publishing the rate of customs examinations as recommended. The publication of examination rates at named airports, seaports and ferry ports (and at the Channel Tunnel and postal depots) risks giving smugglers an insight into the UK's enforcement activity. Such knowledge would allow smugglers to make a more informed decision about their choice of entry point in an attempt to evade those controls.

27. Although details of irregularities identified, and of prohibited and restricted goods detected are published, this information is aggregated at a national level. It is not made available by border location.

# Thirty Ninth Report

## Department of Energy and Climate Change (DECC)

### Warm Front Scheme

1. The Warm Front Scheme (the Scheme) provides assistance to eligible households with the installation of heating and insulation measures in order to improve household energy efficiency and to reduce fuel poverty. Until the formation of the Department of Energy and Climate Change (the Department) in 2008, the Scheme was the responsibility of the Department for Environment, Food and Rural Affairs. Between June 2005 and March 2008, the Scheme assisted over 635,000 households at a cost of £852 million. By 2010-11, cumulative Scheme funding is expected to reach £1,811 million.

2. On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department of Energy and Climate Change (the Department), the Department for Environment, Food and Rural Affairs (DEFRA) and eaga plc on the performance of the Scheme and on the management of the contract with eaga plc.

**PAC Conclusion (1): The lack of clarity over whether the Warm Front Scheme is primarily aimed at improving the energy efficiency of homes or at reducing fuel poverty is detrimental to achieving best value for money from the funding available. Between June 2005 and March 2008, £34 million was paid to households whose properties were already energy efficient and £15.4 million was spent on measures which have limited impact on overall energy efficiency, and are also unlikely on their own to lift households out of fuel poverty. The Department should clarify the primary focus of the Scheme and consider whether minor energy efficiency measures could be better delivered through other programmes, allowing the Scheme to focus on relieving fuel poverty.**

3. The Department disagrees that there is a lack of clarity over the aims of Warm Front. Warm Front is the Government's flagship scheme aimed at helping to tackle fuel poverty. The Scheme is not just aiming to bring households out of fuel poverty wherever possible, but also to take action to prevent those on low incomes falling into fuel poverty in the future. The Department believes a key action to keeping a household out of fuel poverty in the long-term and reducing carbon emissions is to ensure the property is both well insulated and has an efficient heating system.

4. The Scheme is committed to providing a benefit entitlement check and energy efficiency advice and all available measures to applicants that come to it for assistance. This includes the lower cost measures such as draught proofing, hot water tank jackets and energy efficient light bulbs which can make a real difference to comfort and well being of vulnerable households.

5. The Department would not wish to have to refuse to provide a household with an insulation measure it requires, just because it had a modern and efficient boiler in place. To do so would go against the Department's wider objectives, as set out in the Government's Heat and Energy Saving Strategy, to improve the energy efficiency of the housing stock and so reduce carbon emissions.

6. The Department does set eaga plc targets for assisting the most energy inefficient households, those with an energy efficiency rating of below Standard Assessment Procedure (SAP) 20. In 2008-09, 30% of households assisted had an initial SAP rating under 20 prior to Warm Front's assistance. In the same year, Warm Front achieved an average household SAP improvement from 38 to 62 points.

**PAC Conclusion (2): Nearly 75% of households assisted by the Scheme are not in fuel poverty, and the Scheme is only available to 35% of households most likely to be 'fuel poor'. In reviewing the eligibility criteria in 2009, the Department should consider excluding those households where a property is already energy efficient, and determine if there is scope to improve targeting to enable more of those in fuel poverty to be reached by the Scheme.**

7. The Department agrees that there is a need to look at opportunities to improve the targeting of the Scheme. As part of its wide-ranging review of its fuel poverty policies, the Department will consider whether the eligibility criteria for the Scheme still represents the best means of targeting assistance or whether targeting could be more effective. The Review is examining whether existing measures to tackle fuel poverty, including the targeting of Warm Front, could be made more effective and whether new policies should be introduced to help the Department make further progress towards its goals.

8. When designing Warm Front, the Department decided that the Scheme should target those households in, or at significant risk of fuel poverty. Eligibility for the Scheme is based on the applicant or their spouse being in receipt of a qualifying disability or income related benefit, Income-based Jobseeker's Allowance or Working Tax Credit, Child Tax Credit, Disability Living Allowance, Pension Credit, Council Tax Benefit or Housing Benefit (both including a disability element).

9. As the majority of the fuel poor have the lowest incomes, the Department decided that the most cost-effective, accessible and efficient method of identifying vulnerable householders most likely to be at risk of fuel poverty is through the receipt of these means tested benefits. Householders can also qualify through receipt of certain non means-tested benefits, such as Disability Living Allowance, and Attendance Allowance. However, it was considered that such applicants were likely to be vulnerable to cold-related ill health, and, as such, should be entitled to assistance.

10. Other possible approaches which were considered were either less accurate at targeting those most in need or prohibitively expensive to administer. Identifying and targeting help to the fuel poor is challenging and includes addressing those who do not claim benefits they are entitled to and changing personal circumstances.

**PAC Conclusion (3): Data suggests 28% of those in fuel poverty live in rural areas but only 15% of households assisted were from such areas. Rural properties are often harder to treat as they may be off the gas network and be older properties with solid walls, which are more difficult to insulate. The Department should publish the results of their pilot tests of alternative technologies for hard to treat homes and where appropriate, the planned date when such technologies may be available through the Scheme.**

11. The Department acknowledges that there are specific difficulties in assisting rural households off the gas network and with solid walls. Warm Front has mechanisms in place for assessing new technologies, which could potentially help these households.

12. The Scheme is currently piloting low carbon and renewable alternative technologies in properties off the gas network. A piloting exercise of 125 solar thermal systems is near completion, with the final report due later this year. The Scheme has also begun a piloting exercise to install 200 Air Source Heat Pump systems, which is due for completion in early 2010. The Department is working closely with National Energy Action, the leading fuel poverty charity in England, to monitor and evaluate the results of these pilots in respect of client satisfaction with the levels of comfort, controllability and the cost effectiveness of these technologies. If these trials are successful, there is an opportunity to make these measures available on the Scheme. The Department is also considering different types of solid wall insulation and whether these should be put forward for piloting.

13. To accommodate the potential cost of these new technologies, the Department has increased the maximum grant level from £4,000 to £6,000. At the same time, the Department recognises whilst actively looking for alternative technologies for these properties it cannot use Warm Front customers as a test bed for unproven technologies. The Department cannot provide measures that do not provide value for money in terms of reductions in fuel bills and carbon emissions.

14. The Scheme has a rural network across a wide range of key services and individuals that seeks to raise awareness of the Scheme in rural areas. A greater emphasis on local community events, local stakeholder engagement and forging community partnerships helps to increase the visibility of the Scheme in rural areas. As an example, Warm Front has worked with Norfolk Council Mobile Library Service to promote the Scheme to people who live in remote rural locations and access the door-to-door Mobile Library Service. The Department also monitors the number of hard to reach households assisted each month.

