



## **Treasury Minutes on the Forty First to the Forty Second, the Forty Sixth to the Forty Seventh, and the Fifty Fifth Reports from the Committee of Public Accounts 2006-2007**

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**Presented to Parliament by the Exchequer Secretary to the Treasury  
by Command of Her Majesty  
November 2007**

TREASURY MINUTES DATED 29 NOVEMBER 2007 ON THE FORTY FIRST TO THE FORTY SECOND, THE FORTY SIXTH TO THE FORTY SEVENTH, AND THE FIFTY FIFTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS SESSION 2006-2007

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# Forty First Report

## Department for Innovation, Universities and Skills

### Improving procurement in further education colleges in England

1. The 2004 Gershon Efficiency Review<sup>1</sup> proposed procurement as one of the main sources of efficiency savings in the public sector. The Learning and Skills Council (LSC), which funds England's 380 further education colleges, estimates that from an annual procurement expenditure of £1.6 billion, colleges could make savings of £75 million by March 2008. The savings made by colleges would be available to be redeployed into front-line services for learners. Until recently, many colleges have tended to treat procurement as a low priority and have not taken advantage of modern procurement methods such as purchasing consortia and procurement cards.
2. On 28 June 2007 as a result of the Machinery of Government Changes, responsibility for further education colleges moved from the Department for Education and Skills (DfES) to the Department for Innovation, Universities and Skills (DIUS – the Department).
3. The Committee's report will give a positive impetus to the work being undertaken to improve the procurement in colleges.

**PAC conclusion (1): Despite the scope to make savings, which could be deployed to front-line services for learners, procurement remains a 'Cinderella service'. Many further education colleges have not given sufficient priority to procurement to make real improvements. Available technology has made efficient, electronic procurement more accessible and is enabling organisations to make savings by changing how they buy goods and services. College principals and governing bodies should identify in their business strategies the opportunities for achieving better value for money in procurement, and freeing up resources to be re-invested in frontline services for learners.**

4. The Department agrees that until recently, many colleges have tended to treat procurement as a low priority. In 2004 the then Department for Education and Skills established the Centre for Procurement Performance (CPP), which is tasked with helping the English education system achieve the Gershon procurement efficiency targets. With the assistance of the LSC it started to draw the attention of the further education sector to the potential savings that could be made by introducing modern procurement measures. In its annual grant letter, in March 2007, LSC has issued guidance to colleges to describe in their 2007-08 budgets the measures they are implementing to achieve savings.

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<sup>1</sup> *Releasing resources to the front line: Independent review of public sector efficiency*, Sir Peter Gershon CBE, July 2004

5. The Department, and the LSC, have embarked on a stakeholder engagement strategy to raise the issue of procurement amongst principals and governors. All college governors have received a letter explaining the recommendations in the NAO report and seminars and workshops in Procurement Governance have been delivered at the Association of College's principals' and governors' conferences held in November.

6. The Department and the LSC have recently forged close links with the College Finance Directors Group – a self-governing group representing finance directors in the sector. The group have embraced the procurement efficiency agenda and will be a critically important strategic partner for the Department and the LSC.

**PAC conclusion (2): Poor management information and systems are major barriers to improving procurement in many colleges. Most colleges are not using their existing accounting systems to generate basic analyses such as the volume of business they do with a particular supplier. The Learning and Skills Council should work with colleges to improve their systems and management information to a point where all can, as a minimum, easily identify expenditure patterns, suppliers and prices for basic items such as fuel, catering and stationery, so that they can assess whether alternative suppliers would offer better value.**

7. The Department and the LSC accept that sound management information is a vital component in professional procurement practice. The Department and the LSC have adopted a two-track approach to improving the availability of procurement management information and the way it is analysed and applied to procurement practice in colleges.

8. In the first instance the Department and the LSC has focused on existing sources of data. Colleges have been encouraged to appoint Procurement Liaison Officers. The first task of the Officers should be to arrange a thorough review of the existing data the college holds on procurement activities to identify: current contracts; when they are due for renewal; the number and range of different suppliers; the numbers of transactions; and the amount spent under broad categories of spending. Colleges are increasingly making use of this data to improve their procurement practices.

9. In addition to the above the Department and the LSC are funding and organising the Unity II e-procurement pilot project in ten colleges and delivering training on In-Tend Lite e-procurement system in 18 colleges. These systems streamline procurement practices, increase efficiency and also automate the production of up-to-date and accurate procurement management information. The results of the pilots, due to be completed shortly, will be used to develop systems and practices tailor-made for the further education sector.

**PAC conclusion (3): The Department's and the Learning and Skills Council's small support teams have to reach 384 colleges with widely varying capacities for procurement. The support has taken a number of forms, ranging from guidance and a dedicated website (the Further Education Library of Procurement)<sup>2</sup> to visits to colleges to help identify directly where savings can be made. The Department and the Learning and Skills Council should develop ways of getting more expertise into colleges, for example by encouraging more 'self help' such as sharing experience of particular systems or consortia, and sharing lessons via the website, where colleges may add their own materials to develop a resource for the whole sector.**

10. The Department and the LSC accepts that building procurement capacity in the sector is vitally important. To that end the Department has funded 100 National Vocational Qualification (NVQ) places in procurement for college staff. Early analysis of the results points to an improvement in procurement practices in those colleges with one or more completers.

11. Further investment has been put into the Further Education Library of Procurement (FELP) website. 210 colleges are now registered – a penetration rate of 55 per cent in under a year. The FELP discussion board was launched earlier in the summer allowing colleges to share information and best practice.

12. The LSC organises regional procurement network group meetings where colleges come together to discuss procurement issues, share information on contracts, consortia and systems and to share best practice. 22 regional procurement groups have been set up across England.

13. In December 2005 NAO conducted a national survey of further education colleges to establish a baseline of procurement activity and processes across the sector. The Department and LSC will be re-running the survey later this year to measure how far the sector has travelled. The results will be reported back to the sector to encourage best practice.

**PAC conclusion (4): Some colleges' reluctance to share good practice is another main barrier to improving procurement. Colleges are most persuaded that procurement savings are worth the effort where they see evidence of other colleges making savings, but have been hesitant to publicise savings. The Learning and Skills Council should encourage colleges to recognise how they can strengthen their reputation as well managed organisations by demonstrating innovation and achievement. It should reaffirm its commitment that the savings colleges make will be available for them to spend on their learners.**

14. The Department and the LSC recognise that colleges have been reluctant in the past to share evidence of procurement efficiencies for a number of reasons. Colleges may have been worried that there was a 'hidden agenda' to eventually claw-back any reported savings. This is being countered at all levels in all the LSC's and Department's communications to the sector on this issue. Every effort is being made to stress to colleges that savings will remain with individual colleges to reinvest in frontline services for the benefit of students.

