



## **Treasury Minutes on the Thirteenth to the Nineteenth Reports from the Committee of Public Accounts 2006-2007**

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**Presented to Parliament by the Financial Secretary  
to the Treasury by Command of Her Majesty  
23 May 2007**

TREASURY MINUTES DATED 23 MAY 2007 ON THE  
THIRTEENTH TO THE NINETEENTH REPORTS FROM THE  
COMMITTEE OF PUBLIC ACCOUNTS SESSION 2006-2007

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# Thirteenth Report

## Department for Education and Skills, Ministry of Defence and NHS Purchasing and Supply Agency

### Smarter Food Procurement in the Public Sector

1. The public sector in England spends some £2 billion annually on food and catering, mainly in schools, hospitals, armed services and prisons. The quality and value for money of food are of concern to the millions of adults and children who consume it. Healthy and appetising food also has an important role to play in the long-term health of school children (including the need to reduce levels of obesity), improved NHS patient recovery rates and maintaining the operational effectiveness of the armed services. Many public bodies can improve the efficiency of their food procurement, freeing up resources for reinvestment in higher quality food and catering services.

2. On the basis of a report by the Comptroller and Auditor General, *Smarter Food Procurement in the Public Sector*, (HC 963-I, Session 2005-06), the Committee examined the organisations responsible for the three largest areas of public food expenditure – the Department for Education and Skills (DfES), the Ministry of Defence (MOD) and the NHS Purchasing and Supply Agency (NHS PASA) – on how the public sector can deliver healthier food at better value.

**PAC conclusion (i): Child obesity and the general health of children is now a major public issue with heightened concern, in particular, about the poor quality and nutrition of school food. To improve school food the Department for Education and Skills has committed a total of £220 million of additional funding over three years from September 2005, and a further, more targeted, £240 million for the three years from 2008-09. A key test of its effectiveness will be whether the new Nutritional Standards (mandatory from September 2006) are being met, such as the number of times that healthier food including fruit, fresh vegetables and oily fish are available over a given period; and whether take-up and pupil and parent satisfaction are rising.**

3. DfES accepts this conclusion, but draws the Committee's attention to a correction about the Nutritional Standards (The Education (Nutritional Standards for School Lunches) (England) Regulations 2006 SI 2006/2381). *Food-based standards* for school lunches came into force in September 2006. In September 2007, a further set of regulations will introduce food-based standards for school food and drink other than lunch and final food and *nutrient-based standards* for lunches will be introduced in primary schools from September 2008 and secondary schools from September 2009.

4. DfES continues to work with the School Food Trust (the Trust) to implement a major programme of reform designed to support local authorities and schools in introducing the new food-based and nutrient-based standards. Although the standards are statutory, take up of school lunches – including those provided free to eligible pupils – is voluntary. An annual survey of local authorities and some of the major catering organisations they work with began in April 2006. This will supply data on the number of school lunches consumed year on year and provide the basis for targeting support.

5. The Trust is working closely with the Department of Health's social marketing team on a parents' campaign to address obesity through healthy eating.

**PAC conclusion (ii): The School Food Trust faces a considerable challenge in influencing and changing the eating habits of the 7.6 million pupils in 21,000 schools across England. The Department needs to agree with the Trust an inspection and performance-reporting regime to assess whether it is on track to achieve its four published goals, including for all school meals to meet the food and nutritional standards for school food by September 2009. The Department and Trust will need to build on the developing school meal inspection regime instituted in 2005 by Ofsted.**

6. The DfES accepts this conclusion and arrangements are already in place to monitor the progress of the Trust in relation to its goals and targets. These include regular reviews between the Trust and DfES and quarterly meetings between the Trust and DfES Ministers. In addition, the Trust will continue to monitor, through its annual survey, a wide range of indicators associated with the improvement and take-up of school food.

7. The Office for Standards in Education, Children's Services and Skills (Ofsted) will continue to inspect schools' approaches to delivering the 'be healthy' outcome of *Every Child Matters*, which includes a school's approach to healthy eating. Ofsted cannot undertake to investigate and report specifically on school food standards in institutional inspections; their reporting focuses on learners' well being and the extent to which learners adopt healthy lifestyles. However, the Department and the Trust will work with Ofsted and other stakeholders to identify what further assessment should be undertaken to ensure that schools are meeting the nutritional standards for school food.

8. The Trust is developing two internet-based audit tools for schools to assess both whether their food meets the standards and the management of their catering services and dining rooms. These will link schools with sources of support and provide data for the Trust (and DfES) on compliance with the standards and other aspects of school meals provision.

**PAC conclusion (iii): The School Food Trust also faces uncertainty about the availability of additional funding from the Big Lottery Fund over and above its £15 million core funding over three years. Additional funding could have been as much as £45 million as announced by the Department in March 2005, but now will be £20 million or less, with the actual amount to be confirmed by the summer of 2007. The Department will need to support the Trust in coping with this funding uncertainty particularly if, in addition, the Trust receives less than the maximum £20 million that now remains available.**

9. DfES is providing £15 million between 2005 and 2008 to fund the core activities of the Trust to support the reform of school food in England. Subject to the final allocations of the 2007 Comprehensive Spending Review settlement, the DfES will continue to fund those core activities of the Trust until 2011. The Trust's bid to support the establishment of cookery clubs involving pupils, parents and the wider community is additional to those core activities and the Trust is therefore seeking funding from the Lottery. It is also exploring other sources of funding to ensure that it has the necessary resources to deliver this initiative.

**PAC conclusion (iv): The average level of school meal take up is 45 per cent, and as low as 26 per cent in some local authorities. To meet its targets of increasing take-up by 4 per cent, by March 2008 and 10 per cent, by autumn 2009, the School Food Trust needs to help local authorities and schools to develop strategies to tackle the barriers to take-up, particularly in the worst performing areas. Good practice at some schools already includes providing a healthy and appetising range of dishes linked to education programmes, and more children-friendly dining environments with reduced queues (for example, by staggering lunch breaks over longer periods or introducing cafeteria-style catering services).**

10. DfES accepts this conclusion. Increasing the take up of school meals and overcoming barriers to increased take up are at the heart of the Trust's remit. The Trust is working closely with local authorities, caterers and schools to understand the barriers to increasing take-up, to develop resources to help address the problems and to target help where it is required. These resources include a series of guides to introducing the standards: a revised food-based standards guide for school lunches and the new guide for food-based standards other than lunch are being published in April; the nutrient-based standards guide will follow in the autumn 2007.

11. *A Fresh Look at the Meal Experience*, to be published the Trust by May 2007, will provide advice on how to create an environment at lunchtime in which young people can enjoy their meal. The booklet addresses challenges such as queuing and use of dining room space; it also gives links to case studies on the Trust's website, with contact details of organisations that can give further advice. By July 2007, the website will display around one hundred varied case studies, capturing successful initiatives and good practice from around the country, on which schools and local authorities can draw.

12. The Trust is establishing a national network across the nine Government Office regions to provide avenues for sharing best practice, avoiding duplication and promoting understanding between agencies working to improve school food. Each region will work closely with School Food Ambassadors from Health, Education and Catering in local authorities, who will disseminate information from the Trust, share best practice within their local authority and nationally, and attend events and seminars.

13. Publicity campaigns play a significant role in encouraging positive attitudes to school food. The Trust is running an 'Eat Better, Do Better' campaign to influence attitudes of parents, children and young people to healthy food in schools. It has produced celebrity posters for display in school canteens, featuring celebrities from the world of sport and entertainment who will act as role models to promote the benefits of healthy eating. A digital campaign is being designed to appeal to teenagers. The Trust continues to provide support at appropriate events to engage with head teachers, school cooks and other school food stakeholders. For example, it is delivering a programme of conferences for school cooks. These events are designed to inspire the cooks to work with their school to develop a whole school approach to healthy eating and to increase the take up of school meals. When all twenty conferences have been delivered 1 in 4 of the head cooks in schools across England will have been contacted by the Trust.

**PAC conclusion (v): For many children and adults, publicly provided meals form a key element in their daily diet, but not all public bodies make the most of the opportunity to promote healthier eating. They and their contractors should assess regularly the dietary requirements of all their existing and potential customers, including the elderly and those from ethnic and religious minority communities, canvassing customer views as part of regular quality audits of catering services. Frontline organisations should work with contract caterers to introduce healthier food combined with educational events that encourage healthy eating, and introduce ‘traffic light’ systems to highlight the nutritional value of each menu option.**

14. DfES, the MOD and the Department of Health (the Departments) accept this conclusion. In schools, the introduction of the DfES’s new standards for school food will ensure that healthy, balanced lunches are available in schools, including provision for those with special dietary needs. Many local authorities and schools are already working with their contract caterers to develop menus that are attractive to children and also meet the standards; they are also identifying ways to promote healthier eating and make it easier for children to choose a balanced meal. The Trust’s nutrient-based guidance will make it clear that local authorities and schools should liaise with parents, including those from different ethnic minority communities and faith groups, to ensure meals meet varied dietary requirements.

15. Education about nutrition is a key part of the primary and secondary curriculum and the Trust has developed lesson plans to promote the new standards. The Trust is also working with partners to establish Regional Training Centres for the school food workforce. These will offer training and qualifications that will provide staff with the skills necessary to cook and promote food that meets the standards. The Trust will also be supporting all authorities and schools in this work through guidance, advice and the sharing of good practice.

16. The MOD’s nutritional policy is set by the Expert Panel on Armed Forces Feeding (EPAFF), whose overarching aim is to educate Service personnel about nutrition and healthy eating. Under the direction of EPAFF, a series of nutritional guides for commanders, caterers and individuals has been developed and issued. In addition, a nutritional DVD has also been made available to all Service units with a supporting presentation to reinforce the message being sent to recruit training units. The MOD also established a web-based service for personnel to seek nutritional advice from their consultant dietitians and nutritionists.

17. All NHS patient menus should be approved by a qualified dietitian, with consideration given to the dietary requirements of the whole in-patient population. In recognition of the requirement for nutritional product information, NHS Supply Chain operates and maintains the NHS Nutritional Database on behalf of the NHS. This database provides NHS staff with information on all products supplied through NHS Supply Chain and uses a traffic light system to identify the nutritional information. The majority of hospitals in England continue to comply with the standards set out by the Better Hospital Food Programme.

18. The Food Standards Agency (FSA) Strategic Plan for 2005-2010 includes a target to develop nutritional guidelines for institutions. This work contributes to the Department of Health's Public Health White Paper, which also has commitments to producing central guidelines for all food provided. Work is underway to develop nutrient – and food-based guidance for institutions, which will support cross-Government action on diet and food procurement. The FSA's guidance will feed into the Department of Health's consultation on the National Minimum Standards and regulations for adult social care.

**PAC conclusion (vi): There are wide disparities in the prices paid by public bodies for the same food items, ranging from between 32 pence and £1.10 for a standard 800g loaf of wholemeal bread, and between 17 and 44 pence for a pint of milk. Following the example of the Ministry of Defence, Departments should conduct regular benchmarking surveys or draw upon publicly available or commercially generated pricing information, and secure explanations from frontline organisations where significant price variations exist. They should also encourage greater use of e-procurement methods to stimulate increased competition and greater transparency of prices through, for example, e-auctions.**

19. The Departments accept this conclusion. DfES is chairing a cross-Departmental Food Procurement Group that is exploring the principle of price benchmarking with a view to understanding and responding to discrepancies recorded in the cost of food supplied throughout the public sector. The exercise aims to establish an understanding of the range of factors, such as the effects of bulk buying and distribution charges, which influence the cost of food procured. The outputs of the group will be used by the major buyers to improve their own performance and to identify opportunities for joint procurement.

20. Investment in e-procurement by local Government and the DfES On-line Procurement for Educational Needs (OPEN) system for schools will increase access to and visibility of better terms and a wide range of suppliers. The use of e-auctions for commodity items will accelerate improvement in prices with the support of Office of Government Commerce (OGC).

21. Use of e-tendering is now fully embedded within national NHS procurement and use of e-auctions is considered for all procurements but only employed when an e-auction is likely to deliver additional savings. The use of e-auctions contributed to the savings achieved within food procurement as part of the Supply Chain Excellence Programme. The MOD continues to conduct regular benchmarking surveys and e-auctions.