**PAC Conclusion (4): Many customers are happy with the improvements to their heating systems but are unhappy at the state in which their property may be left after the work. The Scheme does not cover the cost of making good, for example, damaged plasterwork and boxing in of pipes. The Department and eaga plc should test alternative methods to clarify customers' understanding of the work which will be funded, for example by using computer generated images of how the property will look once work is complete. The Department should estimate the impact of including such works within the Scheme where they can be accommodated within the grant maxima, and consider whether better targeting of the Scheme, as suggested above, might allow funding of such work to be included where appropriate.**

15. The Department agrees that customer satisfaction should be a high priority in delivery of the Scheme. Customer satisfaction is high, with almost 90% of customers surveyed happy with the work provided and upheld complaint rates remaining relatively static at 0.5% of all jobs completed. The Scheme does not currently offer the boxing-in of pipework as this presents an additional cost to the Scheme, which does not lead to improved thermal efficiency. The cost of any remedial work that needs to be undertaken following installation is met by the installer and not the Scheme.

16. As with any Scheme with the scale and reach of Warm Front, there is a continuous need to look for ways to improve the delivery of it. As part of the re-negotiated contract with eaga plc, there are more stringent quality controls in place, including more demanding standards required from both installers and eaga plc, in order to improve customer service.

17. The Scheme is introducing a new computerised surveying process which will improve the quality of service to customers by providing a much clearer picture of the system to be installed in their house. For example, it will indicate where a new boiler might be located, or where the radiators will be positioned. The new system will increase personal choice by allowing the householder to choose the exact location of their installation. In addition, customers will have a five-day cooling off period to consider the recommendations, and discuss any concerns, before agreeing to the work going ahead.

18. The Scheme has also reviewed and introduced new customer literature, the *What to Expect Guide*, which now makes it clear to prospective customers exactly what work is covered by the Scheme and what is an optional extra. For example, it is made clear that boxing-in or hiding pipe work and wiring are not covered by the Scheme.

**PAC Conclusion (5): In 2007-08, one in four applicants was required to make a contribution to the works done under the Scheme because the costs exceeded the grant maxima, and over 6,000 households, possibly those most in need of assistance, withdrew as a result. In 2005-06, fewer than 1 in 10 applicants were required to make a contribution. The grant maxima were unchanged between July 2005 and April 2009 but labour and other costs rose by between 7% and 9% over the period. The Department should monitor whether the level of customer contribution (numbers and amounts) is reasonable to enable the Scheme to meet the objective of easing fuel poverty, as well as the reasons for applicants' withdrawal. It should use the data to inform ongoing Scheme design and revision.**

19. The Department recognised that the grant maxima needed to be reviewed. In response the Department has increased the maximum grants limits in April 2009 from £2,700 or £4,000 (where oil heating has been recommended) to £3,500 or £6,000 (where oil or new low carbon alternative technologies have been recommended). This has resulted in a reduction in the number of applications requiring a contribution from 7 in 10 to 1 in 10 for jobs where a heating measure is recommended in the first quarter of the 2009-10 financial year.

20. As part of the renegotiated contract with eaga plc, the Scheme will benefit from liberalisation of the supply chain and increased competition for work between installers. Under the new arrangements, installers will have to compete on price for at least 65% of allocated work. Where a customer contribution is required, individual households will be free to choose between the three lowest bidders and will have access to the installer's performance rating. These changes are intended to reduce the costs of Warm Front work, which should have a positive impact on the numbers of households required to make contributions.

21. The Department and eaga plc regularly monitor the number of applicants to the Scheme, including those applicants who have been asked to make an excess contribution for a heating installation and who subsequently decide not to go ahead. Common reasons for applicants withdrawing an application, more recently, are misunderstanding that it is a genuine grant-aided assistance scheme, concerns about disruption during works being completed and installation timescales.

22. To tackle this, the Scheme has a communications package in place to set and manage customer expectations. In addition, work is undertaken through the network team to explain more clearly to the wider community the benefits of Warm Front; as well as work to ensure local endorsement from trusted individuals and organisations, for example: NHS home visitors. Lastly, the Scheme involves friends and family where appropriate to properly set and communicate what the Scheme has to offer.

23. The Scheme does have a finite budget, and this is reflected in the need to have grant limits for individual households. Although the recent changes to the grant maxima should eliminate the need for customer contributions in the vast majority of cases, there will be instances, particularly where the work recommended is complex or where the customer has already received previous measures through the Scheme, where a contribution is required. eaga plc work closely with third party organisations, such as charities or local authorities, to try and find other sources of funding to help with these payments, wherever possible.

**PAC Conclusion (6): Some customers consider that they could obtain the work required more cheaply and effectively from local contractors rather than those commissioned by eaga plc, although the National Audit Office report found that overall the amounts charged appeared competitive. In reviewing its contractual arrangements with eaga plc, the Department should determine whether the specifications for heating measures can be made more flexible in order to reduce costs without undermining reliability, safety and efficiency, and whether there is an opportunity to obtain efficiencies in labour and other costs. The Department should determine the feasibility of allowing customers who are required to make a contribution to the work, the scope to obtain quotations from accredited companies in their area as a check on the prices quoted by the Scheme's contractors.**

24. The Department agrees that it is important to deliver measures in the most cost effective way, without undermining reliability, safety, efficiency and quality. Historically, the Scheme has operated a fixed pricing structure, with prices set for each region through a competitive tendering process in 2005. White Young Green, independent quality assurance assessor for the Scheme, has confirmed that Warm Front gives good value for money compared with the wider market, in terms of installation costs and the price of components.

25. Nevertheless the Department has pushed for greater efficiency savings to further improve value for money. Under the new arrangements, up to 35% of work will be allocated to appointed installers at a new, competitively derived, set price which is expected to deliver 12% savings on installer costs, For the remaining 65% of work, Warm Front registered installers operating in each region will be able to bid via an electronic auction to establish the lowest price. This will include all cases where a customer contribution would be required under the fixed prices.

26. Where a customer contribution is required, individual households will now be empowered to choose the installer, who offers the most competitive price, to carry out work in their property. This new competitive system of choosing installers is expected to further reduce installation costs. This new system will be phased out across England, beginning in September, with full coverage in place by May 2010.

27. The new arrangements also provide greater flexibility in the use of component suppliers to secure better deals on the price of equipment and materials. These changes should reduce the costs of Warm Front work, which will have a positive impact on the numbers of households required to make contributions.

**PAC Conclusion (7): The failure by the Department for Environment, Food and Rural Affairs to put in place adequate contract procurement and management processes from the start for the contract with eaga plc led to a lack of clarity over some key terms in the contract which took some two years to resolve. The Department should put in place experienced procurement staff to negotiate and manage future contracts for the Scheme and other major projects.**

28. The Department agrees that major contracts must be effectively managed and has taken steps to improve the management of the contract with eaga plc. Since the end of 2008, an external expert procurement firm (with extensive experience and understanding of Government contracts) has been negotiating on the Department's behalf with eaga plc. This included a range of significant contract amendments, all designed to improve the quality of contractual controls and introduce the new package of service improvement measures. The contract has been brought in-line with current industry and Government best practice by introducing a more robust use of Governance, along with opportunities for ongoing continuous improvements to any part service delivery process. This was completed in July 2009.

29. The Department has recruited an experienced full-time contract manager, with a commercial background whose key responsibility will be to manage the Warm Front contract, ensuring that both the Department and eaga plc meet contractual obligations. This contract manager alongside a stronger contract, which includes clearly defined governance arrangements at various levels and greater clarity around all associated costs and charges, will result in far more effective management of the Warm Front contract.