<sup>2</sup> [http://www.dfes.gov.uk/cpp/buyingguidance\\_currentoffers\\_14.shtml](http://www.dfes.gov.uk/cpp/buyingguidance_currentoffers_14.shtml)

15. It is also important to recognise that colleges, particularly those in close proximity to each other, operate in a commercial and competitive environment. This has been the case for a number of years and has not encouraged collaboration between colleges in a number of areas including procurement. The sharing of best practice and the dissemination of case studies through network group meetings and the CPP newsletter is having a positive effect and helping to break down this reluctance to share information and successes.

16. Reporting savings has been made easier for colleges by the development of the Efficiency Measurement Model FE. 73 colleges are using and have submitted Efficiency Measurement Model FE reports, 39 of which were new submissions for August. Submissions are being analysed to establish best practice, which will be communicated back to the sector as a whole.

**PAC conclusion (5): There is a risk that colleges may not fully exploit the opportunities that consortia provide. As at April 2007, some 300 colleges had joined the Crescent Purchasing Consortium, the main consortium operating in the further education sector. The Learning and Skills Council should establish a dialogue with the main consortia to ascertain progress and trends in colleges' expenditure routed through them. It should expect the consortia to develop cost-effective arrangements for joint purchasing beyond straightforward items such as paper and standard items of stationery, for example by making available framework contracts.**

17. The Department and the LSC recognise the importance of consortia in delivery major savings and have promoted the specialist further education purchasing consortium Crescent Purchasing Consortium (CPC) to the sector.

18. CPC has increased its membership to over 355 colleges and is still growing. Between 2006 and 2007, 322 colleges spent £39 million through CPC contracts. CPC is also seeking to establish strategic partnership with the higher education sector to ensure efficiency savings are maximised across the whole of the post-compulsory education system. They have successfully contracted with the North West Universities Purchasing Group and are currently in discussions with the North East equivalent.

19. The Department and the LSC Procurement Development Team have been working with the College Finance Directors' Group to implement the Department and LSC's procurement improvement strategy to deliver efficiencies. The Group supports the collaboration approach and recognises the benefits of working with consortia.

**PAC conclusion (6): Though most colleges have joined procurement card schemes, 65 colleges have still not taken up this relatively simple, cost-effective form of procurement. At present, 60 colleges are members of the Government Procurement Card scheme, while a further 192 are members of commercial schemes. All colleges should use procurement cards for relevant purchases, and the Council should develop clear guidance on using the cards including how, by using them appropriately, colleges can strengthen expenditure controls and reduce the risk of improper purchasing and fraud.**

20. The Department and the LSC accept that Government Procurement Cards offer a simple and cost effective form of procurement and are working with Barclays to promote these to the sector. Since the Committee first took evidence a further 72 colleges have adopted or expressed an interest in introducing Cards.

**PAC conclusion (7): The target of £75 million savings from procurement efficiencies may prove to be unambitious. The Learning and Skills Council acknowledges that colleges could achieve this target easily if they made simple improvements to procurement methods. When colleges report progress in March 2008, the Council should consider setting a new target to reflect the large potential for procurement savings in further education colleges.**

21. The Department and the LSC agree that it is important to continue the momentum of encouraging colleges to continue to make savings. When the savings made up to March 2008 are known, then an appropriate new target will be set.

# Forty Second Report

## The Shareholder Executive

### The Shareholder Executive and Public Sector Businesses

1. This report by the Public Accounts Committee examined the Shareholder Executive's management of government's shareholdings and the barriers to more effective performance. The Committee concluded that the Shareholder Executive ('the Executive') has delivered value for the taxpayer and has improved the way in which government shareholdings are managed. The Government accepts that there are a number of ways in which the Executive's status and profile in government could be strengthened, so that it is in a position to provide independent advice on shareholder issues.

**PAC conclusion (1): Reconciling public policy with shareholder value objectives can be difficult because the cost of meeting the former can have a negative impact on the latter. Currently, the Executive reports to officials in the Department for Business, Enterprise, and Regulatory Reform (BERR) and the Stakeholder Group who have policy interests in the Executive's businesses. BERR is setting up a Board to provide direction and accountability to which the Executive will report. The Board will need to articulate what it expects of the Executive, and how it proposes to assess the Executive's performance.**

2. The Government accepts the conclusion. In creating the Executive the Government acknowledged the difficulties involved in reconciling public policy and shareholder value objectives. The new model has provided a step change in how the Government acts as a shareholder. To enhance the guidance and direction provided by the Stakeholder Group a non-Executive Chair, Philip Remnant, was appointed in June 2007. The Chair's responsibilities include providing strategic direction to the Executive, and further developing the Government's overall model of share ownership and management. He will be appointing an advisory board to provide guidance and support in his role as Chair. The advisory board will consist of three to four members with complementary skill sets.

**PAC conclusion (2): The Executive lacks a mandatory role as the government's shareholder, but is dependent on the voluntary cooperation of the businesses and their sponsor Departments. There should be a presumption that government businesses come within the Executive's portfolio and any exclusion's should be specifically authorised by the Treasury.**

**PAC conclusion (3): The Executive's advice is not being harnessed effectively across government. Transactions, which affect departments' ownership interests are continuing to take place without any input from the Executive. The Executive should market its services comprehensively and seek to be more visible across government as a whole.**

3. The Government accepts these conclusions. It recognises that there may be instances where its expertise and advice are not being maximised, and there may be opportunities to improve consistency in the Executive's involvement with Government businesses and their sponsoring Departments. To that end the Executive will agree with the Treasury a list of businesses that it should work with, recognising that it will need to focus its resources on priority businesses. Where a business falls within the Executive's portfolio it should, ideally, advise ministers directly on the exercise of all shareholder levers. In addition the Executive will establish a comprehensive marketing exercise to improve its visibility across government, and to provide shareholding Departments with information on the expertise and advice that it can offer.

4. The Executive is developing a corporate finance practice, which will be available to Government Departments engaging in corporate transactions beyond the portfolio of Government businesses. In order to ensure the most effective use of its resources, the Executive will agree priorities with the Treasury.

**PAC conclusion (4): The Executive's effectiveness in its dealings with businesses is constrained by its limited ability to provide finance. Investment by departments in their public businesses is subject to public spending constraints and competes with other priorities. But the availability of finance for investment can have a major impact on the value of a business. The financing of such investment cases could be assessed more consistently by giving the Executive an explicit responsibility for advising sponsor departments on the investment needs of their businesses.**

5. The Government accepts this conclusion. Investment in public businesses will always compete with other spending priorities. The Executive aims to ensure the investment case is fully explained so that shareholding Departments can make an informed decision on relative priorities. For the businesses within its portfolio the Executive will advise the relevant sponsor department on the investment needs of those businesses. This will be carried out annually, as part of the Executive's assessment of business' corporate plans in order to provide consistency across the portfolio. The Executive will discuss the options for financing such investment cases in the future with shareholding Departments and, where appropriate, the Treasury.