**PAC conclusion (vii): A lack of commercial skills and knowledge about the specialist food and catering market undermines the ability of frontline procurers to strike good deals with the major national wholesale food or multi-national contract catering companies. The three Departments (the Department for Education and Skills, the Ministry of Defence and the NHS Purchasing and Supply Agency) and the Prison Service, working with the Office of Government Commerce, should use their collective purchasing power to negotiate with the major food and catering firms for a larger share of the £95 million earned annually by contract catering firms from their suppliers by way of volume discounts and rebates.**

22. The Departments accept that some front-line procurers in education and health lack the commercial skills and knowledge to strike the best possible deals with the major food wholesale and contract catering companies, and are engaged in a range of mitigating activities.

23. The cross-departmental Food Procurement Group (FPG) – established by the OGC and chaired by DfES – brings together food procurement professionals from across Government to lead work on a range of strategic food procurement issues. It is working to enable wider access to existing centralised contract arrangements and to develop (i) a price benchmarking service for common ingredients; and (ii) standard specifications for common items. These products should be available later this year.

24. OGC and Departments believe that, rather than targeting discounts and rebates, it is preferable to improve understanding of the total costs of supply as a means of targeting savings. FPG's work on benchmarking and standard specifications should increase this understanding, as well as work to look at the end-to-end supply chain. In some circumstances, targeting supplier rebates as a stand-alone issue could impact on the margins of caterers in a market where apparently low margins are reducing the attractiveness of school catering business. During 2007, OGC will appoint a team a pan-Government approach to food procurement.

25. DfES's *Guidance on Procuring School Lunches* urges local authorities and schools (i.e. those responsible for procuring food for school lunches) to do more joint procurement, and to pool their knowledge and expertise to strengthen their bargaining position. Many of the larger individual local authority food and catering operations are quite substantial organisations (with only a minority of schools procuring their own food). So, collective purchasing power is operating at that level. To promote greater collective purchasing power, a local authority Chief Executives' Task Force focused on efficiency is, as part of its work, supervising regional Centres of Excellence, which are developing collaborative procurement among the local authorities within their regions. Some examples of collaborative procurement of food already exist (for example, the Eastern Shires Purchasing Organisation and the Yorkshire Purchasing Organisation).

26. The NHS Supply Chain food and catering facilities team is continually tendering for a wide range of contracts with suppliers of all sizes to aggregate demand to secure the best quality product at the optimum price. NHS Supply Chain has been proactive in developing intuitive methods to secure the most advantageous pricing, including the use of discounts for commitment, supplier rationalisation and streamlining the supply chain through removing cost and adding value.

27. The NHS PASA is working on developing a database of NHS Trusts contract-catering arrangements. Product and service costs can then be benchmarked. This information will enable NHS PASA to more effectively contribute to the Food Group's initiative to seek a sharing of rebate and associated contract income by the contract-catering sector. In addition NHS PASA is reviewing its procurement guidance documents for use by front line procurers when engaging contract catering companies.

28. The MOD does not accept that there is a lack of commercial skills/market knowledge within its organisation, which prevents it from placing competitive sourcing arrangements. The MOD has a dedicated commercial team and employs within the Defence Food Services Integrated Project Team, staff with specialist food and catering knowledge, who continue to refresh their knowledge of the market through training, development and research. The MOD has also invested in developing a Category Management Team that supports the activities of the commercial and catering staff and shares information with other Government Departments via the OGC's Food Procurement Group.

29. The Prison Service disagrees with the assertion that competitive deals for the purchase of food are undermined by a lack of appropriately qualified procurement staff. This is evidenced by the independent review of prisoner diet undertaken by the National Audit Office in 2006, which identified that significant improvements had been made to catering arrangements resulting in financial savings and improved quality of service. The Prison Service Procurement Group has a dedicated project team comprising specialist food buyers recruited from the private sector to develop and implement a category strategy for the delivery of food for prisoners and staff.

30. The programme is now at an advanced stage resulting in the award of two contracts that will consolidate deliveries for a wide range of ambient and chilled items. This will reduce gate opening times, thus improving security, and is projected to achieve cashable savings in excess of £1 million over a four-year period. The contract contains a number of features to ensure the security of supplies. Due to the unique nature of the Prison Service environment, the delivery solution has been carefully developed through a process of competitive dialogue, which was not extended to other Government departments. However the second programme of work for replacement contracts for frozen meat will be open to other Government departments on the basis that the products and delivery solution are likely to be a more standard arrangement.

**PAC conclusion (viii): Just over half of public bodies do not engage in any joint purchasing activity, particularly in the health and schools sectors, despite the fact that 44 per cent of those organisations use at least two of the same food and catering suppliers. The Department for Education and Skills and the NHS Purchasing and Supply Agency should encourage more examples like the four Essex primary schools which have achieved better deals, reduced overheads and obtained higher quality food by standardising and aggregating their food requirements. They should also promote greater use of nationally negotiated framework contracts.**

31. DfES recognises the significant benefits of aggregated procurement. Its *Guidance on Procuring School Lunches* recommends that schools work together to make the best use of resources, including jointly procuring the service to save time and share costs.

32. In support of purchasing of school food and catering by local authorities, DfES is working closely with the North East Centre of Excellence (NECE) – one of 9 regional Centres of Excellence set up in response to a recommendation in the National Procurement Strategy in 2003 and the Gershon Review<sup>1</sup> in 2004 – to develop collaborative approaches to procurement issues through the North East Centre of Excellence’s Food Procurement Action Group.

33. The Department for Environment, Food and Rural Affairs (DEFRA) and OGC have produced guidance, which covers collaborative procurement. DfES will ensure that this will be readily available to schools and local authorities and will identify ways in which the guidance can be put into practice.

34. The major central Government food procurers will be increasing the extent to which their nationally negotiated food contracts are available for use by other departments and the wider public sector.

35. NHS procurement policy recognises that aggregating demand, resulting with leveraging better pricing and reducing costs through fewer deliveries, is beneficial. Account Managers encourage NHS customers to utilise the benefits and economies of scale of NHS Supply Chain.

36. Where trusts are able to give commitment to NHS Supply Chain, this can be used to leverage even better prices from suppliers. NHS Supply Chain undertakes the procurement for the Department of Health School Fruit and Vegetable Scheme and the central commitment has resulted in aggregated national volume and a considerably lower price.

37. As part of NHS Purchasing and Supply Agency’s involvement in the Food Procurement Group, they have been reviewing food specifications adopted by MOD and HM Prison Service and comparing them with NHS food specifications, with the aim of identifying similarities and proposing amendments to drive forward uniformity in specifications; this will greatly assist collaborative tendering opportunities. A replacement national framework agreement is being tendered for meat, milk and bread; this will also enable other public sector bodies to participate in the framework agreement.

**PAC conclusion (ix): Frontline catering staff often lack the skills to receive and store food efficiently, or prepare meals that get the most from the ingredients, and a quarter of local authorities do not have enough cooks with sufficient skills to use fresh ingredients in preparing school meals. A commercially experienced on-site chef or manager can realise significant savings by, for example, instituting rigorous goods receivable checks, and redesigning menus to increase nutritional quality and balance more with less expensive dishes to minimise the risk of loss and reduce waste.**

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<sup>1</sup> An independent review of Public Sector Efficiency undertaken by Sir Peter Gershon entitled *Releasing Resources to the front line* (July 2004).

38. Since September 2005, a level 1 qualification in Providing a Healthier School Meals Service has been available. It has been specifically designed for staff involved in the preparation and service of school meals and it will help school caterers to improve pupils' nutritional intake from all food provided by the school meals service. The qualification enables school cooks to:

- understand how to provide a range of healthier foods and meals in the school dining room and know why this is important; and
- develop marketing ideas and material to promote healthier food choices to school children.

39. Since September 2006, catering staff have also been able to take units at levels 2 and 3 in food safety, preparing and cooking healthier meals, the development and introduction of recipes and controlling payments by taking units which we have added to the Support Work in Schools qualification (SWiS). Further information on the SWiS can be obtained from the Training and Development Agency for Schools website.<sup>2</sup>

40. These formal qualifications are supported by training materials from People 1st (the Sector Skills Council for the Hospitality, Leisure, Travel and Tourism industries) including a DVD with recipe demonstrations. Additionally, there exist full NVQ2 qualifications, which can be directly relevant to school cooks, in particular Professional Cooking and Food Processing and Cooking.

41. Schools and local authorities are able to use some of the £220 million additional funding for three years from September 2005, to pay for training for the school food workforce.

42. In September 2006, DfES asked the Trust to lead the work to establish Regional Training Centres to develop and promote a culture of professionalism within the school food workforce. The centres will not only provide training on cooking skills but also on the wider skills necessary to the school food workforce such as contracting and procurement. In April 2007, the Department gave the Trust £2 million of capital funding to assist with this work.

43. The Trust has convened a Training and Qualification Steering Group of key partners to develop a minimum criterion for these training centres. The Trust is working closely with all partners, including People 1st and the Training and Developing Agency for Schools to ensure that the network of training centres fits into existing partnership models of skills provision.

**PAC conclusion (x): A fifth of schools have kitchen facilities that are more than 30 years old. The Department for Education and Skills has made investment in new kitchen facilities a priority within a wider £8 billion capital investment by 2010-11 to refurbish and reconstruct the school estate. It needs to hold education authorities to account for meeting this priority, and challenge any failure to bring about the planned modernisation of facilities.**

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<sup>2</sup> <http://www.tda.gov.uk/support/qualificationsandtraining/vqs.aspx>

44. DfES agrees that local authorities, which fail to modernise their facilities, should be challenged. DfES is currently reviewing its data collection on capital investment to focus on output of strategic priorities such as new school builds and major refurbishments, and on specific priorities such as kitchens and science laboratories. This will inform its view of authorities' performance and be used to challenge local authorities as necessary and will inform the development of capital allocations.

**PAC conclusion (xi): If the above recommendations are implemented across the public sector as a whole there is scope, without affecting quality, to realise £220 million annual efficiency savings in food procurement by 2010-11, for re-investment in better facilities, training and food. For the three Departments, the Committee expects to see measurable progress within two years (by 2008-09) towards:**

**(a) the annual savings target of around £100 million estimated by the National Audit Office to be achievable in the education and health sectors by 2010-11, including a contribution from the wider £1 billion financial benefits promised by the Department of Health's recent deal with DHL; and**

**(b) savings of some £20 million promised by the Ministry of Defence over the five year life of its new main food contract.**

45. It is recognised that, when appropriate, aggregation can offer significant benefits. DfES will be striving to realise efficiencies and to achieve value for taxpayers' money, while also ensuring improvements in quality and sustainability. DfES aims to make the estimated efficiency savings for school food of £66 million by 2010/11 as long as central Government buyers are able to offer their bulk buying power and provide local Government players with an active role. DfES will work to establish effective collaboration within central Government and its agencies and between local authorities and schools. Any efficiencies generated would be recycled back into better quality, greater quantities or better facilities, so measuring the net effect of any improved procurement action will be difficult at a national level.

46. The NHS Supply Chain has a programme to measure and monitor all savings; this includes a sizeable contribution from the Food and Catering Facilities team who from February 2005 to September 2006 have delivered savings of £9.2 million.

47. The conclusion is accepted by the MOD, in so far as their contract will realise the quoted savings over the life of the contract.