# Forty Fifth Report

## Cabinet Office

### Assessment of the Capability Review Programme

1. In 2005, the Cabinet Secretary launched a programme of two-yearly Capability Reviews. They involve published external assessments of departments with the aim of achieving a major improvement in civil service capability. The programme is a significant step forward in how government departments are assessed. To have publicly available commentary, sometimes critical, of important aspects of departments' capability is an initiative of great value, with real potential as a driver for improvement.
2. The first-round reviews, in 2006-07, showed that departments had a long way to go. Overall, departments were rated as less than 'well placed' in two-thirds of the assessed elements of capability. In response, departments have made changes in the way they are run, particularly in terms of board and senior executive team visibility and leadership. The eleven departments that have had second-round reviews have achieved significantly higher assessments. However, the recession and a tighter budgetary context will increase future challenges by requiring departments to achieve more with less.
3. The second-round Capability Reviews show that staff confidence in senior management is improving, but is still too poor. Alongside the need for further improvements to senior leadership, Capability Reviews do not yet give sufficient attention to middle management, front-line staff and departments' delivery partners and agencies. Unlike local government assessment, which includes political leadership, Capability Reviews do not consider how well Ministers and senior management work together to achieve desired outcomes.
4. The Cabinet Secretary intends to use Capability Reviews as a catalyst to change civil service culture, so that it is more collaborative, dynamic, customer focused and innovative. The Committee applauds this aim, but notes that there is a long way to go. Departments need much more robust staff performance management, better insight into their customers' needs and preferences and greater use of innovation.
5. On the basis of the Report by the Comptroller and Auditor General, the Committee took evidence from the Cabinet Office (the Department) on taking forward Capability Reviews to link more clearly with demonstrable improvements in performance, improving leadership and management throughout the delivery chain, and changing the culture of the civil service.

**PAC Conclusion (1): The introduction of Capability Reviews by the current Cabinet Secretary is a significant advance in bringing transparency and comparability to how Government Departments are assessed. Public, and sometimes critical, commentary on important aspects of Departments' capability is an innovation with the potential to drive real improvement. It is vital that the Cabinet Office permanently entrenches the Capability Review programme, enhanced and improved in line with recommendations in this report.**

6. The Department welcomes the Committee's interest in this subject and the Committee's conclusion that the Capability Review programme represents a significant advance. The Department shares this view and is proud of the impact of the programme so far. The results of the second round of reviews indicate significant improvements in key aspects of civil service capability since the programme's launch.
7. The Department intends to embed Capability Reviews in the framework for Civil Service accountability and performance. The Cabinet Secretary, Sir Gus O'Donnell, has already announced a revised model of capability against which Departments will be assessed from 2010. The model has been adapted to reflect the changing nature of the challenges facing the Civil Service and to ensure continuous improvement.

**PAC Conclusion (2): If Capability Reviews are to secure sustainable improvements in Departments' performance, rising to the challenge of delivering public services at a time of great pressure on public expenditure, three systemic improvements are essential:**

**i) There need to be improved metrics to establish a clear link between departments' capability and performance. Capability is not an end to itself. The purpose of enhanced capability is to raise Departments' performance in delivering public services. A convincing demonstration of improvements in Departments' capability and performance requires a much wider range of objective quantitative measures than Capability Reviews currently use and publish;**

**ii) There need to be quantitative external benchmarks against which departments' capability and performance are assessed. Benchmarking against the best private and public sector organisations is a key driver of improvement. There are many areas open to comparison, including: the use of innovation, the handling of customer complaints, staff confidence in senior leadership and the management of finances, human resources, projects, estates, procurement and information, and communication technology. The Committee's report on *Learning and Innovation in Government* makes recommendations about metrics for innovation, while there is already a wide range of metrics available for the other areas highlighted; and**

**iii) There needs to be a much stronger culture of individual performance management, clearly linked to departments' overall delivery metrics. Incentives and sanctions to reflect success and tackle failure are weaker in the civil service than in the private sector and in senior levels of local Government. Good performance needs to be recognised and suitably rewarded. Similarly, problems with individual staff at all levels must be identified and addressed vigorously through training, development and disciplinary measures, including dismissal where this is clearly required. Capability Reviews should benchmark the effectiveness of Departments' performance management arrangements against external best practice.**

**The Cabinet Office should draw on the expertise of the National Audit Office in developing metrics to show that improvements identified by Capability Reviews are based on objective and quantified evidence and feed through to higher levels of performance.**

8. The Department accepts the Committee's conclusions. Capability Reviews have always drawn on a range of evidence and objective metrics, but the Department accepts the need for metrics to establish a clearer link between capability and performance. While to date there has been more of an emphasis on capability to deliver than actual delivery performance, the new model of capability places results at its heart. The Department recognises that capability is not an end in itself, but a means to achieve better performance.

9. The assessment criteria have also been revised for the next phase of the programme. Departments will in future only achieve the highest assessment if they can demonstrate a clear approach to monitoring and sustaining future capability with supporting evidence and metrics. Departments must also demonstrate evidence of learning and benchmarking against peers and other comparators to confirm progress towards world class.

10. Work is already underway to develop a set of metrics that draws together objective data on capability and delivery performance. The Department is happy to draw on the expertise of the National Audit Office as appropriate. The Government has set out proposals to develop and publish a new performance management scorecard in *Working together: Public services on your side*.

11. While Capability Reviews show some improvement, the Department accepts the need for a stronger culture of individual performance management. The revised model of capability gives more attention to this area. The Department sent Civil Service Performance Management Principles and an aide memoir to departments in May 2009. These, with accompanying training, will support departments and agencies to assess the effectiveness of performance management practices and identify areas for improvement.

**PAC Conclusion (3): The confidence reported by staff in Departments' Boards and senior leadership has been improving but is still low. The third-round of Capability Reviews should assess critically the adequacy of Departments' responses to poor confidence levels, including through external benchmarking and incorporating good practice from other organisations. The Committee expects to see changes in senior leadership teams, where staff confidence levels remain consistently poor.**

12. Some parts of the Civil Service have seen significant improvements in staff confidence levels since the programme began. However, the Department agrees with the Committee's conclusion that further improvement is required. A single staff survey for the Civil Service is being introduced this year. This will enable measures of employee engagement and confidence levels to be collated in a standardised way and compared within the Civil Service and against external benchmarks. The most recent round of Capability Reviews have paid close attention to staff engagement levels, and future rounds will be able to draw on this improved data, as well as investigating departments responses where levels of confidence are low.

**PAC Conclusion (4): The early focus of Capability Reviews has been on securing strong, strategically focused senior management teams as a first step to transforming performance. With the second-round of Capability Reviews indicating improvements at senior levels, the Cabinet Office should focus the third-round more strongly on middle management and front-line staff, and at key bodies like executive agencies at the end of the delivery chain. The third-round of Capability Reviews should also assess the quality of collaboration between senior officials and Ministers, which is critical to the success of any Department.**

13. The Department welcomes the Committee's recognition that improvements have been made at senior levels. The Department accepts the recommendation that the next phase of the programme should give greater focus to middle management, the front line and delivery bodies. The next round of reviews will place greater emphasis on people capability throughout the organisation and on the performance of delivery agencies.

14. The model of capability explores how departments generate common ownership of their strategies with the political leadership, the board, the organisation, delivery partners and customers. This is an appropriate focus on the need for effective collaboration between Ministers and senior officials, and will continue to be a line of enquiry in future reviews.