**PAC conclusion (5): The target for increasing the value of six of its 27 businesses by £1 billion is not an adequate test of the Executive's effectiveness. One or two large businesses, potentially affected by market conditions, can influence whether the Executive meets its target, regardless of the Executive's underlying performance. Its performance management regime needs to include wider measures that are based on the results of individual businesses, alongside an aggregated portfolio-level target.**

6. The Government accepts that the targets should be refined going forward, although it believes that the £1 billion target was an appropriate target at the time it was introduced in 2004. The £1 billion value enhancement target was the first attempt to link performance and shareholder value, and therefore it was decided to apply this objective only to businesses with which at that time the Executive had a close working relationship. The Executive is working up proposals for a new set of targets with the aim that these will come into force from the beginning of the financial year 2008-09.

**PAC conclusion (6): The Executive operates within departmental pay and grading limits which may inhibit recruitment of appropriately skilled staff. The quality of the Executive's staff is key to its effectiveness. The Executive needs sufficient pay flexibility to continue to recruit high calibre staff in a market for commercially related skills.**

7. The Government accepts the conclusion and recognises that the Executive's staff and their mix of expertise have been a key contributor to its success thus far. The Government agrees that remuneration flexibility is essential to ensure it continues to recruit and retain appropriately skilled, high calibre staff. BERR will work with the Cabinet Office and the Treasury to explore pay flexibility.

**PAC conclusion (7): The Executive has a range of responsibilities for the postal services industry, which extend beyond shareholder value issues. The Executive's current location in BERR means that, in addition to the shareholding in Royal Mail, it is responsible for BERR policy on the postal market and the Post Office network, and oversight of the market regulator and consumer watchdog. This arrangement could inhibit the Executive from articulating the case for enhancing shareholder value in Royal Mail. The Department should identify options for relieving the Executive of responsibility for Royal Mail policy and oversight of PostWatch and PostComm.**

8. Although the Department does not believe there was any actual conflict of interest in the discharge of the Executive's postal services responsibilities, it accepts that there may have been a perceived conflict. Responsibility for postal services policy and sponsorship of PostComm and PostWatch moved to the Enterprise and Business Group within BERR with effect from 3 September 2007.

**PAC conclusion (8): Between 2004 and 2006, the dividends paid have increased from £24.3 million to £45.3 million, while operating profits have risen from £1.1 billion to £3.7 billion. The Executive should set business-level dividend targets, which take into account the risks faced by businesses, the capital invested in them and a credible estimate of future investment needs, so that over time a greater flow of dividends could be returned to the taxpayer.**

9. The Government accepts this conclusion and agrees that it could do more work on improving the rate of dividend return. However, it is important to bear in mind that some of the larger businesses cannot pay dividends for policy reasons. For example, as part of the Royal Mail's Renewal Plan, the Government agreed not to take dividends for three years; British Energy returns cash to the Government as part of the cash sweep arrangement; a debt covenant prevents NATS' regulated subsidiary (NERL) paying dividends until 2008; BNFL agreed to return value to the taxpayer through the disposal of assets; and Channel 4 and British Waterways are both required to break even and reinvest any surplus towards their public service objectives.

10. The Executive is considering what type of dividend target or targets would be appropriate, taking into account the factors referred to in the Committee's conclusion. The aim is for these targets to come into force at the start of the financial year 2008-09.

**PAC conclusion (9): The Executive does not undertake valuations of all of the businesses in its portfolio. Although it is not cost-effective to conduct valuations of all of its businesses on an annual basis, the Executive should systematically undertake valuations of the businesses in its portfolio every few years and use these to highlight the impact of policy on shareholder**

11. The Government accepts this conclusion. It agrees it may not be cost-effective to value every business on an annual basis due to the resource required to undertake a full valuation. In addition, there may be cases where it is not in the commercial interests of Government to publish a valuation, for example when a sale process is underway. However, the Executive is considering how best to value its businesses and will aim to introduce a programme of valuations from the start of the financial year 2008-09.

12. The Government notes, however, that different valuation methodologies are appropriate for different asset classes and that all valuation methodologies have their limitations. There can be no true proxy for the actual value of an asset as determined by two willing parties in a competitive marketplace. The PAC report includes details of the NAO's multiples based valuations for the portfolio businesses. As the Committee's report notes, neither the Executive nor the portfolio businesses either verified or endorsed these valuations.

# Forty Sixth Report

## Ministry of Defence

### Ministry of Defence: Major Projects Report 2006

1. The report by the Committee of Public Accounts (the Committee) examined information provided on the time, cost and performance of the 20 largest projects of the Ministry of Defence (the Department) where the main investment decision (known as Main Gate) has been taken and the top ten projects in the earlier Assessment Phase (known as Initial Gate). During 2005-06, the Department undertook a review of the 20 post-Main Gate projects to control its costs better. The report looked at three main issues: the impact of the cost savings measures identified by the Departmental Reviews in 2005-06, the performance of individual projects, and the Department's initiatives to improve acquisition performance.

**PAC conclusion (1): The Department's Review of 20 of its largest projects cut their forecast costs by £781 million, but £448 million of this expenditure did not result in a saving to the Department as a whole as it was transferred to other budgets. The Department will have to forgo other – so far unspecified – activities, which might otherwise have been financed from those budgets. As an integral part of any further reviews, the Department should quantify the opportunity cost to the recipient's budget of having to absorb such transfers of expenditure, and the impact on their continued ability to plan and deliver the capabilities originally expected from those budgets.**

2. The Department accepts this conclusion. The principle applied to the transfers was to ensure that costs were allocated in such a way that the performance of individual project teams in controlling direct project costs could be effectively measured, for example maintaining defence-critical industrial capability, in accordance with the Defence Industrial Strategy. This generally cannot be controlled at an individual project level. Other costs, not directly related to delivery of the project, were transferred to other lines where it made sense to manage them and where any necessary trade-offs could be made to live within our means. In making these decisions the Department took full account of the potential impact on the receiving area and will continue to do so. Where such instances arise in the future the Department will take steps to ensure any opportunity cost is quantified.

**PAC conclusion (2): The Department has made investment decisions based upon inaccurate forecasts. Such decisions should be contingent on the outcome of an expert independent assessor's examination of the technical, financial and commercial maturity of the major projects and the likelihood they will deliver military benefits anticipated, similar to the examination conducted on the Future (Aircraft) Carrier.**

3. The Department broadly accepts this recommendation. As part of the Defence Acquisition Change Programme a number of measures are being put in place to ensure the technical, financial and commercial maturity of major projects. These include requiring all major projects to provide evidence that cost estimates have

been created or verified by suitably expert organisations independent of the project and that independent technical advice has been obtained from an agreed expert source. “Independent” in this context need not mean external to the Department; this will be dependent on the nature and scope of the project.

4. In addition, the Department has established a due diligence unit to examine the commercial maturity of major projects before contract award. Projects with an “adverse” rating will not be permitted to proceed to contract and will be referred back to the Department’s internal approving authorities.