**PAC conclusion (xii): The National Audit Office has demonstrated that it is possible for public bodies to increase the proportion of food purchased competitively from local or regional producers while complying with EU requirements. Following the lead of the Ministry of Defence in working with the UK meat industry, the three departments together with the Department of Environment, Food and Rural Affairs, should explore with UK food producers ways to increase the amount of UK produce purchased by the public sector. Public bodies should also be able to demonstrate that the animal welfare and food production practices of their suppliers adhere to the standards under which UK producers operate and satisfy themselves that enough independent spot checks and inspections are taking place.**

48. The DfES, Department of Health and the Trust fully support DEFRA's Public Sector Food Procurement Initiative (PSFPI) that includes an objective to encourage public sector bodies to increase tendering opportunities for small and local producers. In September 2006 DfES announced a five-point plan of action on school food, which included DEFRA-led activity along these lines. DEFRA is among other things:

- funding projects in the English regions to develop the capacity of small producers and to improve food supply chains into the public sector. Details are provided in the lists and reports on the regional projects page of the PSFPI website at <http://www.defra.gov.uk/farm/policy/sustain/procurement/projects.htm>
- funding English Farming and Food Partnerships (EFFP) to develop a Share to Supply programme to help producers cooperate in supplying the public sector and undertake a three-year project to develop more collaborative food supply chains, including into the public sector;
- providing guidance for buyers and suppliers on the PSFPI web site including the *DIY Guide to implementing the PSFPI – advice for practitioners* publication and a more user-friendly catering toolkit;
- encouraging public bodies to use their buying power to improve methods of production and animal welfare by specifying, as a minimum, relevant farm assurance standards and accepting, where appropriate, Red Tractor criteria or equivalent, as evidence that suppliers meet these standards. In a similar way progressing to higher standards such as, where appropriate, Linking Environment and Farming (LEAF) or equivalent for integrated farming or EC Regulation 2092/91 for organics; and
- launching the Year of Food and Farming to reconnect pupils with farming and the countryside and to encourage the take-up of more healthy and sustainably produced food.

49. The EU public procurement directive promotes equal treatment, transparency and competitive procurement as well as prohibiting discrimination on grounds of nationality. Where feasible and within the EU directives, home-grown products are promoted. The concept of UK sourced produce is very much adopted by the NHS Supply Chain Food and Facilities team, for example, Fruit and Vegetables sourced by NHS Supply Chain is carried out in line with Government policy on sustainability.

50. NHS PASA has been actively encouraging small and medium-sized enterprises (SMEs) to tender for framework agreements through regional Meet the Buyers activities and by working with trade associations (e.g. Meat and Livestock Commission) to promote the tendering opportunities through their members, and placing articles in relevant market publications to further attract interest. Reference is made to a variety of standards within their specifications.

51. In 2006, 71 per cent of the total number of suppliers working within NHS PASA's (NHS Supply Chain's) framework agreements for food (excluding ambient) were SMEs (40 per cent including ambient suppliers).

52. The conclusion is accepted, in part, by MOD as it reflects the present working practices within the Department, particularly in the context of the department's working relationship with the UK meat industry. The MOD does, however, need to ensure the year round availability of its 'Core List' commodities, which supply our worldwide operational commitments. This cannot be achieved, cost effectively, with a policy of local or regional buying alone.

53. During the competition for Prison Service contracts for ambient and chilled products and fresh produce, participants were required to demonstrate how they would reduce food miles over the life of the contract. The successful supplier for ambient and chilled products evidenced a diverse supply chain for the supply of fresh produce including a range of small, local producers. The proportion of products from this sector will be monitored throughout the life of the contract. The Prison Service is about to embark on a competition for the supply of frozen products, including meat and vegetables, and will observe best practise established by other Departments.

54. With regard to animal welfare, DEFRA is encouraging public sector bodies to specify higher welfare standards through a new model specification clause that promotes acceptance of farm assurance standards, including those of higher level schemes such as, where appropriate, Freedom Foods, or equivalent. The model clause allows buyers to give a higher weighting for produce meeting higher-level standards when awarding contracts, on a value for money basis. It is also being promoted in regional workshops for buyers and through a leaflet produced by the industry.

**PAC conclusion (xiii): The Department of Environment, Food and Rural Affairs has produced overarching guidance and toolkits on sustainable food procurement, but turning these into practical and effective contracting arrangements at the local level has proved less successful. The Department, together with the Office of Government Commerce and the three main food procuring departments, should work with the major food and catering firms to develop and promote improved contract management practices. These should, for example, encourage smaller, locally based, producers by breaking contracts into smaller lots, and focus on outcomes such as reducing waste or increasing healthy eating.**

55. The NHS has a strong record of awarding contracts to SMEs. NHS Supply Chain negotiates and manages contracts for the NHS for a wide range of products including sandwiches, meat/poultry, fruit/vegetable, dairy produce and bread – all of these contracts are awarded on a regional basis. Within the NHS there is an increased requirement for higher-end products. NHS Supply Chain has embraced this and can now offer a complete range of products supplied by SMEs and local suppliers, as well as a more health conscious products.

56. NHS PASA contributed to the development of DEFRA's *Food Procurement Toolkit* and was already employing good practice in contributing to sustainable food procurement objectives. They continue to contribute towards delivering the objectives set out in the PSFPI.

57. The Prison Service is working with suppliers to reduce food miles through the consolidation of contracts. The supplier of fresh produce has satisfied the Prison Service of its ability to work with small local producers and this will be monitored throughout the life of the contract. However the administration of a wide range of contracts across a range of sites dispersed over a wider geographic area would create inefficiencies that would significantly increase the total cost of supply. In addition, the use of separate suppliers for each of the main food commodities would increase the number of times gates had to be opened, thus increasing costs and potentially compromising security.

58. Actions taken by DEFRA to increase tendering opportunities for small producers include:

- publishing a user-friendly catering toolkit in April that was initially produced in consultation with public bodies, industry and the foodservice sector. It explains how buyers can include PSFPI in their catering and food supply contracts. It also provides sample tender documents, specifications and model contract clauses;
- contributing to DfES's *Guidance on Procuring School Meals* that advises on the procurement of food and catering services with references to the PSFPI, including the objective to increase tendering opportunities for small and local producers;
- producing the guide *How to increase opportunities for small and local producers when aggregating food procurement* to encourage greater cooperation among public bodies to aggregate demand. The guide shows how this can be done without putting smaller producers at a disadvantage. Increasing aggregation can not only reduce procurement costs and increase purchasing power, but also free resources to enable public bodies to work more closely with their suppliers;
- the OGC has provided support and advice to DEFRA in the development of this new guidance material, as well as producing its own advice and guidance on sustainability, aggregation and SME issues in purchasing;
- funding regional workshops for buyers and suppliers to provide practical advice; and
- working through the Government Offices for the Regions to encourage domestic producers to apply to supply NHS Supply Chain.

59. In addition to the support OGC is providing DEFRA, the new remit, structure and powers of OGC set out in *Transforming Government Procurement*, will drive a step change needed to support better and more effective purchasing by Government. All of these actions are helping to make contracting arrangements more effective at the local level – an area where DEFRA seeks to achieve continuous improvement. A MORI survey of the education sector commissioned by DEFRA should provide valuable data on the extent to which tendering opportunities for small and local producers are being increased under the PSFPI and on what more needs to be done to increase its uptake by local authorities and schools.

**PAC conclusion (xiv): Public sector procurers should seek to increase the proportion of food purchased from 'Fair Trade' sources that offer the same standard at a competitive price. In some cases fair trade products will be more expensive but departments should work with the supply chain to improve competitiveness while still securing a fair price for producers.**

60. This conclusion is accepted by DfES, MOD, the Department of Health and DEFRA. DfES has already published guidance to schools on the use of fairly traded produce; customer pressure in schools for fairly traded goods needs to be matched with a concerted effort to persuade the market to provide products at prices that the sector can afford.

61. It is the intention of the MOD to test, through its Food Selection Panel, a wider range of fair trade products in the future for inclusion on the 'Core List'.

62. The Department of Health is committed to supporting fairly traded food wherever possible within the boundaries set by the public procurement rules. A fair trade policy has been published, with a number of products available on national frameworks to all trusts. Ethically traded products are not just from the fair trade brand; they are also obtained from suppliers who have their own procedures for sourcing this type of product, for example, the Tea Sourcing Partnership.

63. The NHS Supply Chain currently offers a range of fairly traded products including tea, coffee and orange juice using a variety of certifying organisations including Fairtrade, Rain Forest Alliance and Ethical Tea Partnership. NHS Supply Chain is currently tendering a contract for confectionery, snacks and associated products and it is anticipated a number of the products awarded can be classed as being fairly traded.

64. The fair treatment of suppliers, including promoting fair trade, is an objective of the PSFPI with public bodies encouraged to make fairly traded goods available whenever possible. This objective is promoted in national conferences and regional workshops and in guidance and advice placed on the PSFPI website.

65. The OGC is currently reviewing its guidance on fair and ethical trading, in relation to public procurement to emphasise and clarify the positive actions that contracting authorities can undertake to encourage bids from fair and ethical suppliers.

66. During the recent competition for ambient and chilled products and fresh produce, the Prison Service required suppliers to offer prices for an 'economy' range, a 'mid-range' option, and an 'ethically traded' option. Whilst it is accepted that many fair trade products will be more expensive and therefore represent cost prohibitive, the Prison Service has committed to purchase ethically traded products where these are available at an equivalent price to those offered in the economy range.

# Fourteenth Report

## Ministry of Defence

### Delivering digital communications through the Bowman CIP Programme

1. The Bowman family of secure digital radios, and the associated Combat Infrastructure Platform (CIP), are key to the plans of the Ministry of Defence (the Department), to transform military communications and enable the Armed Forces to operate more effectively and at a quicker pace.

2. Bowman CIP enables secure voice communications and the transmission of large quantities of electronic data, which will facilitate, for example, collection and dissemination of information on the position of UK forces and the replacement and automation of many existing manual processes for command and control on the battlefield.

**PAC conclusion (i): There is no individual within the Department with full responsibility for ensuring that the Bowman CIP project meets its objectives. In 2006, the Department belatedly appointed a senior officer to act as Senior Responsible Owner. But he lacks the authority and time to effectively discharge this onerous responsibility and is only supported by a small staff. In applying the Senior Responsible Owner concept, the Department should equip those appointed to such challenging positions with the funding, authority and trust to fully discharge their responsibilities in line with the guidance issued by the Office of Government Commerce.**

3. The Department notes the Committee's views and agrees that in its earlier stages the Bowman and CIP projects would have benefited from stronger high-level governance arrangements. The Department believes that the governance arrangements, which were developed in the light of the OGC guidance in 2003 and as the programme evolved provide a robust framework for delivering the Bowman CIP programme. The senior officer now responsible for the delivery of networks such as Bowman CIP that underpin Network Enabled Capability (NEC) has the authority, position within the Department and support to ensure that obstacles to delivery are addressed and overcome while maintaining coherence with other projects supporting the wider NEC capability.

4. It is the Department's policy that large and complex projects or groups of projects will have a senior responsible owner appointed on behalf of and accountable to the Defence Management Board. In addition, under the Department's Defence Acquisition Change Programme, the Directors of Equipment Capability will fulfil the senior responsible owner role for each of their projects that are not covered by specific SRO appointments. Although the senior responsible owner may not have full financial or command/line management authority over all those delivering the projects, he or she will be empowered, have a good knowledge of the requirement, be competent to resolve conflicting priorities and be able to exert influence outside traditional management or command chains. This is consistent with the OGC guidance.

**PAC conclusion (ii): The Department took nine months to approve the revised deal struck with General Dynamics UK in October 2005. Time is money for the Department and its contractors, and delaying delivery of a much-needed capability could also cost lives. The Department intends to action the relevant recommendations from its Enabling Acquisition Change review to improve its in-house approvals processes. The Department should also engage the Treasury and other relevant government departments in developing a leaner, more responsive approval process so that decisions can be made in a more-timely manner.**

5. The Department agrees that responsiveness is an important attribute of the investment approvals process, alongside the need to ensure that proposals are soundly based and provide good value for money.

6. Implementation of the recommendations of the Enabling Acquisition Change report is being taken forward through the Defence Acquisition Change Programme. A number of changes to the approvals process have already been made. These include:

- the involvement of the Defence Management Board in the most significant investment decisions;
- the addition of the Defence Commercial Director to membership of the Department's Investment Approvals Board; and
- the delegation of the approval of the lower value lower risk equipment and support projects to the new Defence Equipment and Support organisation.

7. Other changes that will be introduced shortly include:

- a more streamlined scrutiny process which aims to ensure that project teams have, at an early stage, a clearer picture of the information required at the main decision points and simplifies the production of business cases;
- for larger projects, the inclusion of support costs in Main Gate equipment approvals;
- independent cost estimates; and
- the requirement to carry out commercial due diligence before contract signature.

8. The Department is engaged with HM Treasury to develop a more responsive procurement approvals process. Although engagement with other Government Departments does take place in the context of the approvals process, this does not impact on approval timelines.