**PAC Conclusion (5): Departments have poorer insight into the needs of their delivery partners and customers than do many private sector organisations. It is inconceivable that Departments can significantly improve their capability to deliver without a much-improved understanding of what their customers want. Capability Reviews should assess more thoroughly how well departments obtain feedback from delivery partners and customers, and how they learn and implement lessons from that feedback.**

15. While departments have made progress in recent years towards improving their customer focus and ensuring services are oriented towards the needs of their customers, the Department accepts the Committee's recommendation that Capability Reviews should in future look more closely at this aspect of departments' capability. A number of steps to fully embed customer insight have already been taken, with Matt Tee (the Permanent Secretary for Government Communications) taking a leadership role. Within his remit, the Customer Insight Forum (CIF) brings together the customer insight leads from key departments to share their experiences and promote best practice. CIF has already made good progress in raising skills and awareness, for example by publishing guidance for departments on customer journey mapping and segmentation.

16. The revised model of capability places greater emphasis on the importance of building customer and delivery partner insight into the development of strategies, policies and services. Future reviews will give greater weight to how effectively departments support innovation and build delivery systems that learn from the front line and improve value for money.

# Forty Seventh Report

## Department of Health (DH)

### Reducing Alcohol Harm: health services in England for alcohol misuse

1. Alcohol misuse is a significant and growing problem in England, with more than 10 million people now regularly drinking above the guidelines set by Government. Alcohol misuse places a considerable burden on the National Health Service (NHS), costing an estimated £2.7 billion per year. In 2007-08, there were some 863,000 alcohol-related hospital admissions, representing an 82% increase in five years. In 2004, alcohol harm became subject to a national government strategy. The Department of Health (the Department) and the Home Office updated this in 2007.

2. Since April 2008, the Department has been responsible for delivering against a Public Service Agreement (PSA) indicator on the rate of increase of alcohol-related hospital admissions. Primary Care Trusts (PCTs) are responsible for determining local health priorities and control the vast majority of NHS spending to address alcohol harm. At that time, many PCTs did not know what they spent on such services, there was little correlation between need and expenditure and there was frequently a lack of performance monitoring and examination of value for money where services were commissioned.

3. In 2008, the Department introduced a number of new measures designed to help address alcohol harm, including providing extra funding for GPs to screen new patients; increasing alcohol specific training for doctors, creating 20 pilot sites designed to improve services, and setting up Regional Alcohol Managers/ Offices across England.

4. On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department on the performance of the NHS in addressing alcohol harm, the Department's influence on local commissioners, and the Department's work to encourage sensible drinking.

**PAC Conclusion (1): Alcohol misuse places a large and growing burden on local health services, in particular, accident and emergency departments. Primary Care Trusts (PCTs) have no obligation to make tackling alcohol misuse a priority, and few have got to grips with the problem. In 2009, following the first year of the new PSA, Strategic Health Authorities should challenge each PCT to demonstrate what progress they have made towards reducing the level of alcohol-related hospital admissions, irrespective of whether they have made alcohol harm a priority or not.**

5. The Department partially agrees this recommendation, in that Strategic Health Authorities (SHAs) should challenge PCTs, but only to the extent of ensuring that PCTs' plans include alcohol, where appropriate. From April 2008, the Department's devolved approach to planning and managing priorities, the *Vital Signs*, has been delivered through the *NHS Operating Framework*. This includes the first ever commitment to monitor how well the NHS is tackling alcohol-related health harm; the Tier 3 PSA indicator for alcohol-related hospital admissions<sup>8</sup>. The Department has mandated each PCT to publish its performance against the full set of *Vital Signs*. SHAs will be able to use this evidence when considering the appropriateness of PCTs' plans for 2010-11.

6. In 2009-2010, 98 PCTs have adopted the alcohol indicator as a local priority. The Department has progressively provided support to underpin PCTs' delivery of the indicator and to improve outcomes on alcohol-related harm. These resources have guided PCTs through all the stages required, from the Joint Strategic Needs Assessments (JSNAs) to the World Class Commissioning (WCC) assurance processes. Most

<sup>8</sup> Indicators in Tier 1 and Tier 2 of the Vital Signs are compulsory for all the 152 PCTs. PCTs decide locally whether to adopt indicators in Tier 3 of the Vital Signs, following a Joint Strategic Needs Assessment of local needs undertaken in consultation with their local partner organisations and overseen by their respective SHAs.

recently, the Department has provided alcohol-specific commissioning guidance,<sup>9</sup> which includes advice on a set of seven High Impact Changes (HICs) for alcohol misuse services, to help PCTs identify key actions to deliver against the Department's PSA indicator.

7. Since November 2008, the Department's Alcohol Improvement Programme (AIP)<sup>10</sup> has brought these resources together, offering comprehensive central and regional support for PCT commissioning and management. The Department also invested £2.7 million to establish the Regional Alcohol Managers (RAMs) to coordinate the AIP in each region working with PCTs and local partnerships. The Department expects PCTs' response to the indicator, underpinned by the AIP, to make a significant impact on the rising trend in hospital admissions over coming years.

8. As part of the AIP, the Department established a National Support Team (NST) for alcohol in autumn 2008, to help PCTs deliver against the indicator. The NST is visiting PCTs with high levels of alcohol-related hospital admissions, including the Early Implementation PCTs, which have high levels of deprivation. The NST helps PCTs to diagnose local issues and to improve their plans to cut alcohol-related admissions. The Department expects PCTs to publish their local performance, and the England average, against all the Vital Signs indicators in September 2009, including the alcohol indicator.

**PAC Conclusion (2): Some preventive services, such as 'brief advice' for those who are drinking too much, can be delivered effectively by social workers, police and other officials outside the health service, but this requires effective partnership working at the local level. There is little evidence that this is happening. Regional Directors of Public Health, working through the new Regional Alcohol Offices, should identify examples of local preventive and partnership projects which are delivering results, and support their replication in areas which have the most acute alcohol problems.**

9. The Department agrees with this recommendation, as promoting effective partnerships with other agencies, such as local authorities and the police at a local level is a key aspect of regional responsibilities. For alcohol in particular, the Government has resourced the Regional Directors of Public Health from April 2008, to set up Regional Alcohol Managers / Offices to facilitate regional delivery against the alcohol-related hospital admissions indicator by providing support to PCTs and their local partners. Regional Groups are also responsible for the link between SHAs, Government Offices, Local Authorities and the Department and the identification and promotion of good practice across their regions.

10. As part of the AIP, the Department has established the Alcohol Learning Centre (ALC). This is a one-stop shop where all local partners, whether from health or other settings, can find guidance, data, tools, and training resources to support them in implementing the Department's seven suggested High Impact Changes (HICs). Working in partnership is included in the HICs in recognition of the key role partnerships play in the local delivery of alcohol misuse services. The ALC sends out monthly newsletters and provides examples of solutions and innovation identified through local implementation and gathered from the experiences of the Regional Alcohol Managers (RAMs) and local delivery partners.

11. The ALC now contains the *Hub of Commissioned Alcohol Practice and Policies* (HubCAPP) database on which PCTs' local partners from any settings showcase examples of practice underway around the country to tackle alcohol-related harm. The Department commissioned Alcohol Concern to set up and launch HubCAPP in March 2008. HubCAPP has now grown to a resource of more than 100 examples nationwide. Subscription to HubCAPP is free, and PCTs and their local partners have open access to the database where they can identify initiatives relevant to their own interests.