**PAC conclusion (3): The cost increases and delays on the Astute Class submarine project in part stem from failure to preserve the submarine supply chain. The Defence Industrial Strategy, introduced in December 2005, provides a framework against which to make judgements on the sustainment of critical industrial capabilities. The Department should routinely quantify the cost implications and operational benefits of sustaining critical defence capabilities for individual projects. The Department will also need to apply the learning from the Astute project in planning for a successor to the nuclear deterrent.**

5. The Department agrees with this conclusion. The Defence Industrial Strategy has provided a catalyst for the assessment of the industrial capability necessary to support submarine design and build activities. The establishment of the Astute Key Supplier Forum (KSF) is evidence of the resultant good working practices being developed between Department and Industry. These are already bringing benefit to the Astute programme through innovative design solutions and improved collaboration. Importantly these benefits will flow through to the Successor programme.

6. The KSF is very much an active, joint engagement strategy, regularly reviewed and constantly alive to suggestions regarding more efficient ways of working. In addition, within our wider key supplier management and supply network processes, the Department is monitoring the supply chain for existing and potential weaknesses, to assess to project and cost implications, and develop mitigating strategies. This improved, constructive and open dialogue is building a common understanding of risks and opportunities, enabling a better understanding of the cost of industrial sustainment across the submarine design and build enterprise. The Department plans to do the same for others areas of capability.

**PAC conclusion (4): The Government has announced plans to embark on a major project to build a successor to the nuclear deterrent, which is estimated to cost in the region of £19 billion and take up to 18 years. Many of the cost overruns on older projects have been due to over-ambition in the original design and a failure to properly understand and budget for costs. The Department will need to apply the learning from Astute to this new project, including how to realistically plan and use Computer-Aided Design, keeping to the required timescale in the design and build cycle; and using new methods of construction pioneered in the United States of America.**

7. The Department agrees, but provides the following clarification. The White Paper *The Future of the UK's Nuclear Deterrent* gave initial procurement cost estimates in the range of £11-14 Billion (at 2006-07 prices), and a timeline of 17 years to design, manufacture and commission a new class of submarines. The programme has just entered the concept phase during which cost estimates will be refined and detailed programme plans will be developed. Clearly these plans will need to draw heavily on lessons learned from the Astute programme. In particular, the programme will work to a construct that is similar, but not identical, to the arrangements in place for the successful Vanguard programme.

8. The role of Design Authority will revert back to the MoD to provide both a better balance between risk and major investment decisions, and to use the technologies developed through the Astute programme where possible to reduce the risks associated with introduction of the new class. Finally, work with the United States of America will continue, as outlined in an exchange of letters between Mr Blair and President Bush in December 2006, including building on progress made through Astute to further refine submarine design and build processes.

**PAC conclusion (5): Key staff are neither held to account for a project's failure, nor rewarded for its success. The Department will now promote staff in post to retain vital skills, and continuity at key stages of projects, or move staff on in the case of failure. The Department should document its approach and how it will measure success, so as to evaluate the expected benefits against the outcomes; and it should share its learning with other government departments.**

9. The Department accepts this recommendation. Since formation of Defence, Equipment and Support (DE&S) organisation on 2 April 2007, a range of additional HR flexibilities have been delegated by the Department to enable this. These include the ability to promote, in a limited number of cases, Team or senior Project Leaders, in situ. This delegation, based on both individual merit and achievement, provides continuity and stability at critical stages within a project. Minimum tour lengths are now agreed for DE&S staff on appointment to projects in order to better manage personnel succession planning, staff retention and provide greater stability in project management.

10. DE&S seeks to undertake active career management intervention. This provides for the managed advancement of key staff and conversely, where performance is not judged acceptable, individuals are provided with opportunities that better match their skill sets. Poor performance is not tolerated.

11. DE&S is piloting a Reward and Recognition strategy to further enhance and link improvements in business performance with the effectiveness, and hence efficiency, of Business Units, Teams and the individual.

12. DE&S seeks to share learning and best practice with a range of other Government Departments. As an example, DE&S is represented at a senior level at the HR Director's Forum (South West).

**PAC conclusion (6): The Department has not received a share of the gains on the restructuring of the Skynet 5 satellite communications deal. It is also doubtful whether the gain achieved by the contractor, Paradigm, is balanced by the increased risk Paradigm was taking on under the restructured deal. Rather than relying on theoretical models and contractor assurance, the Department should determine the share of the gains to which it is entitled.**

13. The Department accepts the need to determine the share of the gains to which it is entitled. However the restructuring of the Skynet 5 satellite communications deal was not about financial gain versus risk, nor was it about refinancing per se. Appraisal work carried out showed that the threshold for the Department to receive any gain would not have been reached at the restructuring juncture. No money was retained by the company following the restructured finances. It was all placed into the new deal, to aid overall affordability, in pursuit of decreased risk to service provision, through satellite launch loss.

**PAC conclusion (7): The Department has not always sufficiently understood the capabilities of its key suppliers, to act as an intelligent customer. The Department should build on its Key Supplier Management initiative and work with suppliers to identify areas where more joint training and skills development would help develop a stronger shared ethos and mutual understanding.**

14. The Department accepts that joint training gives MoD and industry staff the chance to learn together and formulate common understanding of key concepts. The Defence Industrial Strategy indicated a desire to see more joint acquisition education with industry through the Defence Academy. Overall there has been a marked increase in joint interactions, aided by a range of marketing initiatives, including the publication of the Guide to Acquisition Training and Education (GATE) setting out all the courses available; but greater participation from industry is still welcomed.

15. Within the Defence College of Management and Technology (DCMT), industry participation is increasing in its Technical Employment Training, coaching and people development, and longer-term educational programmes including the Defence Acquisition Management MSc, Programme and Project Management MSc and the MBA (Defence). In addition, the Department and DCMT are developing new courses, including a new Defence Strategic Commercial Programme, to be run at Shrivenham in January 2008. Industry is also benefiting from the formation of Defence Acquisition Learning, as a new component of DCMT, which offers over 150 courses and is able to respond to special industry requirements.

# Forty Seventh Report

## Department of Health

### Clinical Governance in Primary Care Trusts

1. In 1998, the Department of Health (DH) introduced a ten-year programme to improve the overall standard of clinical care. The centrepiece is clinical governance, a framework through which NHS organisations are accountable for continuously improving the quality of their services and safeguarding high standards of care. The Health Act 1999 (and 2003) introduced a statutory 'duty of quality' for services commissioned and provided by all NHS Trusts, for which trust Chief Executives are accountable. The Department expects this duty of quality to be discharged, at trust level, through the implementation of clinical governance.

2. The Committee found that a structured approach to quality and safety through clinical governance is not as well established in primary care as in secondary care, largely because of the complexity of Primary Care Trusts' (PCTs) role in both commissioning and providing care; and the independence of contractors delivering healthcare, particularly General Practitioners (GPs). The Committee was critical about the lack of clarity between PCTs and their contractors as regards accountability for ensuring quality and safety, and saw scope for greater involvement of patients and the public in ensuring that primary care services are safe and of high quality.