**PAC conclusion (iii): The Bowman CIP project timescale was clearly unrealistic, and the inherent complexity and technological challenges were under-estimated. The Department should re-design its scrutiny processes and better align these and its assurance processes so that they are fit to deal with the challenges of modern defence acquisitions and to take into account the culture of over-optimism endemic in much defence procurement.**

9. The Department accepts the general thrust of the Committee's views. The Department recognises that the timescales set for the Bowman and CIP projects were challenging and was aware of the potential technical and complexity challenges, but on balance believed that the risks were worth taking in order to achieve coherence between the two projects and the earliest possible delivery of this important new capability. The deployment on operations of a militarily useful Bowman CIP from April 2005 was an important step forward. The Department recognises, as a general issue, the need for greater realism in the planning of defence capability and agility in the acquisition system.

10. Changes being introduced through the Defence Acquisition Change Programme, including the streamlining of process, better cost estimating and greater use of incremental acquisition are aimed at improving the acquisition system to provide better delivery of capability to the front line, and improved value for money for the taxpayer.

**PAC conclusion (iv): The vehicle conversion challenge posed by the unexpected variation in the land vehicle fleet could have been predicted if the fleet had been properly surveyed before contracts were placed. The problem was compounded by the absence of good data on vehicle configurations, and the practice, particularly in the army, of modifying vehicles without managing and tracking the modifications. Until the Department obtains adequate standing information on vehicle condition and configuration, it should re-emphasise to Users the importance of maintaining standard configurations wherever possible and should survey representative samples of vehicles before commencing modification work.**

11. The Department accepts that there is an issue with capturing and tracking information about modifications to vehicles. The UK armed forces' vehicle fleet consists of many types, which in some cases are themselves sub-divided into many variants according to role and parent unit. This fleet is, in some cases, up to 40 years old and over time and for good reasons has been subject to extensive modifications to meet the evolving operational or safety environment.

12. Given the general knowledge the Department had about the age and condition of the vehicle fleet, it was recognised that configuration control was an issue at the outset of Bowman conversion. A platform presentation programme was put in place that brought some commonality to the fleets but could not allow for platform-to-platform variations. The Department accepts in retrospect that more detailed survey and preparation work would have enabled the true scale of the variations present in the vehicle fleets to be better understood and the conversion programme to have proceeded more smoothly.

13. As a result in part of experience with the Bowman CIP conversion programme the Department is working hard to address vehicle configuration control issues and believes significant improvements will flow as more capable electronic engineering and configuration management systems enter service. Until then, the better use of existing data alongside revised processes within the Army will deliver worthwhile improvements.

**PAC conclusion (v): Complex new systems such as Bowman CIP are more expensive to support and will require more on-going training than their simpler predecessors. To encourage more serious consideration of Through Life Management issues and better inform future investment decisions, the Department should validate the quality of the key data underpinning decisions on the delivery of through life management capability including measures of financial maturity, and clarity about the capability needed.**

14. The Department agrees that clarity on requirements and the quality of data are key factors in the successful delivery of through life capability management. The Defence Acquisition Change Programme is addressing these issues. For example, the Department's capability planning process has been reformed to support through life capability management and now follows a multi-stage process to establish capability requirements, identifying risk and pressures relating to such areas as the industrial capacity, funding and maintaining the effectiveness of current capability.

15. Implementation of this process is expected to mature towards the end of 2007. Much of the data that underpins this work is generated by the newly formed Defence Equipment and Support (DE&S) organisation through its equipment Through Life Management Plans (TLMPs). The DE&S has initiated a programme of work to simplify and improve the design of TLMPs and complete a 100 per cent refresh of the data they contain by the end of the current financial year.

**PAC conclusion (vi): Bowman CIP was accepted in service in March 2004 with 27 major provisos that reflect the limited operational capability of the initial system. The Department should only accept that General Dynamics UK has cleared the provisos on the basis of robust trials-based evidence and should not pay any outstanding amounts until it is satisfied that the Armed Services are getting the capability they asked for.**

16. The Department agrees with the Committee on the importance of robust testing and trialing as a basis for accepting equipment into service. Acceptance of the next increment of Bowman CIP (Bowman CIP 5) will be based on the evidence gathered through extensive trialing activity in 2006 and 2007. These trials will graduate from highly demanding technical field trials to operational field trialing in the hands of the user. This trialing methodology will ensure that the capability delivered by General Dynamics UK is fully verified and validated before it is deployed on operations.

17. Included in this process is the clearance of outstanding provisos against full systems acceptance. In order to ensure the delivery of the required capability a number of significant outstanding payments to General Dynamics UK remain and will be held pending the delivery of the contracted requirement.

**PAC conclusion (vii): The Department has removed several important capabilities from the existing Bowman CIP programme. The Department has developed plans which it is confident will now deliver the most vital aspects of capability without further delay. The capabilities being delayed, such as the ability to communicate with allies, remain important, not least to reduce the risk of further friendly fire deaths. The Department is confident that, to date, no lives have been lost due to this deferral. It should, within the next year, develop a realistic forward plan to ensure the Armed Forces do not have to forego these capabilities for longer than is absolutely necessary.**

18. The Department remains confident that the revised Bowman CIP programme approved in 2006 will deliver the coherent and stable austere Bowman CIP capability necessary to provide the basis for Network Enabled Capability in the land environment. The Department notes that this level of capability, Bowman CIP 5, will improve on the ability of the current version to communicate with allies by secure voice by also providing an ability to transfer standard formatted messages or e-mail with allies, as explained in the supplementary memorandum of evidence submitted in response to Question 155. Bowman CIP will therefore increasingly contribute to our Combat Identification capability and the minimisation of the risk of fratricide.

19. The Department continues to believe that the deferral of technically risky capability from the current Bowman CIP programme was prudent. The Department confirms that it is working to define plans for future capability releases beyond Bowman CIP 5 and expects to consider these plans as part of its routine planning process. Among the factors that will shape these plans are the ability of the front line to absorb further large-scale changes and the constraints imposed by operational tempo.

20. The Department envisages a periodic capability release programme providing both capability enhancements and maintenance that will be informed by the current validation work on the delivery of deferred capability.

**PAC conclusion (viii): In addition to the timescale slippage, the Department has agreed to pay a further £121 million to General Dynamics UK to deliver Bowman CIP, despite a much reduced number of platforms to be converted, and some aspects of the requirement being shuffled to another project. Securing value for money in the long-term will require the Department and General Dynamics UK to work together collaboratively to cost-effectively deliver and sustain the capability required by the Armed Forces. To support this objective, the Department and General Dynamics should regularly assess the strength of their relationship.**

21. The Department agrees with the Committee on the importance of working in partnership with industry to secure long-term value for money. The Department's Key Supplier Management process employs a range of tools aimed at improving and maintaining the relationship with our key suppliers, and measuring and driving performance improvement in both the supplier and the Department.

22. The Integrated Project Team (IPT) dealing with Bowman CIP and General Dynamics UK have been actively engaged in that process. Looking ahead, the IPT is also working to measure and improve the strength of its partnering with General Dynamics UK and other companies involved in this work. This should yield benefit within the remainder of the current contract as well as informing any potential longer-term partnering arrangements.

# Fifteenth Report

## Department of Trade and Industry

### The termination of the PFI contract for the National Physical Laboratory

1. In 1998, the Department of Trade and Industry (DTI) and Laser, a special purpose company jointly owned by Serco Group PLC and John Laing PLC, signed a 25-year long Private Finance Initiative (PFI) contract, under which Laser would redevelop the facilities for the National Physical Laboratory (NPL) in Teddington.
2. This redevelopment involved the replacement of many existing buildings and the construction in 16 linked modules of over 400 laboratories, many of which had to meet exacting environmental requirements. The project suffered considerable construction delays and problems, the most serious of which involved 30 laboratories in which stringent temperature and / or sub-audible noise requirements had to be met.
3. In July 2004, Laser recognised that it did not have the financial capacity to complete the project to the required specification and proposed either revision of its contract or termination. After negotiations, the PFI contract was terminated in December 2004 and the Department paid Laser £75 million for its interest in the new buildings. The termination was the first for a major PFI contract involving serious deficiencies in contractor performance.

**PAC conclusion (i): The Department too readily assumed that the winning bidder would be able to meet the exceptionally demanding specification for this state-of-the-art scientific facility. Public sector clients should always satisfy themselves that contractors have the technical and financial capacity to handle the degree of project risk, which they undertake to bear.**

4. The Department accepts the Committee's findings and the Government accepts the Committee's recommendation. It is standard practice for authorities to consider the financial standing and the technical capacity and capability of contractors as part of the tender process. In addition, Standardisation of PFI Contracts (SoPC) provides guidance about the due diligence that procuring authorities are expected to undertake in respect of the contractor's sub-contracts and financing documents to satisfy themselves that the arrangements are sufficient to allow the contractor to deliver the service.

**PAC conclusion (ii): The long delay in completing the project obliged leading UK scientists to pursue their research in seriously outmoded facilities. Through improvisation and ingenuity, they were able to continue their work, but it must be regretted that they were placed in this position by shortcomings in the Department's procurement strategy for the new facilities.**

5. The Department notes the Committee's conclusion.

**PAC conclusion (iii): The Department had only limited scope to use competition to encourage Laser to improve its design. Before short-listing bidders, departments need to gauge the strength of the interest in their projects and reformulate projects if there is not sufficient interest to provide strong competition in the procurement.**

6. The Government accepts the Committee's recommendation and this has been addressed in the Treasury's Value for Assessment Guidance (August 2004, updated November 2006). The guidance requires that an authority planning a procurement or an approach to the market should, as far as possible, assure itself in the early stages of planning that a competitive market exists to meet the proposed requirement. Further, the guidance requires that authorities undertake a continuous assessment of the quality and extent of competition from the issue of the OJEU Notice to contract award.

**PAC conclusion (iv): The bid submitted by one of the two remaining bidders was weakened by the Department's concerns that the bidder's proposals for exploiting surplus land might not be acceptable to the planning authority. Departments should satisfy themselves that bidders can meet the principal requirements of the project before considering the potential benefits from secondary opportunities.**

7. The Government notes the Committee's recommendation and agrees that procuring authorities need to ensure their evaluation frameworks are structured to appropriately reflect priority areas.

**PAC conclusion (v): Although it had concerns about the bidders' design, the Department expected the financial consequences of failure to discipline the prospective contractor into taking corrective action. If departments have concerns about bidders' designs, they need to satisfy themselves that bidders have addressed these concerns before placing contracts. For particularly challenging projects, departments should require bidders to demonstrate that their designs will work before the award of contract, for example by constructing prototypes of their designs. The highly technical nature of this project means that the Department should have consulted the scientists affected more closely.**

8. The Department accepts the Committee's findings on the limitations of expecting the financial consequences of failure to act as a discipline on the contractor. The Government accepts the Committee's recommendation that Departments need to satisfy themselves that any concerns in respect of the design are addressed before the contract is signed. It is standard practice for authorities to ensure a robust technical evaluation of the deliverability of contractor's designs is undertaken. In addition SoPC guidance makes clear that it is not in an authority's interests to watch without comment as a design is developed and implemented which is known will not be able to deliver the service. Procedures are therefore included within PFI contracts to ensure an authority is able to comment on design issues during the design development period. The Department considers that the scientists at NPL were fully involved with drawing-up the specification for the new facilities.

**PAC conclusion (vi): The Department was reluctant to insist on changes [to the design] for fear of taking on responsibility for the design. Departments should require bidders and contractors to notify them of significant changes of design, and demonstrate that amended designs will continue to meet the required specification.**

9. The Government accepts the Committee's recommendation, and guidance in respect of this is set out in SoPC. The contractor's design proposal is included in the contract, along with the procedure for developing the design. The guidance makes clear that although the contractor is responsible for the design, the authority's knowledge of its own service requirement should not be lost to the development process. Consultation with the authority and adoption of any of their comments must, however, remain firmly at the contractor's risk. The contractor will need to continue to demonstrate through the design development process that the design will be capable of delivering the required service.