12. HubCAPP sends out bi-monthly newsletters, which highlight new content available on the site to keep subscribers up-to-date with the latest developments, including those on working in partnership. Although

<sup>9</sup> *Signs for improvement: commissioning interventions to reduce alcohol-related harm*, July 2009

<sup>10</sup> *Alcohol Improvement Programme*, DH, November 2008

HubCAPP, rightly, includes initiatives from a wide range of settings, the Department's primary focus is to establish early interventions firmly in the arenas, which have the strongest evidence of effectiveness. The Department has committed £4 million to research on how best to implement brief interventions in three settings; Primary Care, Accident and Emergency and Probation. This Screening and Intervention Programme for Sensible drinking (SIPS) will publish a full research evaluation report in Autumn 2010.

**PAC Conclusion (3): General Practitioners (GPs) have an important role to play in identifying alcohol misuse and advising people to cut down, but are not doing so consistently. A new scheme to encourage such work is likely to have only limited effects. Since April 2008, the Department has funded a new £8 million a year Directed Enhanced Service to pay GP practices to undertake alcohol screening, but this only applies to newly registered patients. The Department should review the results of the new service after the first year and assess whether, in the light of its limited coverage, the numbers of people screened make this a meaningful and cost-effective intervention.**

13. The Department partially agrees with this recommendation. It will review the new Directed Enhanced Service (DES) formally, but after its second year. From 2008-09, the Department is providing an incentive through the DES, in the form of specific funding of £8 million to PCTs, to allocate to GP practices that opt to deliver Identification of alcohol misuse, followed by brief advice, where appropriate, for newly registered patients. In addition to the specific financial incentive of the DES, the Department has provided a Primary Care Framework for PCTs, to support the wider development of brief interventions in primary care. PCTs can use the Framework alongside, or independently of, the DES and some are using it to develop wider-ranging interventions as Local Enhanced Services for alcohol in Primary Care settings.

14. For its review of the DES, the Department has commissioned a data extraction from a random sample of GP practices to assess the level of activity and achievement under the DESs. For alcohol, this exercise will provide information on the extent to which activity on case finding and follow up interventions and treatment, where appropriate, has increased since the DES was introduced. The findings will show the position at the end of March 2009, compared with a baseline of end March 2008, and for each quarter thereafter, finishing with data for end March 2010. All this information will inform decisions on the future of the alcohol DES.

15. In addition, the Department is already monitoring the alcohol DES as part of routine monitoring of PCT expenditure on the GP contract. The final outturn information for 2008-09 shows that £3.6 million of the £8 million available for the DES was spent. This is in line with uptake of other new DESs for 2008-09, as agreement on the details of the DESs was not finalised until the autumn of 2008. The Department has also introduced new Read codes from 2008-09 to improve the records available for GPs' work on alcohol, and GP practices can now be credited for all their screening and brief intervention work.

16. The Department has developed an e-learning programme for GPs and other Primary Care professionals who wish to undertake brief interventions, and some 450 completed the programme in the first six months, from February 2009. The Department has also fostered the introduction of undergraduate medical training to ensure that newly qualified doctors can identify and handle substance misuse problems, including alcohol. Over the next ten years, all doctors leaving medical school (circa 60,000) will be equipped to deal with alcohol-related harm. The Department is also providing start up funding for the Royal College of General Practitioners (RCGP) for a short training course, *Certificate in the management of alcohol problems in primary care*, to increase competencies to respond to people misusing alcohol.

**PAC Conclusion (4): Only around 1 in 18 people who are dependent receive treatment and the availability of specialist services differs widely across England. The Department has announced a scheme to provide pilot sites with additional funding and support for specialist services. At the end of the pilots, the Department should publish the results, showing what has been achieved and assessing whether a national expansion of the model would provide a cost-effective means to tackle the demonstrable variations and gaps in service provision that currently exist across English regions and between PCTs.**

17. The Department agrees that it should publish the outcomes from its investment in 20 Early Implementation (EI) PCTs, although this supports planning and commissioning of a full range of prevention and treatment, not just specialist services. Since 2007, the Department has provided PCTs with an additional £15 million per year to improve their commissioning of alcohol services. From Autumn 2008, 20 of the most deprived PCTs, with the highest levels of alcohol-related hospital admissions have been awarded extra funding for three years (£200,000 each in 2009-10). This investment, along with support from RAMs, should help EI PCTs to implement the Department's High Impact Changes (HICs) to reduce hospital admissions and foster better understanding of alcohol as a mainstream issue within the NHS.

18. An international research model suggests that specialist treatment for 15% of the alcohol-dependent population represents a medium level of service.<sup>11</sup> The Department has included a suggested objective of at least 15% in its commissioning guidance for PCTs from July 2009, to deliver the PSA indicator effectively. The National Alcohol Treatment Monitoring System (NATMS) data, commissioned by the Department from April 2008 shows that 104,207 of the 1.1 million alcohol-dependent people in England received specialist treatment in 2008-09. At around 10% of the dependent population, this is too low, but it shows marked improvement on the 63,000 (1 in 18) estimated to be in treatment in 2004.

19. The NATMS data also show that average waiting times are better than previous estimates (91% wait less than six weeks and 80% wait less than three weeks). These new data enable PCTs to monitor their own performance against others for the first time. They also show any variations and gaps in services for scrutiny and remedial action within NHS monitoring systems. Specialist treatment has the greatest potential for reducing the number of alcohol related hospital admissions in the short term, so the Department has included improving the effectiveness of specialist services in its (HICs). As high quality services have more impact, PCTs also have an incentive to secure quality as well as quantity.

20. The HICs include early interventions, as the evidence shows that these are also cost effective in reducing alcohol harm; as evidenced by their impact on hospital admissions. A focus on early interventions also benefits the much larger number of non-dependent mis-users who are exceeding the Department's guidelines and risk harming their health. Evaluation of the Early Implementation programme is being undertaken for future publication to show what has been achieved and the lessons learned. Learning from the Programme will be shared with the rest of the NHS while the Programme runs its three-year course, and EI PCTs in the Programme are already beginning to share learning and to showcase their work.

**PAC Conclusion (5): While there is increasing evidence about the effectiveness of different types of treatment, there is frequently a lack of monitoring of whether what is provided by the public, private and voluntary sectors represents value for money. The Department, working with the National Treatment Agency for Substance Misuse, should put in place systems to regularly appraise the performance of current services, and publish a compendium of good practice, which has been shown to be cost-effective.**

<sup>11</sup> *A systems approach to estimating the required capacity of alcohol treatment services* – British Journal of Addiction 85 (1990)

21. The Department would not consider it cost-effective or helpful to create a duplicate performance-monitoring system and does not accept the first part of this recommendation. However, the Department accepts the principle of the second part of this recommendation, and, resources permitting, will consider commissioning and publishing a compendium of evidence-based good practice examples of specialist treatment during 2010, drawing on *Models of Care for Alcohol Misusers (MoCAM)*].

22. The provision of alcohol services is performance-managed locally by the PCTs and assured by the Strategic Health Authorities (SHAs) and not by the Department. PCTs manage the systems and work with providers to ensure contract compliance and continuous improvements in quality and outcomes. PCTs set priorities in discussion with their local partners and draw up Operational Plans for approval by their SHA, as the local system manager. SHAs ensure that PCTs follow the correct process and that each PCT's plan properly identifies and prioritises its local needs, including those for alcohol services. SHAs are also responsible for monitoring the delivery of all the priorities adopted by each PCT.

23. The SHA *Visions for improved healthcare*, published alongside the *NHS Next Stage Review* in July 2008, show the overall commitment SHAs have made to deliver improved healthcare. All ten SHA Visions refer to alcohol-related illness and set out actions to tackle the issues arising from it. In 2008, the Department established the annual World Class Commissioning (WCC) assurance process to underpin local delivery and management and to assess PCTs' capabilities as commissioners. This assesses PCTs against three areas (outcomes, competencies and governance). PCTs select up to eight local outcome priorities against which their progress will be measured. Alcohol is one of the top ten most-selected.