**PAC conclusion (1): PCTs do not routinely include outcome measures for quality and safety in their commissioning arrangements. In developing its guidance for PCT commissioning, the Department should include the need for PCTs to include clear outcome measures on quality and safety in their contracts so that the performance of healthcare providers can be monitored and evaluated.**

**PAC conclusion (3): Not all GPs understand the concept of clinical governance and how it relates to their day-to-day work. PCTs need to use the opportunity presented by the new commissioning arrangements to communicate more effectively with their independent contractors on the importance of clinical governance systems and processes, and how the various components contribute to maintaining the quality and safety of healthcare provision.**

3. The Department accepts that there is variation in contract management and commissioning skills across PCTs and within the NHS as a whole. The new commissioning framework for the NHS and social care, *Commissioning for Health and Well-Being*, focuses on outcomes tailored to the needs of individuals. The new framework will apply from 2008-09 onwards – although commissioners have been using it to inform their preparations during 2007-08.

4. The second phase of the NHS Next Stage Review, expected to report in June 2008, will look into how the contractual and commissioning arrangements for primary medical care can continue to evolve to reshape incentives to provide a stronger focus on health outcomes and continuous quality improvements; whether there should be an independent process for setting and reviewing outcome measures in the framework; and whether there should be greater flexibility for PCTs in setting outcomes that reflect local needs and priorities.

5. The Department is currently developing World Class Commissioning – a broad programme of work to improve PCT commissioning capability. This consists of three main strands:

- articulating a vision and purpose for world class commissioning to inspire and motivate the NHS, by articulating more simply how commissioning fits with the other NHS reforms. It will also set out the key competencies that commissioning organisations will need in order to become world class commissioners, including working with partners and healthcare providers;
- creating a commissioning assurance framework to hold PCTs to account to deliver world class commissioning. This new model will provide incentives for achieving and maintaining world class commissioning status. It will encourage and reward good performance whilst ensuring that some minimum standards are met. The assurance framework will concentrate on how PCTs are able to deliver on outcomes;
- putting in place a support and development framework to help PCTs attain world class commissioner status. This will make it straightforward for PCTs to address weaknesses in commissioning capability, whether by sharing good practice with another organisation, developing their own staff or buying in some external expertise – for instance, through the FESC (Framework for procuring External Support for Commissioners).

**PAC conclusion (2): One of the areas particularly associated with improving quality and safety was effective clinical leadership, yet members of PCTs' Professional and Executive Committees often lacked effective leadership skills. PCTs should put training and development programmes in place, which focus on developing leadership skills for those responsible for managing the commissioning and provision of services. Priorities should be given to developing skills in: (i) Management and leadership skills for the Professional Executive Committee members, so that these Committees can play a strategic role in embedding quality and safety in the PCT Board agenda in relation to commissioning and provision of services; (ii) Joint working methods, to improve interaction between health and social care and also with voluntary and other local agencies, (iii) Patient and public engagement, which focus on involving service users more actively in service design and development across primary care.**

6. The Department agrees that effective clinical leadership is necessary to maintain and improve high standards of quality and safety. Following a review of Professional Executive Committees (PECs), DH published *Fit for the Future* (March 2007), guidance to PCTs on establishing new PECs by 1 October 2007. This guidance underlines the importance of identifying clinical professionals with leadership potential and providing support for their development. In response to the guidance, PCTs are now taking steps to strengthen and prioritise development opportunities for PEC members, for instance by providing training and mentoring support in leadership and transformational change.

7. *Fit for the Future* also emphasises that a key PEC role is championing patient and public involvement and leading clinical communications with partners and stakeholders to ensure that services are patient focused. In addition, voluntary organisation representatives and patients as well as staff, clinicians and others may be co-opted onto the PEC where specific pieces of work requiring their skills are to be carried out.

8. NHS Networks provides training resources<sup>3</sup> for PEC chairs and members which include techniques for patient and public involvement in service design such as:

- how to find out the views of patients and patient groups about commissioning services;
- working with Patient Advice and Liaison Services (PALs) and local patient forums;
- how to challenge the PEC to take a strategic view about service design from a patient's perspective.

**PAC conclusion (4): Patient and public involvement is less well developed than other aspects of clinical governance. PCTs need to have a clear strategy for consulting patients and the public on service design and delivery. Where PCTs obtain the views of patients and the public they need to show how they have acted on these views, including how these views have impacted on their commissioning decisions.**

**PAC conclusion (5): Of the 14 voluntary groups surveyed by the National Audit Office, all felt that PCTs could engage more effectively with their client groups. PCTs should identify where they can achieve efficiency gains and more consistent support to patients and their carers from closer joint working with voluntary groups, including joint provision of information to healthcare providers about support available to patients. They should routinely consult patient organisations and carer groups to capture and learn from their experiences and identify areas for improvement.**

9. The Department accepts that the systems for involving and engaging with patients, voluntary groups, and the wider public need to be strengthened and improved.

10. The House of Commons Health Select Committee published its review report on Patient and Public Involvement (PPI) in the NHS on 20 April 2007. The Government's response (June 2007) emphasises that user and public involvement should be seen as a mainstream activity which commissioners, providers and regulators will wish to use as a powerful tool for improving services to meet the needs of local people. The *Commissioning Framework for Health and Wellbeing* makes it clear that commissioners must place individual and community engagement at the centre of the commissioning decision making process. Commissioners can achieve this through:

- providing patients and the public with choice and control over the services and treatments available to them. Commissioners are expected to implement the free choice of elective provider by April 2008 with PCTs indicating their initial approach in their 2007 prospectus;
- empowering individuals to influence services and voice their concerns by for example, making it easy for users and patients to provide feedback, effective community engagement through a variety of techniques, and ensuring that there are effective advocacy services and complaints procedures in place.

<sup>3</sup> <http://www.networks.nhs.uk/networks.php?pid=28>

11. The framework expects commissioners to recognise the role that voluntary and community groups can play in providing for local communities and to show how patient and public views have impacted on their decisions by requiring PCTs in their annual prospectuses to set out their views of unmet needs, perceived gaps in service priorities and proposals for addressing these.

12. The Government is quite clear that although PPI must be embedded in everything that health and social care bodies do there remains a critical role for an independent patient/user led structure to guarantee a strong voice for local people. The Local Government and Public Involvement in Health Bill contains proposals to establish Local Involvement Networks (LINKs). LINKs will provide an independent PPI structure that will gather and amplify the differing needs and views of patients, users, carers and the wider public. Draft regulations, setting out how LINKs will work, were published for consultation on 28 September 2007. The Bill also strengthens and updates the existing duty on NHS organisations to involve and consult patients and the public.

13. The *Commissioning Framework for Health and Wellbeing* outlined the Department's vision is for a wider range of more innovative providers, including those from the voluntary sector, who work with commissioners to offer services better tailored to the changing needs of individuals. This includes a greater emphasis on prevention and early intervention, provision of information, advice and support by the voluntary sector, and shifting care closer to home. This vision will be firmly embedded in the World Class Commissioning programme.