**PAC conclusion (vii): The Department retained use of the existing facilities at the NPL while the new buildings were being constructed. Departments should plan standby arrangements so that if there are delays to projects they can maintain business continuity without compromising their requirements.**

10. The Government accepts the Committee's recommendation. PFI contracts are structured in such a way to ensure the contractor is financially incentivised to commence the services on time. However, where failure to provide the service by a critical date would be unacceptable the authority must develop an appropriate contingency plan. This guidance is included in SoPC.

**PAC conclusion (viii): The project lenders did not exercise their step-in rights to save the project because they did not want to take on the responsibility of solving the problems with the design. Treasury guidance recommends the provision of such rights to provide an opportunity for lenders to revive projects whilst avoiding the disruption of termination. Departments should be aware that project lenders are unlikely to exercise their step-in rights unless they consider it in their interests to do so.**

11. The Government accepts the Committee's recommendation. PFI contracts are structured so that the private sector is responsible for the delivery of services on time, on budget and according to specification, and this helps to protect authorities from the consequences of a contractor's financial difficulties.

12. In addition to these structural protections a number of key contractual provisions provide authorities with protection in circumstances of contractor distress. These include but are not limited to providing rights to the lenders to step-in to a project, giving them the opportunity to resolve difficulties in order to preserve the value of their investment, and to replace the contractor. Authorities should not rely on this mechanism in the absence of others however, as clearly the lenders will only step in where it makes commercial sense for them to do so.

13. It should be noted that authorities also have step in rights which allow it, in certain circumstances, to substitute the performance for the contractor's obligations or to take over management of key sub-contractors. Guidance about the financial robustness of contracts and contractor distress is included in SoPC.

# Sixteenth Report

## Department of Health

### The Provision of Out-of-Hours Care in England

1. Approximately nine million patients receive urgent primary out-of-hours care in England every year. The term out-of-hours care refers to care delivered between 6.30pm and 8.00am on weekdays and at all times during weekends and public holidays. Prior to April 2004, General Practitioners (GPs) were responsible for the provision of this service, but this was unpopular with GPs and there were rising levels of complaints from patients. GPs were given the option to opt out of personal responsibility for out-of-hours provision under a new General Medical Services (GMS) contract agreed with the medical profession.

2. The PAC Report was critical of the preparations for the introduction of the new GP out-of-hours services in April 2004, both at national and local level and felt that this had resulted in the new services costing more than necessary. The PAC also found that the new service is improving but suggested that actual performance against the key access targets is still not good enough. On the basis of a report by the Comptroller and Auditor General, The Provision of Out-of-Hours Care in England (NAO Report) (HC 1041 Session 2005–06), the Committee took evidence from the Department of Health (DH) on the provision of out-of-hours care in England.

**PAC conclusion (i): The Department of Health (the Department) failed to make clear whether it regarded out-of-hours care as an urgent or unscheduled service. It was therefore difficult for Primary Care Trusts to plan or commission services according to the type and volume of demand for out-of-hours care. The Department needs to decide which kind of service it wants to provide, and give Primary Care Trusts a definitive statement so that they can plan or commission services for the future.**

3. DH accepts that some primary care trusts (PCTs) were unclear about whether they should be providing an urgent or unscheduled out-of-hours service. However, the Carson Report: Raising Standards for Patients New Partnerships in Out-of-Hours Care<sup>3</sup>, (October 2000), an independent review of out-of-hours services, set out a basic principle that the purpose of out-of-hours services in primary care should meet those urgent patient needs that cannot safely be deferred until the patient's own GP practice is next open. While some PCTs would have welcomed clearer guidance on the type of service they should be delivering, DH wanted PCTs to commission an out-of-hours service that would meet the needs of the local population.

4. DH accepts that PCTs need a definitive statement so they can plan and commission services effectively in the future.

5. The White Paper: Our health, our care, our say: a new direction for community services,<sup>4</sup> gave a commitment to develop a framework for urgent care, which PCTs and local authorities can use to improve patient and user experience, including reducing unnecessary hospital admissions.

<sup>3</sup> [www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_4007133](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4007133)

<sup>4</sup> [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_4127453](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4127453)

6. DH has just completed a 12 week public consultation on the Direction of Travel for Urgent Care<sup>5</sup>, which will provide valuable input to the development of an urgent and emergency care strategy.

7. DH is now working with stakeholders and service users to develop the strategy further and is planning to publish the urgent and emergency care strategy in spring 2007. The strategy will clarify what kind of service we expect PCTs to provide.

**PAC conclusion (ii): The new contract allowed GPs to opt out of responsibility for the out-of-hours service at an average cost of £6,000, less than half of the cost to the Primary Care Trust of providing the service. This sum was the outcome of a negotiation which was not rigorously conducted by the Department, and which was based on a serious under-estimate of Primary Care Trusts' likely costs. In future negotiations the Department needs to improve value for money for the taxpayer by being a lot better informed on the likely impact of decisions under consideration.**

**PAC conclusion (viii): The £70 million gap between departmental allocations for out-of-hours services and actual expenditure has forced many Primary Care Trusts to incur further deficits or raid other parts of their budgets in order to maintain a safe out-of-hours service for their patients. The Department should rigorously evaluate the financial impacts of proposed initiatives in advance, for example by forecasting the likely impact on pay rates that might be caused by changes in a service, so that they do not unintentionally lead to deficits or adversely affect other services provided by Primary Care Trusts.**

8. DH accepts that providing out-of-hours services has cost PCTs more than anticipated but also agrees with the findings of the NAO Report: that with improved commissioning there is significant scope to reduce costs in the future of out-of-hours provision. It is also worth bearing in mind that there has been considerable increased funding to the NHS over recent years so this should be seen in that context.

9. DH agrees that rigorous evaluation of financial implications of proposed initiatives should take place in advance. In May 2006, DH established a new Revenue Investment Branch (RIB) to help improve the forecasting of the financial impact of its policies on the NHS. The new branch will achieve this objective through two separate means:

- a. reviewing the costs associated with new large-scale, significant policies to ensure that proposals submitted to Ministers have been adequately tested and the quality of the financial advice provided is sound;
- b. developing guidance to enable policy makers to cost their own policies. This guidance will be encapsulated into a costing handbook which will assist policy makers (and their analytical staff) to cost policy and account transparently for risk and uncertainty.

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<sup>5</sup> [www.dh.gov.uk/en/Consultations/Closedconsultations/DH\\_4139428](http://www.dh.gov.uk/en/Consultations/Closedconsultations/DH_4139428)

**PAC conclusion (iii): By acting as an observer in the new General Medical Services contract negotiations, the Department was poorly placed to achieve the best outcome for taxpayers. Although the Department ultimately approved the outcome of negotiations, their importance meant that it was not enough for the Department simply to observe the negotiations that were being conducted by the NHS Confederation. To reflect its accountability for the cost, the Department should be a principal in future contract negotiations.**

10. DH does not agree that it should be a principal in future contract negotiations. The process of negotiation is better if handled by the NHS rather than DH. That is why the NHS Confederation negotiated on behalf of DH.

11. DH was an observer to the contract negotiations, but ultimately approved the outcomes reached on behalf of the Government. The contractual arrangements for primary medical care contractors were negotiated by the NHS Confederation with the General Practitioners Committee of the British Medical Association. The NHS Confederation receives a mandate from the Government setting out clear parameters for any negotiations in terms of outcomes or services to be provided and resources available. The new GMS contract was agreed by all parties, endorsed and signed off by the Secretary of State, on the basis that it represented, at the time, the best outcome possible for GPs, the NHS and importantly for patients.

**PAC conclusion (iv): Inadequate performance measurement means that some Primary Care Trusts do not know how good a service they are providing for their patients. Two thirds of Primary Care Trusts taking on out-of-hours services in 2004 found that management information on the service either did not exist or was of poor quality... Primary Care Trusts should report their performance against all of the Quality Requirements.**

12. DH agrees that performance management of out-of-hours services needs to improve. DH has made it clear that PCTs are responsible for monitoring performance of out-of-hours services. Out-of-hours providers have a contractual obligation to report their performance against all the Quality Requirements to their commissioners. Providers must regularly audit a random sample of patient contacts as set out in the Quality Requirements. The sample must be defined in such a way that it will provide sufficient data to review the clinical performance of each individual working within the service. PCTs must take appropriate action on the results of those audits to ensure the service improves for patients. Where a provider is failing to meet the Quality Requirements PCTs, and strategic health authorities (SHAs), must act to support providers to improve their performance. However, DH accepts that some PCTs are having difficulties measuring out-of-hours performance.

13. DH agrees that there was a lack of management information available when PCTs took over responsibility for providing out-of-hours services. Out-of-hours services had previously been delivered or managed by GP practices.

14. Since the change in out-of-hours arrangements, PCTs have been commissioning, or in some cases providing, out-of-hours services for over two years. During this time, PCTs have been able to collect management information on things such as records of demand data and activity levels, including for peak periods, and operating costs. PCTs are now in a much better position to make decisions about ongoing contracts for their providers.

15. In order to help PCTs to improve performance management, DH is working with the Audit Commission (AC) to develop the benchmarking tool used for the NAO Report into an effective interactive tool which commissioners and providers will be able to use regularly to benchmark their services in future. This tool will be made available to commissioners and providers in the summer of 2007.

16. DH has also worked with the Royal College of General Practitioners (RCGP) to develop a Clinical Audit Toolkit, which will help PCTs, and providers monitor their performance against the out-of-hours Quality Requirements. The toolkit was published on 14 March 2007<sup>6</sup>.

**PAC conclusion (v): Quality Requirements relating to access are of most interest to patients, but performance against them is poor. Fewer than half of all Primary Care Trusts are meeting the required standard on measures of speed of access to advice and treatment because of the combination of inadequate performance measurement and poor performance... Primary Care Trusts should improve their performance against all these measures, with priority given to Quality Requirements (9a, 10a, 12a and 12b) relating to emergency and urgent cases. They should, for example, plan out-of-hours staffing levels to match the peaks and troughs of demand.**

17. DH agrees that out-of-hours service providers need to improve performance against the Quality Requirements, including those relating to access. Although some PCTs experienced difficulties complying with the Quality Requirements at the time the NAO Report was published, the report accepted that there was no evidence of risk to patient safety.

18. In order to help PCTs in this, DH commissioned the RCGP to develop a Clinical Audit Toolkit, which will help PCTs, and providers monitor their performance against the out-of-hours Quality Requirements. The toolkit was published on 14 March 2007<sup>7</sup>.

19. In addition, DH is working with AC to develop the benchmarking tool used for the NAO Report into an effective interactive tool which commissioners and providers will be able to use regularly to benchmark their services in future. This tool will be made available to commissioners and providers in the summer of 2007.

**PAC conclusion (vi): Primary Care Trusts remain unclear whether they and their providers should aim for 95 per cent or 100 per cent compliance with the Quality Requirements. In order for Primary Care Trusts to know on what basis to commission and performance manage services, the Department needs to make clear what level of compliance is acceptable.**

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<sup>6</sup> [http://www.rcgp.org.uk/quality\\_/quality\\_home.aspx](http://www.rcgp.org.uk/quality_/quality_home.aspx)

<sup>7</sup> [http://www.rcgp.org.uk/quality\\_/quality\\_home.aspx](http://www.rcgp.org.uk/quality_/quality_home.aspx)

20. DH accepts that at the time of the NAO Report, PCTs and out-of-hours providers were unclear on whether they and their providers should aim for 95 per cent or 100 per cent compliance with the Quality Requirements. That is why DH updated the introduction in the document – National Quality Requirements in the delivery of Out-of-Hours services<sup>8</sup> (republished on DH website in October 2006), to provide clarification on compliance against the Quality Requirements.

**PAC conclusion (vii): It did not occur to the Department that ending GPs' Saturday morning surgeries would reduce the service at a key time of the week for patients. The Department should encourage Primary Care Trusts to use the contractual arrangements for primary care at their disposal to re-instate Saturday morning surgeries where there is the demand for them.**

21. DH agrees that PCTs should use their contractual arrangements for primary care to re-instate Saturday morning surgeries where there is the local demand for them. However, the new contract did not end Saturday surgeries. Saturday surgeries had stopped for most patients long before the new contract was introduced. At weekends and in the evenings, for most patients only emergency care was available through the out-of-hours provider engaged by their GP.

22. Our health, our care, our say<sup>9</sup> makes clear that we want to see routine GP services made more available to patients. GP practices should be more responsive to what their patients want. DH wants GPs to be flexible and is giving patients the opportunity to reward those practices that offer access meeting their needs.