24. The Department has provided extensive guidance and resources for PCTs and SHAs to underpin effective commissioning of all alcohol services locally. This is brought together in the Alcohol Improvement Programme (AIP) and includes seven High Impact Changes for PCTs, which have been shown to be cost-effective. The NATMS data from April 2008 provides key information for monitoring specialist services, including waiting times and numbers treated, from all treatment services, in all sectors. PCTs can benchmark their own provision of specialist alcohol treatment against others and SHAs can identify outliers. This encourages PCTs to invest in treatment and it is already securing improvements in services.

**PAC Conclusion (6): People who are dependent on alcohol often need immediate medical care, combined with wider long-term counseling and practical support, but services are often not joined up, increasing the risk that people will simply relapse into their former drinking habits. The Department should develop detailed proposals for 'stepped care' for alcohol misuse, including practical ways in which PCTs should work with other service providers, including those responsible for social care, housing, employment.**

25. The Department partially agrees this recommendation, as it has provided detailed guidance on stepped care for alcohol misuse in the form of *Models of Care for Alcohol Misusers (MoCAM)* since 2005. MoCAM already provides best practice guidance for developing, commissioning and delivering a planned and fully integrated local system of alcohol interventions. However, following referral from the Department, the National Institute for Clinical Excellence (NICE) is now developing further evidence-based guidance for the NHS. The NICE consultation began in September 2009 and the guidance will include the full range of care and support required for people with alcohol dependency<sup>12</sup>.

26. MoCAM sets out a framework for interventions on four levels, including the specialist services required for people who are dependent on alcohol. It covers overall commissioning guidance on treatment services, care planning to assess and address individuals' needs for specialist care, the structured treatment that may be needed to meet them and the range of other ongoing support required to prevent relapse. MoCAM was informed by the *Review of the effectiveness of treatment for alcohol problems*, commissioned by the Department from the NTA, which appraised the evidence base for the full range of treatments available for people with alcohol problems. PCTs can map their services against those in MoCAM, to identify, and address, any gaps in the level of service capacity available.

<sup>12</sup> NICE consultation *Alcohol use disorders – clinical management guideline*, 17 September to 12 November 2009.

27. From April 2008, all PCTs and Local Authorities (LAs) were required to work in partnership to produce a Joint Strategic Needs Assessment (JSNA) of the health and wellbeing of their local community, including any needs for alcohol services. Complementary guidance, *Creating Strong, Safe and Prosperous Communities*, provided tools for local partners undertaking JSNA, including the processes for stakeholder involvement, engaging with communities and guidance on using the JSNA to inform local commissioning and subsequent feedback. JSNA assessments between PCTs and LAs help them identify complementary priorities and deliver the full range of services that local people need.

28. The Department's HICs for alcohol services also recognise that local partners have a critical contribution to make in achieving improved health outcomes. The HICs set out the most effective actions for local areas that have prioritised the reduction in alcohol-related harm, within the NHS Operating Framework and/or as a Local Area Agreement indicator.

**PAC Conclusion (7): The Department's sensible drinking guidelines were changed from weekly to daily limits in 1995, but 11 years later almost two-fifths of people did not know the current recommended guidance. Further research conducted in 2008 found that 77% of people did not know how many units were contained in a typical large glass of wine. In view of this widespread and longstanding lack of clarity in the minds of the public, the Department should assess whether the current guidelines are fit for purpose or should be replaced with something more readily understood.**

29. The Department does not accept the recommendation because the figures cited pre-date implementation of measures in the 2007 alcohol strategy, which addressed significant gaps in public education. The strategy identified the need for more work to help people estimate their consumption, recall the recommended limits and the personal risks of exceeding them, and obtain support. It identified roles for Government, the NHS, and the alcohol industry. The Department's approach aims to provide information through national campaigns, the NHS, on alcohol drinks labels and in licensed premises as part of a wide-ranging programme of policy interventions. Early evaluation of these initiatives shows awareness is improving and this needs to continue in the years to come.

30. The Department launched its *Know Your Limits* campaign in May 2008 with a budget of £6 million. TV, radio and print advertising highlighted the lower-risk guidelines, the units in typical drinks and sign posted further resources. Self-help is available through a website<sup>13</sup>, the *NHS Direct*, *Drinkcheck* and *Drinkline* services, leaflets, and materials for use in primary care. A second wave is planned in early 2010. The campaign is one element in a wider approach complemented by a social-marketing strategy aimed at harmful drinkers over 35, labelling of bottles and cans, the recent consultation on requiring information at point of sale, and industry-funded initiatives, including those led by the independent *Drinkaware Trust*.

31. National surveys lag behind this work, but should reflect its impact in due course. Evaluation of *Know Your Limits* is promising. Public recollection of the campaign is high, at 73%, and pre and post campaign tracking show an improvement in the proportion of people giving the correct daily guideline figures. For example: an increase, from 29% to 34%, giving the correct recommended maximum number of units per day for men. However, it is not possible to distinguish the impact of the campaign from that of other interventions. As expected at this stage, there is work to do to maximise the campaign's relevance for different groups in society and to motivate people to address the amount they drink. Research shows that education alone cannot bring about behavioural change<sup>14</sup>, but can do so in combination with other interventions, as in the alcohol Strategy.

<sup>13</sup> [www.nhs.uk/units](http://www.nhs.uk/units)

<sup>14</sup> *Review of the evidence base around effective alcohol harm reduction communications* – prepared for COI Communications on behalf of DH and the Home Office (September 2005)

32. The Government's guidelines reflect the international evidence on alcohol and health risks and are kept under review. The Department has adjusted the guidelines twice to improve the public's understanding of the evidence on consumption and health risks. In 1995, the inter-departmental working group on sensible drinking recommended a change from weekly to daily limits to avoid the misconception that units can be saved up each week. In 2008, following research with members of the public and consultation with health professionals, the Department changed the language its uses to communicate risk, and now talks about *Lower Risk* drinking, rather than *Sensible* drinking.

**PAC Conclusion (8): By July 2008, only 3% of alcoholic products had fully complied with the drinks industry voluntary labeling scheme. If a significant improvement is not evident from the planned 2009 review of compliance, the Department should consider a mandatory labeling scheme.**

33. The Department accepts this recommendation as it is consistent with the Department's statement in its consultation on further action<sup>15</sup>, that it would consider regulatory action, if uptake of the voluntary labelling agreement remained slow. Providing consumers with consistent unit and health information, across at least a large majority of the market, is crucial to ensuring that this information is widely available and reinforces the messages of the Government's *Know Your Limits* campaign.

34. The Government's general approach on alcohol policy is to seek commitments to self-regulation, wherever this may be effective and feasible. Where monitoring shows that a voluntary approach has been ineffective, or has not been taken up widely and consistently, other approaches must be considered. In general, respondents to the Department's consultation strongly supported a regulatory requirement on labelling, if the voluntary agreement was not implemented adequately.