**PAC conclusion (6): Patients in primary care are often unclear about how to complain or how their complaints will be dealt with, whilst staff are not always informed of the outcome. PCTs need to work with their Patient Advice and Liaison Service and other local patient advocacy groups to develop and put in place an effective complaint handling process. They should communicate the processes to staff, independent contractors, patients and carers; including what to expect in terms of timely feedback on the outcome of complaint handling. PCTs should also implement strategies for communicating effectively with patients and carer groups who may be unable to frame their complaint or present it effectively because of cultural, language or literacy issues.**

14. The Department agrees that there needs to be a clear and effective system at local level for handling complaints, which is easily understood by service users and staff. *Making Experiences Count*, a DH consultation document on a new approach to dealing with and responding to complaints in health and social care, closed on 17 October. The new approach aims to make the experience of making a complaint easier, more user-friendly, co-operative and much more responsive to people's needs.

15. A range of methods may be used at the local level to ensure organisations work more closely with individual patients to find an early resolution to complaints, with greater emphasis placed on directly involving service users throughout the complaints process. Commissioners in PCTs and Local Authorities will have an important role in ensuring the new approach works effectively and making sure that the lessons learnt from complaints feed into continuous improvement in the quality and delivery of services.

16. To achieve this, all organisations should adopt an open and helpful approach in dealing with a complainant (or their representative), in particular making them aware of the expected timescale for handling the complaint and any unforeseen delay. Where appropriate, they should ensure the involvement of specialist advocates who can help people with complex needs to voice their complaint effectively and to help that person to understand the organisation's response.

17. We are currently considering the responses to the consultation and working up detailed proposals implementation. We envisage testing this new approach using a number of 'early adopters' in both health and social care, prior to nationwide implementation.

**PAC conclusion (7): Only four per cent of GPs report untoward events and clinical incidents to the National Patient Safety Agency's National Reporting and Learning System resulting in limited sharing of learning either locally or nationally. PCTs should include in their contracts a requirement that all providers have an active incident reporting system that links to the national reporting system. PCTs should undertake regular audits, including cross referencing to complaints, to ensure that incidents and untoward events are being captured, and also benchmark performance to help identify under-reporting, whether by types of staff or by types of incidents. PCTs should require reports on the root causes of serious or recurring incidents and draw out themes so that solutions and risk reduction strategies can be developed.**

18. The Department recognises that only a small proportion of reports into the national reporting and learning system come from general practice. We also recognise that reporting from all primary care settings, including from general practice, is less well developed than in the acute sector.

19. A range of strategies are being put in place to address these issues:

- i. To encourage higher levels of reporting from doctors, the curriculum for doctors in training now (since 2005) includes formal teaching sessions that emphasise patient safety and accountability through clinical governance.
- ii. Although primary medical care contracts do not place any specific requirement on GPs to report incidents, the Quality Outcomes Framework (QOF) does reward practices for carrying out significant event reviews, the purpose of which is to encourage learning from significant events.
- iii. It should also be recognised that the vast majority of safety incidents initiated in general practice are likely to be associated with prescribing. Studies show that community pharmacy identifies and resolves more than 90 per cent of these. Community pharmacists now have in their contract a duty to report harm and the NRLS is receiving reports of incidents from community pharmacies.
- iv. The National Patient Safety Agency (NPSA) is also taking forward a project to involve general practice in improving their reporting and learning from patient safety incidents. It is testing the feasibility of different approaches including:

- rapid reporting of deaths or serious patient safety incidents via a general practice specific e-Form;
- reporting of what practices consider 'the most worrying' incidents other than those above. For example, incidents that could have service wide implications, risk prone situations and serious 'near misses';
- submission of Significant Event Audits (SEAs) to the NPSA using a dedicated e-mail address;
- communication tools that will provide targeted feedback for 'actionable' learning to practices, PCTs and the wider service.

20. The NPSA is also planning how to work with key stakeholders to engage directly with every general practice in England (and Wales). The aim is to develop a baseline of patient safety activity and inform the development of any local and national strategies to strengthen patient safety in general practice.

# Fifty Fifth Report

## Department for Environment, Food and Rural Affairs

### The delays in administering the 2005 Single Payment Scheme in England

1. The Department acknowledges, with considerable regret, the significant difficulties experienced with the delivery of the new scheme and the impact that this has had on individual English farmers and the wider farming community. The Rural Payments Agency (RPA) paid over 90 per cent of the money available for the 2005 Single Payment Scheme (SPS) within the required EU Regulatory timeframe (30 June 2006), but this was after the Government had made a commitment to pay the bulk of payments by the end of March.
2. Many of the lessons learned have been fed into the Department's wider review of its governance of delivery. Actions from this review are being taken forward as part of the Department's response to its recent Capability Review.
3. The RPA has also adopted a wide range of actions to improve performance, including development of leadership and management skills, changes to the way claims are processed for payment and enhanced IT systems and testing procedures. These enabled the Agency to make 98 per cent of the 2006 SPS payments, against a target of 96.14 per cent, by the close of the payment window on 30 June 2007.

**PAC conclusion (1):** The scheme is small, covering only some 116,000 claimants, but the Department made it unnecessarily complex by choosing to adopt the most demanding implementation options. It selected the 'dynamic hybrid' option for calculating entitlement, a one-year implementation timescale, and no de minimis threshold for claims. Scheme parameters should not be chosen in isolation, but with due regard to the overall complexity and risk they will jointly present.

**PAC conclusion (2):** Because the Government sought to implement the single payment scheme at the same time as a wider business change initiative, the Agency shed too many of its experienced staff and their knowledge at a time when it needed them most. It then spent some £14.3 million on agency staff in 2005-06 to process 2005 single payment scheme claims. Before combining projects, their interdependency and the potential for compounding risk should be assessed as well as the risks of the individual projects.

**PAC conclusion (3):** Implementation of the project started before the specification of the single payment scheme was finalised. The aim was to meet the March 2006 payment deadline, but the result was that the Agency had to make assumptions on what the final regulations from the European Commission would contain. It subsequently had to make 23 substantial changes to its computer systems to reflect policy and regulatory revisions. The risk of having to make changes later in the development of the scheme could have been given more weight in determining the implementation timetable at the outset. 2005-06 to process 2005 single payment scheme claims. Before combining projects, their interdependency and the potential for compounding risk should be assessed as well as the risks of the individual projects.

4. The Department agrees that in implementing any project decisions should not be taken in isolation and due consideration should be given to interdependencies and the potential for compounding risk. Responsibility for making decisions will rest at various levels, but a common factor is that decision makers must understand the nature and degree of the risks involved.