23. As part of the Fairness in Primary Care and Innovations in Primary Care Contracting Pilots initiatives, DH has encouraged PCTs to commission evening and weekend opening as part of the new service provision.

**PAC conclusion (ix): comparisons between Primary Care Trusts suggest that many could reduce their out-of-hours costs without diminishing quality. If every Primary Care Trust provided its service at the same cost as the most cost-effective in their classification £134 million could be saved, while £53 million could be saved if the most expensive 50 per cent of Primary Care Trusts reached the average performance level in each category. The Department should set a timetable for Primary Care Trusts to benchmark their services against their peers, require Strategic Health Authorities to report on their performance, and hold to account Primary Care Trusts whose costs remain seriously out of line.**

24. DH agrees that there is significant scope to reduce costs in the future of out-of-hours provision and DH has been working with the AC to develop the benchmarking tool, which should support them in this. This tool will be made available to commissioners and providers in the summer of 2007.

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<sup>8</sup> [www.dh.gov.uk/outofhours](http://www.dh.gov.uk/outofhours)

<sup>9</sup> [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_4127453](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4127453)

25. PCTs and SHAs are responsible for commissioning and managing services locally and must act where necessary to support providers to improve their performance and cost effectiveness. The NAO Report makes clear that savings of some £50m should be achievable, if PCTs running the least efficient services upped their game. By taking the appropriate actions, all parts of the NHS will be able to improve, both in terms of the quality of patient care and the value for money their service delivers.

26. Working with the NHS, DH has undertaken a number of actions to help PCTs improve the cost effectiveness of out-of-hours services since the NAO Report was published. These include:

- writing to PCTs on the day of publication of the NAO Report with data showing their position compared to the most cost effective service in their grouping. The purpose of the letter was for PCTs to consider the data and take action to improve their respective position. SHAs will have a key role in performance managing this;
- running a joint conference with the NAO for PCTs and out-of-hours providers on the 20 July 2006. The main focus was for PCTs and out-of-hours providers to learn from the many examples of best practice, which were shared on the day. The conference also involved workshops/master classes to help PCTs to identify and take action on the changes required in their benchmarking group as well as any general lessons.

27. DH does not agree that it should set a timetable for PCTs to benchmark their services against their peers. DH made it clear that responsibility for local service development rests with the local NHS. PCTs are responsible for commissioning and monitoring out-of-hours services. It would not be appropriate for DH to set spending limits for specific services. Where there are difficulties, PCTs, working with their SHAs must take action to resolve them.

28. PCTs are accountable to their local population directly and through local Overview and Scrutiny Committee (OSC) scrutiny, and to SHAs. PCTs operate within the framework of DH policy and they are held to account for this by SHAs, not directly by DH.

29. SHAs are held to account by the DH for ensuring their local health systems operate effectively and in line with Government policy.

# Seventeenth Report

## Department of Health

### Financial Management in the NHS

1. Spending on the National Health Service is the fastest growing area of public expenditure. The NHS budget for 2004-05 was £69.1 billion, rising to £75.8 billion in 2005-06 and will be £90.7 billion in 2007-08. Despite the increased resources, the NHS reported an overall deficit of £251 million (including Foundation Trusts) in 2004-05, the first time since 1999-2000 that the NHS as a whole had overspent. In 2005-06, the overall deficit increased to £570 million (£547 million excluding Foundation Trusts). In 2006-07, however, the NHS has made considerable progress in delivering against its key financial objectives, and remains on course to achieve a balanced position overall, at least.

2. On the basis of a Report by the Comptroller and Auditor General, jointly prepared by the National Audit Office and the Audit Commission, the Committee took evidence from the Department on three main issues: what factors had led to the deficits, what the impact was on organisations in deficit, and what steps were being taken to recover deficits.

**PAC conclusion (i): The in-year financial information produced by some NHS bodies for management and reporting purposes does not allow the Department to manage the national finances of the NHS in the most effective manner. The Department should require NHS bodies, at regular intervals during the year, to produce and interpret balance sheet information as well as robust income and expenditure and cash flow figures. All figures should show the year to date as well as the forecast position. Local NHS bodies would then be able to identify and address emerging problems promptly and Strategic Health Authorities and the Department could manage the national picture better.**

3. The Department of Health does not agree that financial information collected from NHS (National Health Service) organisations has proved inadequate or ineffective for performance management purposes. The Department has made a number of significant improvements during 2006-07 in terms of the extent and quality of financial data collected from the NHS each month. The publication of quarterly financial information supports the Department's commitment to transparency, and has led to an improvement in data quality.

4. Looking ahead to 2007-08, the Department will maintain its strong focus, and continue to collect financial data in a format that is wholly consistent with UK Generally Accepted Accountancy Principles (GAAP). As in 2006-07, this will include the collection and interpretation of balance sheet, income and expenditure and cash flow data for each NHS organisation in each month.

5. The Department agrees that to be most effective the collection of in-year data should concentrate equally on forecast and year-to-date information. Consequently, as the Committee recommends, the Department agrees that 2007-08 will see an increased emphasis, in terms of both reporting and performance management, on the year-to-date position of the NHS.

6. The planning process for 2007-08 has been further refined for all primary care trusts (PCTs), NHS Trusts and Strategic Health Authorities (SHAs), by including a requirement for NHS organisations to provide forecast balance sheet, cash flow source and application of funds and income and expenditure information, profiled monthly over the year, against which their in-year financial performance will be monitored by the SHAs and the Department.

7. The appointment of the NHS Financial Controller in 2006-07 significantly strengthened the Department's strategy to improve the financial management and performance function of the NHS, not least through regular face-to-face challenge and the encouragement of both greater accountability for senior NHS managers and a clear focus on improved data quality. There has been a considerable level of new performance management activity in relation to the NHS. For example, both the NHS Financial Controller and the Director General of Commissioning have met with each SHA Chief Executive and Director of Finance monthly to review activity and forecast financial results.

8. The Financial Controller's team has assisted the SHAs in terms of data quality by developing computer based error checks on information submitted at source, providing detailed monthly analysis of SHA data, providing feedback on exceptions or adverse variances. The team has also visited all SHAs to identify issues of concern across the system and address these at monthly SHA Director of Finance meetings. Improved feedback mechanisms are now in place to ensure that issues of data quality, and the results of analysis, are played back to the NHS, so that corrective action can be taken as appropriate.

**PAC conclusion (ii): The Department does not have an overall picture of the impact of deficits on the NHS's capacity to deliver services, and was only able to provide us with information about the number of redundancies, closures and abandoned capital programmes after our hearing. Decisions on structuring and staffing in individual organisations are taken at a local level, but the Department should collect this information as part of its wider performance management arrangements so that decisions affecting the capacity of the NHS to deliver its objectives are properly informed.**

9. The Department agrees with the Committee that information on the NHS workforce at a national level is useful. The Department already sees the importance of accurate and detailed information and that is why it uses the annual NHS Workforce census, published by the NHS Information Centre, as the main source of the overall picture on NHS staff. This census provides a detailed analysis of the total workforce in the NHS as at the end of September each year. The Department uses this information to support workforce demand modelling when considering the effects of policy development.

10. For example, at September 2006 there was a total of 1,338,140 total staff employed in the NHS in England, an increase of almost 280,000 since 1997. In addition, the new Electronic Staff Record (ESR) system currently being introduced throughout the NHS will provide a rich source of information on the workforce. This will be a useful tool for helping collect data that will assist in longer-term workforce planning both at a national and local level.

11. Local NHS organisations will continue to plan the workforce to deliver the services they require, as they are best placed to assess the health needs of their local community and will commission the required number of education and training places to meet those needs. It is for SHAs to take those plans and commission training to deliver the workforce of the future. The Department will continue to monitor local planning arrangements to ensure they deliver the activity required, within available finances with the workforce required. As part of that approach, the Department expects SHAs to be satisfied that local workforce plans are sufficiently robust to deliver planned activity.

12. The Department's Workforce Review Team (who provides information to SHAs on workforce supply) is developing a generic workforce-modelling tool. This will allow all NHS organisations to undertake national and local workforce planning by assessing skills needs and future workforce requirements across levels rather than professions. This will support the development of competency-based workforce planning across the whole healthcare workforce, determining the skills and competencies needed to deliver services and defining these by care group and pathways, rather than specific health care professions.

13. Although the Department accepts that some NHS organisations have had to make some tough decisions this year to balance the books, the NHS continues to deliver improvements in both access to and the quality of services to patients. PCTs were accused of delaying treatment before the end of the 2006-07 financial year because of NHS deficits. Nobody who needs urgent or emergency treatment was affected. Where minimum waits do exist, they only applied to non-urgent types of treatment, and even in those cases, nobody now waits longer than six months. By 2008, all patients will be treated within 18 weeks of GP referral.

14. At the end of February 2007 the number of patients, waiting more than 6 months was 378, a decrease of over 282,000 since 1997. In addition, at the end of February 2007, there were 99.9 per cent fewer people (338,838) waiting more than 13 weeks for a first outpatient appointment than in 1997. Patients can expect a maximum 13 week wait for their first outpatient appointment and a maximum 6 month wait for an operation from a decision to admit.

15. The number of compulsory redundancies within the NHS is reported quarterly in the Department's NHS Finance reports published to Parliament.

**PAC conclusion (iii): There is a lack of financial management expertise in the NHS, and a need to strengthen communication between those responsible for the finances and for the delivery of local health services. Measures to bring about financial balance need to stem from a partnership between financial managers and clinicians to enhance both the efficiency and the effectiveness of healthcare. The Department should identify models of successful joint working between financial and clinical management, and promote them across the NHS.**

16. The Department agrees that financial balance can only be achieved through the commitment of both management and clinicians working together at all levels of an organisation. The Department also agrees that there should be good communication between those managers responsible for finance and those responsible for the delivery of local health services.

17. As part of the Healthcare Commission's annual health check of the NHS, the Audit Commission assess each NHS organisations use of resources by examining five key financial areas including financial management. In 2006-07, each SHA was required to set a target for improving their rating in this area. Work has also been done to improve financial governance in the NHS, not least through the development of a range of standards of good practice by the Finance Staff Development Board. In addition, a national training programme for Strategic Financial Leadership is in the process of being set up and it is likely that every NHS organisation will be expected to support their Finance Director in attending this programme. The emphasis in this programme is on developing the skills of the Finance Director and the role on the Board.

18. All Finance Directors in the NHS are required to be qualified accountants, affiliated to one of the Consultative Committee of Accounting Bodies (CCAB) professional bodies. The recent restructuring of SHAs and PCTs has provided the opportunity for Finance Directors with the appropriate professional attributes and levels of experience to be appointed. Finance Directors will be assessed on suitability and competence as part of Foundation Trust assessment and PCT Fitness for Purpose programmes. It is important that joint working between financial and clinical management is encouraged. Where there is lack of clinical engagement this will be strengthened as part of organisations' action plans and compliance will be challenged as part of the regular performance management discussions with the NHS Financial Controller and his team.

19. As part of its programme for training boards the Department through the NHS Institute and the Appointments Commission will be covering the requirements of integrated governance and effective risk management through the Assurance framework in its training programmes. These are essential elements of good governance.

20. It is important that joint working between financial and clinical management is encouraged. This area of Governance has been assessed through the Foundation Trust Diagnostic programme and the PCT Fitness for Purpose programme. Where there is lack of clinical engagement this will be strengthened as part of organisations' action plans.

21. During the course of 2006-07, the Department has carried out a Turnaround programme, which has focused on financially challenged organisations. This programme facilitated the further engagement of clinicians, financial management teams and other functions at financially challenged organisations to create and implement detailed cost improvement programme.

22. During the last financial year two reports were prepared and issued to all SHAs and PCTs incorporating the lessons learned from the Turnaround programme regarding PCTs. These reports included examples of best practice on communication between parties responsible for finances and the delivery of local health services.

23. The Audit Commission is currently finalising a report which considers how finance staff and clinicians can work together to improve financial management and how finance staff can work with clinicians to help deliver changes in service delivery. The Commission recognises that closer alignment of finance staff with clinicians and general managers will help to improve key aspects of financial management. The report will include a series of case studies setting out how engagement with clinicians, general managers and budget holders has led to improvements, either in the quality of financial information received, the quality of services delivered to patients or in the delivery of efficiency savings. The report will be published in summer 2007.