**PAC Conclusion (9): There is little evidence that Whitehall-wide action on other policies and regulations which affect alcohol consumption – such as licensing, taxation and glass sizes – is effectively coordinated. The Department should identify all other government initiatives and policy areas, which affect alcohol misuse and ill health, assess how these support or conflict with the Department's objectives and communicate any issues of concern to senior officials in other government departments.**

35. The Department accepts this recommendation. It is in regular dialogue with other Departments across Government and is in touch with other Government initiatives and policy interventions which impact on alcohol consumption and harm. The Department works most closely with the Home Office, as the two Departments jointly lead the Government's alcohol strategy to address the totality of the alcohol-related harms across society.

36. It is important to note that the Government's different policy interventions may have different goals, of which the impacts on alcohol consumption and harm maybe one. The primary policy purpose of alcohol taxation, for example, is to raise revenue for Government programmes, although the impacts of duty changes on alcohol consumption and health are taken into account by the Chancellor and are the subject of regular dialogue between the Department and the Treasury.

37. The Department works closely with the Department for Culture, Media and Sport (DCMS) and the Home Office on licensing policy and its enforcement, supporting the Government's alcohol strategy. Better achievement of licensing objectives at local level is likely to have a health benefit, particularly for acute harms related to incidents of drunkenness, which may result in accidents and injuries. The Department strongly supports the encouragement for better local use of the existing powers and tools included within the Licensing Act.

<sup>15</sup> *Safe. Sensible. Social – Consultation on further action*, DH 2008.

38. The Department has worked closely with the Home Office during the recent consultation on proposals for a mandatory code for alcohol retailing. These proposals would work within the Licensing Act framework. They include measures to restrict irresponsible promotions. The consultation also includes a proposal that on-trade licensees should be expected normally to offer a small standard measure to customers, avoiding encouragement to drink larger measures. Within this, the Department has sought the public's views on whether there should be one standard, small measure of spirits. The Department has worked closely with the Department for Business, Innovation and Skills and other Government Departments on this proposal.

**PAC Conclusion (10): Alcohol has become steadily cheaper in relation to income; meanwhile, consumption and health damage have increased. The Department has published an independent review which found that alcohol has become 69% more affordable between 1980 and 2007. The review suggested that changes to the pricing and promotion of alcohol could deliver reductions in health harms. As part of its work to promote responsible drinking, the Department should work with other Government departments to develop policies, which will help to prevent excessive consumption.**

39. The Department accepts this recommendation to work with other Government Departments to develop policies, which will help prevent excessive consumption of alcohol. Growth in disposable income between 1980 and 2008 means alcohol was 75% more affordable in 2008. There is good evidence that affordability influences consumption, higher-risk and binge drinking, and their health and social impacts. The Sheffield University Review broke new ground by estimating the possible benefits of specific price interventions<sup>16</sup>. Less is known about the impact on businesses and the economy, as this was not part of the Sheffield study. The Government must balance all of these factors and deepen its understanding of the impacts of the range of possible interventions.

40. The Home Office has consulted on a proposed mandatory code for alcohol retailing<sup>17</sup>. This included consultation on national restrictions to irresponsible promotions and local discretionary restrictions on happy hours and off-trade promotions linked to large purchases. It gathered evidence on alcohol products sold below the cost of Duty plus Value Added Tax and explored ideas around this. The consultation closed in August 2009. Around 7000 responses were received and the Home Office is currently considering these before deciding what next steps to take.

41. The Government will look to develop the evidence base on cheap alcohol further, with a view to identifying concrete proposals for action, which reduce irresponsible, higher-risk and / or binge drinking without impacting unduly on the majority of responsible drinkers. It will commission independent advice to look into certain key evidence gaps, for example on the economic and business impact of price interventions and the regional variations and effects on particular social groups. This will draw on the Sheffield research with a view to advising a set of options that will allow Government to consider how to balance the costs and benefits to different groups. Government Departments will work in partnership to take the work forward.

<sup>16</sup> Independent Review of the Effects of Alcohol Pricing and Promotion – University of Sheffield (2008).

<sup>17</sup> *Safe. Sensible. Social: Selling Alcohol Responsibly*, Home Office (2009)

# Forty Eighth Report

## Department for Business, Innovation and Skills (DBIS)

### Renewing the physical infrastructure of English further education colleges

1. In 2001, the newly established Learning and Skills Council (LSC) took over an ongoing programme of capital works in the further education sector. The programme was needed to renew an estate that was too large, with much of it in poor condition and no longer fit for modern educational purposes. By March 2008, a total of £4.2 billion of projects had been approved 'in detail'; including grant support from the LSC of £1.7 billion. To date about half of the estate had been renewed.
2. Between April 2008 and December 2008, it was found that more schemes were in preparation than could be funded in this spending round. Sir Andrew Foster was appointed to conduct an independent review into the issue and concluded that 'a good policy had been compromised by the manner of its implementation'. Before the current problems arose, the programme had achieved some successes; with the overall reduction of the size of the estate, improved quality of the buildings and a contribution to increased learner participation.
3. On the basis of the Report by the Comptroller and Auditor General, the Committee took evidence from the Department for Innovation, Universities and Skills (DIUS – the Department) and the LSC on progress of the programme of renewal of the physical infrastructure of further education colleges in England.
4. In July 2009, DIUS and the Department of Business, Enterprise and Regulatory Reform (BERR) merged to form the new Department of Business, Innovation and Skills (BIS).

**PAC Conclusion (1): Much of the estate inherited by the further education colleges on incorporation in 1993 was in poor condition and not fit for modern educational purposes. In 2001, the newly formed Learning and Skills Council started to expand its predecessor's capital programme for colleges, and by 2008 about half of the further education estate had been renewed. The programme has stimulated capital investment, and completed schemes generally provided good value for money at the time when the flow of projects had been manageable, although some regions have seen more investment than others and more consideration could have been given to environmental sustainability.**

5. The Department welcomes the Committee's recognition that this had been a successful programme, which had made genuine differences to the further education estate, providing modern, fit-for-purpose buildings which represented good quality and good value for money. Since 2001, 700 projects at nearly 330 colleges have been funded by the LSC, and over this Spending Review and the next, the Department will spend £2.6 billion on college capital projects.
6. Whilst some regions had seen more investment than others, in looking at approved capital investment since the LSC was formed, the rate of investment in regions is broadly proportionate to learner activity. The Committee acknowledged that there were justifiable reasons for why some regions had needed to take longer in bringing forward final proposals.
7. The LSC has developed a sustainability action plan to address environmental sustainability in both new buildings and existing buildings. In particular the LSC requires all new buildings to achieve, if possible, an excellent Building Research Establishment Environmental Assessment Method (BREEAM) rating. Although colleges can achieve an indicative BREEAM rating at the time of approval they can only achieve the rating once the building has been completed and becomes operational. The LSC is amending its post project review forms to collect information on BREEAM ratings.

**PAC Conclusion (2): There has been a very serious failure in the management of the programme, with the Learning and Skills Council over-stimulating the demand for funding and mismanaging the approval process. The Council was reckless in allowing colleges' expectations of financial support to build to levels far in excess of what the Council could afford.**

**From April to December 2008, it approved projects that anticipated Council funding totalling £2.4 billion (including £0.8 billion in approvals 'in detail'). This total was £0.7 billion more than the total grant funding that it had approved 'in detail' in seven years to March 2008. In March 2009, the Secretary of State announced that the Council had at that point built up approvals 'in principle' for 79 projects anticipating £2.7 billion of funding that it could not afford. In the meantime another 65 colleges had also submitted proposals for projects that, if they were approved, would require grant funding of around £3 billion.**

8. The Department accepts that there was a failure in the management of the programme by the LSC, which is also consistent with the findings of Sir Andrew Foster's review of the FE capital programme, published 1 April 2009. The Department has accepted the recommendations of the review.