5. In this case, it was recognised from the outset that the result of accepting the Agency's recommendation to widen the scope of the existing RPA change programme to encompass the 2003 CAP reforms would be a complex and high risk project. It was resourced and managed as such throughout its lifetime. However, at no point did the Agency or independent assessors say that it was not possible to meet the project's objectives or that the risks were unmanageable, including when the model of the scheme and the implementation date were being considered.

6. Question marks have been raised – with the benefit of hindsight – as to whether the Agency had the capacity or capability to make an informed assessment of the likely impact of the new scheme on the systems and processes it was developing. The same is true in relation to the issue of staff numbers. The former DEFRA Permanent Secretary made clear on a number of occasions to the RPA that successful delivery was of paramount importance and that, if the Agency found that it was failing to meet the SPS delivery targets as a result of its efficiency targets, then the issue should be elevated to him. At no point was this done.

7. However, given the Agency's record in meeting its objectives and the reports of external assessments up to March 2006, there was no reason before then to query its capacity or capability to effectively communicate meaningful advice.

**PAC conclusion (4): Processing capacity had not taken sufficient account of the number of maps and mapping changes that would need to be processed. The scheme was based on land area managed, and incentivised farmers and new claimants to register additional land. A proper estimate of the scale of the work should be made by appropriate modelling and testing.**

**PAC conclusion (5): The Agency tested each key element of the IT scheme before introduction but testing in isolation did not fully simulate the real world environment and problems emerged later. Failure to test computer systems completely and adequately is a problem we have often seen with government IT projects. Time should be built in to test the IT systems as a whole as well as the individual components within it to obtain adequate assurance that components are fully compatible and deliver the required business process.**

8. The Department agrees on the importance of providing adequate time in the implementation timescale for appropriate testing of both claimants' behaviour in response to any new scheme and the IT systems and business processes which are developed to deliver it.

9. Given that the programme of digitised mapping had started a year before the introduction of the SPS, the Agency had by 2005 developed considerable experience of the technical and procedural issues involved and was able to estimate with reasonable accuracy the number of new claimants. However, claimant behaviours, particularly those of existing claimants, were not fully predicted. The lack of modelling in this area as well as the Agency's failure to test IT systems and business processes end to end was a contributory factor in failing to make 2005 SPS

payments as forecast. Enhanced testing of the IT and business procedures have since been embedded within the Agency operation and a full end to end test was completed before the second year of SPS payments began.

**PAC conclusion (6): Without an individual or small team processing a whole claim end to end, claimants found it difficult to obtain advice and information on the status of their claim and Agency staff were hampered in their attempts to resolve claimants' queries. The Agency had instead decided to adopt a task based design for claims processing to enable staff in different offices to work on any tasks relating to any claim, but it did not adequately consider the customer interest in following their claims through the process and the consequent impact of the new way of working on customer service. The development of new business processes should take the customers' requirements into account in the design of the proposed system and any potential contingency arrangements.**

**PAC conclusion (7): A lack of information was the principal cause of frustration and complaint within the farming community. Automated telephone lines provided unhelpful responses such as "there is nothing that the call centre staff can tell you about your payment". Farmers were discouraged from pursuing queries by being told that "If you contact us, this will divert resources away from the urgent tasks of completing validations and making full payments". A communications strategy should be developed which keeps all concerned but particularly customers in touch.**

10. The Department agrees with both these recommendations. Task based systems are widely used for major processing operations and provide a cost-effective solution in many cases. It was not surprising, therefore, that their use was recommended in the external review, which led to the creation of the RPA. However, given the complexities inherent in the EU rules governing SPS, including detailed cross-checking and validation of data, and the fact that a number of processes had to be completed separate from the main IT system, the lack of an overview of an individual case proved, in practice, detrimental to, amongst other things, customer service.

11. The Department and the Agency undertook a number of initiatives between 2003 and 2005 to explain the single payment scheme to the farming industry, including road shows, seminars and various forms of publications. When it became clear in March 2006 that the bulk of payments would not be made that month, considerable efforts were made to develop an enhanced communications strategy involving: meetings, initially on a weekly basis, between Ministers, the new Chief Executive of the Agency and the Presidents of the main farming representative bodies; more detailed discussions in a technical stakeholder group; engagement with the farming media; letters to individual farmers and regular web-site updates.

12. However, farmers were understandably focussed on the progress of their individual claims and that was the data that was not readily available to anyone to provide. In those circumstances, it was decided that the most appropriate thing to do was free up all available resources to address the underlying cause of farmers' queries as quickly as possible. While the necessity is regretted, therefore, the automated telephone messages the Committee referred to were an important element of the strategy to cope with the difficulties the Agency was experiencing.

13. Learning from that experience, progressive steps have been taken since March 2006 to move towards 'Whole Case Working' under which each individual claim is assigned to a particular member of Agency staff who is available to speak to the claimant about the progress of his claim. Further enhancements to the supporting IT systems are needed over the next couple of years in order to enhance systems to fully enable Whole Case Working, thereby improving the service provided to claimants.

**PAC conclusion (8): The Agency could not easily determine how much work remained outstanding on claims each week and how long it would take to complete them. The Agency had deferred development of software to draw out key information on the progress of each claim to focus resources on other parts of the system it considered to be critical. Those with oversight of the project thus found it difficult to distinguish between real progress and inherent optimism within the project team. Specific measures should be developed from the outset to enable implementation progress to be assessed objectively, and make sure management information systems enable appropriate data to be tracked.**

**PAC conclusion (9): The Agency mothballed one contingency system on the basis it would have experienced the same data accuracy problems as the main system, although it would have allowed processing on a claim by claim rather than a task by task basis. The Agency also decided not to invoke partial payments available from the end of January 2006 because it expected to make full payments in March 2006, but in the end was unable to do so. Genuine and workable contingency arrangements commensurate with the project profile and risk need to be factored into the business case and developed from the outset.**

14. The Department agrees with the Committee's recommendation about the need for genuine and workable contingency arrangements as a part of any project.

15. In this instance, a contingency IT system, based around that which supported administration of the schemes, which the SPS replaced, was developed in parallel to the main RITA system. However, while under development, the contingency system remained untested, incomplete and, had it been invoked, offered no routeway to the main system. As RITA developments continued, the need for a parallel system became much reduced and the contingency effectively switched to being an option to make partial payments.

16. The decision to invoke that option was taken in April 2006 and it was deployed a month later. As the Committee points out, it could have been invoked earlier, but the judgement was made that this was not necessary because the Agency's level of confidence of successful delivery was such that, in January 2006, the Secretary of State made a statement to Parliament advising that the bulk of payments would be made by the end of March.

**PAC conclusion (10): The Department did not recommend specifying a minimum claim size, unlike Germany, which specified a minimum claim of 100 Euros (around £68). Adopting a similar approach would have reduced the number of claims by almost 14,000 (12 per cent) and saved administration costs which may well have exceeded the sums claimed. In designing processes and in supporting documentation such as application forms, cost effective opportunities to simplify should be identified and implemented.**

17. The Department agrees that cost effectiveness and simplicity should be key in introducing new processes. It was with this in mind that the decision was taken to adopt, like Germany, the highest possible minimum claim size allowed under EU Regulations i.e. 0.3 hectares, but not follow the German example in adopting the option to set a minimum payment level.