**PAC conclusion (iv): Errors in the costing of the Agenda for Change pay initiative, General Practitioner and consultants contracts meant that in 2005–06 individual NHS bodies were required to fund a £560 million shortfall in resources to pay for these central initiatives. The Department of Health should analyse the original costings to determine where lessons can be learnt so that local NHS organisations are not required to meet the ongoing cost of these schemes without sufficient funding.**

24. In relation to Agenda for Change and the Consultant Contract, costs were modeled on the basis of the best information available. However in a system as large and diverse as the NHS with over 1.3m employees, it is sometimes difficult to obtain robust data on the baseline prior to reform, or to predict behavioral changes on the part of managers and staff in response to reform.

25. The Department of Health's Workforce Directorate, supported by its Finance and Economic & Operational Research Directorates, conducted extensive and thorough financial modelling which informed the costs. Union and employer representatives were consulted on the main assumptions made.

26. The Department accepts that the initial costs of pay reform did, during implementation, exceed the Department's estimates by a relatively small margin in relation to the overall pay bill concerned. Recruitment and retention has been stronger than expected, leading to higher growth in the NHS pay bill than planned, and this may have contributed to short-run financial pressures in the NHS.

27. NHS Employers has a lead role in creating a stronger link between negotiators and front line service providers, and have undertaken financial modelling and data testing using actual data from trusts, and statistical information available at national level.

28. The Department has also introduced new procedures for ensuring that policy costing is subject to rigorous testing. In May 2006, the Revenue Investment Branch (RIB) was established to help improve the quality of forecasting the financial impact of its policies on the NHS, central budgets and arm's length bodies. This branch will achieve this objective through two separate means:

- reviewing the costs associated with new large-scale, significant policies to ensure that proposals submitted to Ministers have been adequately tested and the quality of the financial advice provided is sound; and
- developing guidance to enable policy makers to cost their own policies and including this guidance in a costing handbook which will assist policy makers (and their analytical staff) to cost policy and account transparently for risk and uncertainty.

29. All proposals for pay reform are also now subject to scrutiny and agreement by the Public Sector Pay Committee (PSPC) – a Cabinet Office and HMT Gateway introduced in January 2005.

30. The Department agrees that the cost of the new GP contracting arrangements have been higher than expected. The introduction of the new arrangements in 2003-04 (with full implementation on 1 April 2004) introduced a fundamental change to general practice, moving away from remuneration based on doctors to a practice-based contract. The new arrangements included:

- workload control (the ability to opt in and out of services);
- new and significant earning opportunities relating to additional work or improved quality provision;
- an explicit focus on the delivery of high quality care to patients registered with the contractor based on delivering best practice with a robust evidence base through the Quality and Outcomes Framework (QOF); and
- greater engagement and accountability between practices and PCTs, supported through performance monitoring.

31. The new arrangements were underpinned by a three-year deal, ending in 2005-06 that guaranteed a minimum increase of 36 per cent in resources for primary care – the Gross Investment Guarantee. These additional resources were aimed at improving the quality and range of services available to patients in a primary care setting that would also improve GPs' earnings at a time when morale within the profession was low and there were serious recruitment and retention problems.

32. Such increases for primary care were unprecedented and a measure of the Government's commitment to improved care through services representing 90 per cent of patients' contact with the NHS. However, the overall increase in resources made available by PCTs was around 50 per cent for the three-year period ended 2005-06, equating to a total spend on primary medical care services of around £7.7 billion in 2005-06.

33. Two features of the new contract arrangements contributed most of the overspend on primary medical care services in 2004-05 and 2005-06. The first allowed GPs to opt out of providing Out of Hours services (OOH). The second was the introduction of a new practice based incentive scheme – the Quality and Outcomes Framework (QOF) – which rewards GPs for how well they care for their patients and not just how many they treat.

## **Out of Hours (OOH)**

34. With effect from April 2004, GPs were given the opportunity to opt out of providing OOH services. Practices that chose to opt out surrendered a sum broadly equivalent to £6,000 per GP to their PCT so that PCTs could use this money, together with OOH funding from the Department, to commission OOH services from alternative providers.

35. In 2005-06, £142 million was allocated direct to PCTs for OOH services. As 90 per cent of GP practices have opted out of providing these services, the Department estimates that around £160 million was surrendered to PCTs, making a total of around £302 million compared to a total national spend of some £378 million in 2005-06 – an over spend of around £76 million.

36. The PAC reported on OOH in their 16th Report (HC 360). The report acknowledged that the £6,000 figure was a negotiated amount, which, although not based on a rigorous assessment of the likely cost to PCTs of commissioning alternative providers of OOH, was also not designed to reflect the full cost of providing the service. PAC was critical of the lack of vigorous evaluation of the financial implications of the initiative as a whole. The Department is responding separately to this.

## **Quality and Outcomes Framework (QOF)**

37. QOF is a voluntary part of the GMS contract that pays practices for how well they care for their patients. It is based on the fact that improvement in the care, and organisation of care, to patients in primary care will not only increase the quality life years for patients but will also reduce cost pressures elsewhere in the NHS as a consequence. QOF is a pioneering approach to improving quality of patient care through a voluntary incentive scheme and is for example, associated with accelerated quality of care improvement for patients suffering from asthma and diabetes.

38. An independent evaluation of QOF, covering 800,000 patients in 2,000 practices, carried out by the University of Exeter, studied improvements in access, quality of consultation and practice services, including health promotion. It is open to PCTs to agree local quality incentive schemes with non-GMS contractors in place of QOF or to offer local quality incentives in addition to QOF for GMS contractors. The vast majority of general practices take part in QOF.

39. In 2005-06, QOF accounted for approximately £1 billion out of the £7.7 billion spent on primary medical care. GP practices are rewarded on the basis of the number of points they score against a set of quality indicators. Unlike OOH where they negotiate locally for the provision of OOH care, PCTs have no discretion over the payments they make to GMS practices for QOF except in assessing practices' actual achievement against the indicators. They must pay on the basis of achievement.

40. Allocations to PCTs for QOF in 2005-06 were based on the assumption that the average practice would achieve 85 per cent of points whereas the actual achievement rate was much higher at 96 per cent. This resulted in PCTs overspending their QOF budgets by £169 million in 2005-06. In the same year there was also an increase in payment per point from £77.50 to £124.60 as part of the Government's overall investment plans for primary medical care.

41. The Department agrees that there was a higher achievement against plan. However, the plan was based on estimates made more than two years before the first year's implementation was complete. Independent evidence shows that quality was already improving in primary care before the QOF was introduced, and with practices having one year to prepare for QOF targets before the contract was implemented in 2004-05 greater improvements against the QOF indicators were made by practices than the Department had anticipated.

42. QOF was reviewed and amended for April 2006 by removing opportunities for double payments, moving payment thresholds upwards and recycling points from redundant or duplicate indicators. These points have been invested into new clinical areas, which will benefit more patients, more directly. In addition, some points were redistributed to change the reward for some existing indicators, which were previously not thought to be adequately rewarded. QOF remains under review to ensure that it follows best practice and reflects new evidence. In future, GPs will be expected to achieve similar levels of efficiency and productivity as other parts of the NHS and public sector and this is expected to be reflected in QOF.

**PAC conclusion (v): Decisions by Strategic Health Authorities on whether deficits incurred by NHS bodies should be repaid in the next financial year, and on the amount of financial support for NHS bodies in deficit, are not being applied consistently across the NHS. And while Strategic Authorities need some flexibility to take account of local circumstances, the Department should give a lead in determining the tolerable range of variation in financial regime. The accounts of NHS bodies should be enhanced to clarify the various sources of income, including financial support, which those bodies receive, to give a more transparent picture of their financial performance.**

43. On 28 March 2007, the Department of Health announced that, in line with recommendations made by the Audit Commission, NHS trusts will no longer be subject to Resource Accounting and Budgeting (RAB) carry forward rules.

44. Income adjustments will no longer be made to NHS trusts in one year, based on the financial position reported in the previous year. This effectively removes the so-called "double whammy" whereby, under the RAB rules as previously applied, NHS trusts had their income reduced for overspending in the previous year, and had to make a surplus to pay back the cumulative deficit.

45. The previous application of RAB rules was becoming increasingly inappropriate for three reasons:

- The system was being inconsistently applied across SHAs i.e. some SHAs applied RAB carry forward to their individual trusts, while others absorbed the overspend at SHA level;
- Income deductions are not consistent with the principles of payment by results;
- The system is not applied to NHS Foundation Trusts.

46. The improved financial position in the NHS as the end of 2006-07 financial year is approached, coupled with tighter controls over cash, means that the Department is confident that NHS trusts now have the financial discipline to operate outside the stringent RAB regime. This change does not, however, mean that NHS trust deficits are being written off. NHS trusts will still need to generate sufficient surpluses to cover past overspending and to meet their statutory breakeven duty. All NHS organisations must live within their means.

47. The RAB regime will continue to apply to PCTs, SHAs, and the Department itself, which is again entirely consistent with the Audit Commission recommendations. The Department, and consequently the NHS, must live within an agreed level of resources as voted by Parliament.

48. In 2006-07, the Department set a key financial objective for the NHS overall to return to net financial balance. The Department also emphasised transparency of reporting. As part of this process, the Department have stopped those practices – such as brokerage and planned support, or an undue and inappropriate reliance on capital to revenue transfers – which might have masked deficits in previous financial years. In 2006-07, the Department introduced a system of loans and deposits, both of which must be clearly recorded in the accounts of the relevant organisations, and allowed Strategic Health Authorities the flexibility to create local reserves by agreeing a top-slice of PCT allocations. Where an organisation ends the year in deficit, that deficit will be transparent in its accounts at the year-end.

49. From 2007-08, the return of top sliced funds to the originating bodies is dependent upon the financial recovery of historic deficits across the NHS. Equally, the return of reserves to the individual organisations that supplied them, is dependent upon those NHS Trusts which have borrowed under the loans and deposits scheme generating a sufficient surplus to repay the amount borrowed and/or PCTs delivering an under spend.

50. One of the key objectives in the 2007-08 Operating Framework is for delivery of a net surplus across the NHS of at least £250 million as organisations generate surpluses to recover historic overspending. This underpins the 2007-08 financial planning assumption and will support the return of top-slices to the originating organisations.

51. As the 2007-08 Operating Framework makes clear, as a consequence of the return of the NHS to overall financial balance, SHAs will not generally require the scale of contribution to strategic reserves seen in 2006-07. Reserves should largely only be used to moderate over a reasonable period of time the impact of RAB deductions to PCTs or support locally agreed revenue investment linked to service change. Where continuing contributions are required, they must be subject to clear and transparent rules covering purpose, the accounting treatment of reserves, and the timescale for repayment.

**PAC conclusion (vi): The arrangements for disseminating best practice arising from the work of turnaround teams are not sufficiently robust to maximise the impact such findings can have. The Department should set up a formal process for sharing turnaround reports both internally and publicly, allowing all NHS bodies to consider whether they too could achieve efficiency savings by adopting the actions identified. The Department should also establish a failure regime setting out the consequences of falling into significant deficit and formalising the required recovery procedures.**

52. The Department agrees that best practice arising from the work of turnaround teams should be disseminated to maximise the impact of such findings.

53. The expertise introduced into NHS organisations by the specialist turnaround teams has led to much greater financial rigor. A key feature of the programme has been the sharing of best practice across the NHS as a whole, whether by information sharing by the turnaround directors, and the establishment of local forums. All trusts are subject to performance management by their Strategic Health Authority and are required to submit comprehensive and frequent financial reporting to the Department of Health.

54. During the last financial year two reports were prepared and issued to all SHAs and PCTs incorporating the lessons learned from the Turnaround programme regarding PCTs. These reports included examples of best practice, which embraced the point regarding communication between parties responsible for finances and the delivery of local health services.