9. Sir Andrew's report, which the Department and the LSC jointly commissioned, is very clear and works through the issues with great care. His key finding is that: "a good policy had been compromised by the manner of its implementation." Sir Andrew Foster went on to conclude that the policy intent to transform the FE estate was clear and positive, but that the implementation did not include a robust financial strategy or a regional or national approach to prioritisation.

10. Recognising the deficiencies in how the LSC had managed the programme, its former Chief Executive, Mark Haysom, resigned on 23 March 2009. Geoff Russell was appointed as Acting Chief Executive on the same day.

11. In taking the Foster recommendations forward, a dedicated project management group across both the LSC and the Department has been established, fostering close, joint working. In addition, open and early consultation has been held with the sector, leading to the introduction of a needs-based prioritisation process which has enabled the most urgent capital projects to begin this summer. The LSC has built up extensive information about all capital schemes, including an audit on all capital commitments. The LSC has also developed a robust forecasting model, and is in the process of introducing new measures to strengthen the financial management of the programme.

12. Work continues to ensure transition to the new arrangements is as smooth as possible, and is underpinned by a substantial programme. Through these measures, we are confident that the programme is now on a firm footing for the future, and that the problems with the programme will not be repeated.

**PAC Conclusion (3): The Department failed to recognise that the Learning and Skills Council was no longer controlling the flow of projects. The Department is reviewing its arrangements for overseeing its arm's length bodies. It must develop arrangements that provide it with a clearer view of the financial position of key programmes and the financial implications of key decisions on those programmes.**

13. The Department accepts that arrangements need to be developed to ensure greater oversight of key programmes, particularly those which are delivered by arm's length bodies.

14. Following the Foster report, the then Secretary of State – John Denham – asked the then Permanent Secretary – Ian Watmore – to carry out a review of the DIUS relationships with arm's length bodies (ALB) to ensure clarity about accountability and responsibility. The review made a number of recommendations, designed to strengthen management information and oversight arrangements on key delivery programmes; clarify internal

roles and respective roles between the Department and its ALB; improve consistency of approach within the Department, to aid identification of the key delivery risks; support ongoing work to build professional capacity in the Department's sponsor teams; and, improve the over rigour of sponsorship arrangements.

15. In sharing the report with Phil Willis, Chairman of the Innovation, Universities, Science and Skills Select Committee, the Department confirmed that it would take account of its conclusions in determining the nature of the approach that the Department should adopt to its sponsorship responsibilities. This work is ongoing and will be integrated with the good practice already identified and synthesised into a single process for the Department. One of the main purposes of this work is to ensure that, at every level of the Department, there are proper processes and systems in place to manage risk on a proportionate basis, to engage with our delivery partners and to elevate issues when appropriate.

**PAC Conclusion (4): There is considerable uncertainty about the future of the programme which must be resolved as soon as possible. Following an independent review, the Department and the Learning and Skills Council developed and applied new criteria to allocate the £300 million of additional funding made available through the 2009 Budget. They subsequently selected 13 colleges projects to go ahead. Other colleges with advanced plans, such as the Grimsby Institute, have incurred costs on developing projects and need to understand the prospects for funding in future.**

**The Council must communicate clearly and openly with these colleges to inform the difficult decisions they must take on their projects. The Department must meet its commitment that colleges will not be allowed to get into a situation where they cannot meet their financial obligations as a result of decisions taken by the Council on the capital programme. There may be scope to repackage some projects in future, for example by bundling them together with other colleges or with schools being redeveloped as part of the Building Schools for the Future programme.**

16. The Department acknowledges the initial uncertainty experienced by the sector when the issue with the programme was first identified. However, under the leadership of the LSC, clear communications have gone out to the sector about each of the key stages which have moved the programme forward. This has included the Government's clear commitment to the longer term, with the announcement of a Treasury planning assumption of £300 million per annum for the programme in the next Spending Review period.

17. Through the LSC's recent prioritisation process, it has worked in close consultation with the sector to use transparent and objective criteria to inject funds where they will have the greatest impact for learners, employers and communities, to get building work started quickly, and to get best value for the taxpayer.

18. For colleges which have not been selected to proceed this year. The next steps start this autumn when the LSC will further consult with the sector to agree a robust, fair and transparent process for prioritising the capital investment programme for the next Spending Review period starting in 2011-12. The size and scope of the programme will depend on the outcome of the next Spending Review.

19. The LSC has a duty to work with all colleges to support them to maintain good financial health. Where there is a risk of a college falling into financial difficulty it will devise a plan with the college for preventing that from happening. The LSC has consistently said that it will ensure no college is unable to meet its financial obligations as a result of decisions on capital projects.

**PAC Conclusion (5): There is a risk that some colleges are taking on more debt than they can comfortably service. At the end of 2007-08, 23 colleges had long-term debt exceeding 40% of their annual income. These colleges and others with increasing levels of debt could be more vulnerable to loss of income if they fail to generate the projected demand for courses from learners and employers. The Learning and Skills Council needs to keep the financial health of the sector under close review especially given the current economic climate.**

20. The Department accepts that the financial health of the sector needs to be kept under close review. Since 2003, the LSC policy has been to assess the level of capital grant support on the basis of affordability. It is normally expected that colleges will have long-term borrowings (15-25 years typical) within the range 30-40% of annual turnover and sometimes more if the range of financial indicators used by the LSC suggests this would be affordable.

21. This produced interest charges of around 2% of turnover and annual capital repayments at a similar level, thus debt charges (interest plus capital repayments) were normally about 4% of annual turnover. This has been considered reasonable, has proven not to have caused undue financial hardship to the sector, and is in line with the level of borrowings guidance to the Higher Education sector. It has also enabled many more colleges to be rebuilt at a far faster rate than would have been the case without the requirement to borrow.

**PAC Conclusion (6): Colleges have largely controlled capital costs within their budgets but whole life costs have received less attention. Once the response to the current funding problems have been decided and implemented, the Learning and Skills Council should work with industry professionals to develop a suitable approach to incorporating whole life cost considerations into the feasibility, design and construction stages of a project.**

22. The Department accepts that whole life costs should be developed for inclusion in any future approvals process. The LSC had already begun to address whole life cost assessment, having introduced a section in the investment appraisal methodology (August 2008) on whole-life costing so that the whole-life costs, as well as the initial capital costs, could be included in the financial appraisal.

23. The LSC had also been in discussion with the Building Cost Information Service (BCIS) to adopt a standardised method of life cycle costing for construction procurement, which could be incorporated into the capital approval process. This is an issue which is to be considered further by the LSC once the current prioritisation exercise has concluded.

**PAC Conclusion (7): Risks associated with the planned transition of the programme from the Learning and Skills Council to its successor bodies will require very careful management. With the dissolution of the Council expected by 2010 the Department will need to be confident that the management of the programme is not put at further risk, that uncertainty and funding issues are resolved as far as possible, and that overall the administration burden on colleges is not increased.**

24. The Department fully recognises the importance of ensuring a smooth transition of the capital programme to the successor bodies, and has in place a robust and substantial programme to oversee this work.

25. The Department fully accepts the need to ensure management of the programme is not put at further risk, and will ensure recommendations and conclusions from all relevant reports recently carried out on the programme will be taken onboard. The administration of the capital programme under the new Skills Funding Agency will follow the principles as set out by Sir Andrew Foster.



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