18. The important point to note here is that in 2005, the first year of operation of the scheme, farmers applied for both entitlements, against which annual payment claims would be made, and the first year's payment. Member States were required to process the element of the claim relating to the allocation of entitlements, if the number of hectares applied for was above the minimum claim size of 0.3. The value of the annual payment claim would then be calculated, taking account of penalties and any other reductions.

19. Bearing in mind also the fact that value of an individual entitlement could vary significantly according to the applicant's historic CAP direct aid receipts, it was only at the very end of the process that it could be determined which payments that were due were over €100. Introducing a filter at that stage to put a stop on those payments would have added to, rather than reduced, the complexity of the overall administrative effort.

20. Arguably, a minimum payment level might have had some deterrent effect in respect of decisions by small claimants to submit claims. However, this may not have been significant as the claimants concerned would be aware that, due to the dynamic nature of the model of the scheme adopted in England, the value of their entitlements would increase in the period to 2012. So, even if claims were below €100 in 2005, most would exceed that threshold in later years.

**PAC conclusion (11): The Department and Agency established separate boards to provide technical programme management and critical challenge but there was a lack of clarity as to which Board or individual was ultimately responsible for decisions. The challenge board took a greater role in decision-making as the project proceeded, blurring its scrutiny role. The departmental Permanent Secretary at the time, Sir Brian Bender, bears responsibility for administrative failure leading to additional costs that together risk exceeding £400 million. There needs to be a clear distinction within project governance structures between those responsible for oversight and challenge and those managing the decision making process, even when a project reaches a crisis point.**

21. The Department accepts the need for clarity on governance structures. It notes, however, that the arrangements put in place to oversee progress of the project were commented upon generally favourably in the reviews carried out by the OGC and NAO at the time. Specific reference was made in those reviews to the fact that the structures followed best practice and provided a sound basis through which to manage risks. An independent adviser was also appointed to the boards to provide appropriate challenge. The Department accepts that, as the delivery deadline loomed, the degree of overlap between the responsibilities of the two groups involved increased, but does not consider that this resulted in any lessening of the challenge provided by senior members of the DEFRA team.

22. It is plainly the case that the Permanent Secretary and senior members of the Department involved in oversight of the delivery of the programme share some of the responsibility for the failures. But the Department's strong view is that the accountability rests fundamentally with the Chief Executive of the Rural Payments Agency. The organisation he headed was responsible for delivery, and at no time did he say to the Department that it was not possible to meet the objectives set.

23. Looking forward, the closure of the RPA Change Programme in spring 2006 and the arrival of a new RPA Chief Executive provided an opportunity to look again at the governance arrangements for the RPA. The DEFRA Management Board's corporate ownership interest has been placed with the Director General (DG) for Food and Farming, in line with new practice across DEFRA of placing this interest for any given executive agency with an individual member of the Senior Civil Service. This brings greater clarity to the accountability for managing the overall relationship with the RPA.

24. The corporate owner is supported by a new Strategic Advisory Board providing support and challenge to RPA at the strategic level and focused on the ownership interest. The new board has a small, tight membership and its members have been chosen as personal experts, rather than representatives, against a skills mix template for the Board. The resulting higher proportion of external non-executives (3 out of 7 members) has enabled greater non-executive challenge.

25. The corporate customer interest in the RPA has similarly been placed with the SRO for the 'Farming for the Future' Programme. Again this is in line with new practice to introduce greater clarity in the management of ownership, customer and stakeholder interests for all our executive agencies.

**PAC conclusion (12): The Agency's management team recognised the risks to delivery of the project, but the Chief Executive, Johnston McNeill, felt unable to show that it could not be delivered. At issue, however, was not just the feasibility of the project, but the acceptability of the risks, which were acknowledged to be high. If Accounting Officers believe that their assessment of risk is being discounted, the proper course of action is to seek a direction from the departmental Accounting Officer or Minister concerned as to whether they should proceed.**

26. The Government agrees that Accounting Officers should raise concerns about delivery the relevant Minister or Departmental Accounting Officer, as the case may be.

27. The Department can confirm that no such concerns were raised on this project before 14 March 2006. At that point, Mr McNeill advised that there was no possible scenario by which the bulk of payments would be made to farmers by the end of March 2006. Ministers had, on the basis of the Agency's advice, informed Parliament some six weeks earlier that the bulk of payments would be made by this deadline.

**PAC conclusion (13): The structures originally set up to oversee the project included two Senior Responsible Owners, one for policy (in the Department) and one for implementation (in the Agency). Splitting the role of Senior Responsible Owner was bad practice, and undermined the Department's ability to challenge the Agency's progress reports. Every project should have one Senior Responsible Owner so that lines of accountability and responsibility are clear. The Department should agree progress milestones with the Senior Responsible Owner, whose pay and performance bonuses should be directly linked to performance objectives and programme delivery. Every project should have objective targets and progress data so that any corrective action can be triggered quickly.**

28. The Department agrees on the need for clarity on the role of and objectives for the Senior Responsible Owner (SRO) for any project and this is reflected in departmental guidance. It is not standard practice to appoint more than one SRO to a programme or project but joint chairs of the CAPRI Board were appointed on this occasion in recognition that there were two distinct phases (policy and implementation), which required different skill sets at different times in the project lifecycle.

**PAC conclusion (14): The implementation of the single payment scheme was subject to four Office of Government Commerce Gateway Reviews between May 2004 and February 2006, and three of these Reviews assessed the programme as "red". Development work on the computer system nevertheless continued and no contingency plan was invoked, despite limited confidence that the system would be ready on time. If 'red' reviews are to be taken seriously, departments need to be explicit about the circumstances in which they would lead to fundamental review or termination of a project.**

29. The Department agrees that SRO and supporting board need to continually monitor and assess a programme or project to determine whether it should be fundamentally reviewed or terminated. The particular circumstances that would warrant such action would be particular to each case, but might include advice from the project team or external assessor that the objectives would not be met or that risks had become unmanageable. There was no such advice in relation to this project.

30. A red assessment under the OGC Gateway Review process signifies the need for urgent rectifying action in specific areas. On each occasion the required action was taken and by the time of the February 2006 Gateway Review by the OGC on the last major IT release, the overall assessment was amber.

**PAC conclusion (15): We are disappointed that it took the present Accounting Officer, Mrs Helen Ghosh, nine months to provide the Committee with a full account (in the form requested) of the total cost to public funds of removing Mr Johnston McNeill from office as Chief Executive of the Rural Payments Agency and from employment as a civil servant. We expect Accounting Officers to show better co-operation with such requests by the Committee.**

31. The Department apologises for any confusion about the form in which summary information was given, but believes it co-operated with the Committee at all times in volunteering information and providing answers to the individual queries that were made.

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