# Eighteenth Report

## Department for International Development

### Working with Non-Governmental and other Civil Society Organisations to promote development

1. The Department for International Development (DFID) channeled £328 million through Civil Society Organisations (CSOs) in 2004-05. CSOs have an important part to play in reducing poverty – delivering services, giving a voice to the poor and helping hold governments to account. On the basis of a report by the Comptroller and Auditor General, *Department for International Development: Working with Non-Governmental and other Civil Society Organisations to promote development* (HC 1311, Session 2005-2006) the Committee of Public Accounts examined DFID on how the Department engages with CSOs, targets the poorest, measures achievement and ensures value for money.

**PAC conclusion (i): Weak assessment of CSOs in developing countries hinders well-targeted assistance and the ability to track effectiveness. DFID should develop an assessment framework to enable it to rate the nature, strength and location of these organisations... DFID should then make, and periodically update, assessments for all significant country programmes.**

**PAC conclusion (ii): DFID should develop and apply its assessment framework jointly with other donors and multilateral organisations and share the associated costs with them.**

2. DFID accepts the Committee's findings. The Department assesses the nature and strength of CSOs applying to the Civil Society Challenge Fund (CSCF) and for Partnership Programme Agreements (PPAs). DFID's Country Assistance Plans (CAPs) also assess in-country civil society – though often in broad and qualitative ways, covering issues such as its strength, type and focus. DFID's 'Drivers of Change' analyses of political economies were ground-breaking and valuable and often covered an assessment of civil society. New Drivers of Change analyses will continue to do so. Country Governance Assessments (CGAs), introduced in February 2007, will also include key data on civil society. More detailed analyses of civil society will be undertaken as needed on a country-by-country basis. The Department will emphasise the importance of assessing civil society in updated guidance material – "*How to work with civil society*" – and a DFID briefing note – "*Civil society and governance*" – which will be produced by the end of 2007.

3. As the Committee states, however, there is 'no generally accepted way of rating CSO activity'. The Department agrees that a system to assess the role and capacity of CSOs in each country would help donors target and coordinate their assistance. The Department agrees that greatest value will be captured by working together with other donors towards such as system, in line with the 2005 Paris Declaration on Aid Effectiveness. Work has already started to harmonise the work of six key donors with civil society through the Nordic Plus group. The Department will initiate discussions with the World Bank and other key donors by July 2007.

**PAC conclusion (iii): In fragile states, the roles that CSOs can play in poverty reduction are limited by insecurity and the risk of violence. DFID should frame its country programmes to deal explicitly with aspects such as security, judicial independence and the rule of law, so that CSOs can contribute fully to poverty reduction in circumstances where the state lacks capacity.**

4. DFID accepts the Committee's findings. Efforts by governments, CSOs and donors to reduce poverty will always be undermined if insecurity and risk of physical violence are allowed to persist. The Department recognises this. In fragile states, such as the Democratic Republic of Congo mentioned in the Committee's report, improving security and the rule of law are central to DFID programmes.

5. The recent White Paper – *Eliminating World Poverty: making governance work for the poor* – reinforced this position. The White Paper committed the Department to undertake more work to promote safety, security and access to justice – and working with others such as the UN and EU to ensure more effective action on their part. These commitments are being actively followed up.

**PAC conclusion (iv): An emphasis on a lobbying role for CSOs creates risks. DFID should discuss the risk of governments coming to see CSOs as threats before starting a project. It should develop a policy on how to respond if beneficiary governments react adversely.**

6. DFID partially accepts the Committee's findings. The Department and its partners understand the important role that civil society can play in providing a voice for the poor – for example to demand better services and hold government to account. The Department and its CSO partners equally understand that efforts by CSOs to hold governments to account can create risks in certain environments. Ironically, the risk of a negative reaction can be particularly acute in those countries that could benefit most from greater civil society participation in the democratic process.

7. These risks are discussed before starting projects – all significant DFID-funded projects, including all those funded under the CSCF are based on a standard planning matrix – the *logical framework*. In the process of developing a logical framework and project proposal, risks are explicitly identified and ways to reduce each risk are built into the project design. The Department does not consider that a new policy is necessary to achieve this.

**PAC conclusion (v): As DFID puts more emphasis on budget support to governments, CSOs' skills may not be fully used. DFID should periodically assess how well donor and country government funding is targeted at the poorest groups and promote increased funding through CSOs where this is likely to be more effective at reaching the poor.**

8. DFID partially accepts the Committee's findings. The Department is committed to achieving value-for-money and delivering aid through the most appropriate channels to reach the poor, including through CSOs. DFID's policy on aid instruments provides evidence-based guidance on the type and mixture of aid that is appropriate to various situations. The drive to achieve cost-effective impact determines the choice of instrument – there is no *a priori* drive towards budget support or any other funding channel. The Committee's report states that 'the proportion of DFID's funding channeled through CSOs has remained stable despite DFID's increasing use of budget support to developing countries' (paragraph 1), so there need be no conflict between budget support and support to CSOs.

9. Decisions on the most appropriate funding channels are made at a number of levels, and these decisions are periodically assessed. For example, DFID works with developing country governments and other donors to ensure that national Poverty Reduction Strategies address the needs of the poorest. DFID's own Country Assistance Plans consider these questions at the level of specific country strategies. And routine annual monitoring of country programme performance and longer-term evaluations of impact also provide guidance on the appropriate mix of channels necessary to ensure that aid reaches the poorest, including through CSOs.

**PAC conclusion (vi): DFID should present its policy [on engaging with CSOs] more clearly to others in the field and check that they understand it.**

10. DFID accepts the Committee's findings. The NAO report described the range of policy documents emphasising the importance and roles of civil society (including the 1997, 2000 and 2006 White Papers on International Development). It also noted the recent position paper on how DFID engages with CSOs and the range of guidance available for DFID country programmes.

11. However, the Department agrees that clarity of presentation of its CSO policy at the country-level has been mixed. The Department acknowledges that engagement between DFID offices and CSOs varies between countries – and will work to improve consistency and quality of communication. The commitment (paragraph 3 above) to help develop systems to map CSOs in countries will support these efforts.

**PAC conclusion (vii): Performance indicators [for CSO projects and PPAs] are not sufficiently specific or measurable. DFID also lacks effective ways of measuring the overall success of each funding scheme. To address these weaknesses DFID should:**

- a) ensure all indicators are specific and measurable to provide a better basis for measuring progress against key intended benefits;**
- b) make greater use of baselines to permit assessment of progress;**
- c) make better use of organisation capacity, management and governance indicators in measuring success; and**
- d) evaluate the impact of the Challenge Fund against its wider objectives such as providing services in difficult environments, rather than just at project level.**

12. DFID partially accepts the Committee's findings. The NAO reported that 80 per cent of CSO projects were meeting most of their objectives. But the Department agrees with the Committee that it 'is not easy to measure the results of aid' (paragraph 15). The same paragraph acknowledges that 'DFID has tried to set tighter objectives and improve monitoring arrangements in recent years'. The Department acknowledges, however, that this process should be taken further.

13. In particular, the Department accepts the need to improve the use of indicators and baselines to determine progress and measure success. By the end of 2007, the Department will have reviewed and tightened up objective setting and monitoring arrangements across its PPA scheme, CSCF and new Governance and Transparency Fund. In doing so, the Department will improve the quality and use of performance indicators, baselines and organisational indicators. However, regarding evaluation of the impact of the CSCF it is important to note that the CSCF is intended to be a flexible instrument to support innovative projects in the broad areas of advocacy and service delivery (especially in difficult environments). As such, the project level will in all likelihood continue to provide the best measure of success for this fund. Nonetheless, we will give consideration to development of higher-level measurable indicators for funds of this type.

**PAC conclusion (viii): Funding of PPAs has been based on historical funding levels rather than on the performance of partners. DFID should identify and adopt appropriate criteria covering the policies, capacity and performance of [PPA] partners such as ability to influence others, to innovate, and to deliver projects cost-effectively. It should use them to judge how successful partners have been to date and to inform future partner funding.**

14. DFID accepts the Committee's findings. The Department considers policies, capacity and performance track record of PPA partners as a formal part of the current assessment process. Work is now underway to broaden and strengthen this process.

15. The Department's commitment to improve performance assessment by end-2007 (paragraph 13 above) will lead to more specific and measurable indicators relating to PPA objectives whilst maintaining their strategic nature. This will support the development of a new system for determining funding levels from April 2008, which more closely links funding to performance against objectives.

**PAC conclusion (ix): By leaving the initiative with CSOs to bring forward project proposals, DFID may not be identifying the most cost effective pattern of civil society actions. DFID should set out what it wants to achieve and let CSOs bid to deliver those objectives. DFID also needs to improve its cost analysis of assistance proposals using techniques such as unit cost analysis and benchmarking.**

16. DFID partially accepts the Committee's findings. The Department is committed to continuing improvement on value-for-money issues. In the context of the Challenge Fund, the Department will explore options for doing this by end-2007. Options will include benchmarking costs and unit cost analysis.

17. The Department does not agree that it should define more precisely priority areas for Challenge Fund projects, beyond the existing requirement for projects that strengthen the capacity of poor people, living within eligible countries, to understand and demand their rights, or which enhance service delivery. The CSCF is one member of a broad family of funds supported by DFID and other donors – such as the DFID Governance and Transparency Fund, and competitive research funds. Some funds have very precisely defined areas for projects, but the CSCF is specifically designed to be flexible in the projects it funds in order to enable NGOs to put innovative ideas into practice.

# Nineteenth Report

## Communities and Local Government

### A Foot on the Ladder: Low Cost Home Ownership Assistance

1. An imbalance between the demand and supply of housing has resulted in recent years in increasing numbers of people finding it difficult to afford to buy their own home. Communities and Local Government (the Department) provides financial help, via the Housing Corporation and Registered Social Landlords (RSLs) to social tenants, key public sector workers in London and the South East and East of England and other first time buyers who would otherwise be unable to buy a home. Despite providing an increasing amount of its total spend on low cost home ownership assistance, demand for help exceeds availability.

2. On the basis of a report by the Comptroller and Auditor General, *A Foot on the Ladder: Low Cost Home Ownership Assistance* (HC 134 Session 2006-07), the Committee examined the Department and the Housing Corporation on how better targeting and further refining of the low cost home ownership assistance programme could improve efficiency and help more people.

**PAC conclusion (i): Information on the impact of the assistance on local housing markets is scarce. The Department should extend its existing modelling of the national impact of this assessment to include an assessment of its impact on local housing markets.**

3. The Department agrees that it is important to design low cost home ownership products in a way that minimises any inflationary impact on housing markets. The Shared Equity Task Force (which reported in December 2006) recognised that low cost home ownership schemes have a significant impact in addressing housing affordability for the individuals benefiting directly from the scheme. The actual effect will be small given the overall size of the housing market and the many other factors which impact on it. There is no evidence that low cost home ownership (LCHO) assistance is increasing demand in property “hot spots”, but the Department agrees that it would be valuable to understand the impact of LCHO schemes on local house prices. Carrying out such analysis would be difficult but is potentially feasible. The Department will consider ways in which this can be done, particularly when carrying out future evaluations of LCHO assistance.

4. HomeBuy Agents<sup>10</sup> are required to work closely with local authorities who have the detailed knowledge of their areas in handling applications for LCHO assistance in line with national and regional priorities. HomeBuy Agents also liaise closely with RSLs developing new build properties in line with regional and local investment priorities. The Department and the Housing Corporation has no evidence that HomeBuy Agents are operating across too wide an area or that the size of the area impedes HomeBuy Agents’ ability to deliver the programme to the intended client group.

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<sup>10</sup> HomeBuy Agents are appointed registered social landlords who from April 2006 are providing a “one-stop-shop” and point of contact for purchasers of all Housing Corporation funded affordable housing options in a given area in England.

**PAC conclusion (ii): The Department does not know how many people who part-purchase can afford to purchase outright at some stage or how long it takes them to do so. The Department and the Housing Corporation need to be better informed on what happens to low cost home ownership properties after their initial purchase.**

5. The Department accepts the Committee's findings. The Housing Corporation has signaled its intention to collect information on the purchase of further shares in its recently issued consultation paper (21 March 2007) on Recycled Capital Grant Funds (RCGF), which is due to complete on 13 June 2007. The Housing Corporation expects to introduce the requirement to collect data on the sale of subsequent shares from April 2008 to coincide with the launch of the next National Affordable Housing Programme.

6. For homes that are purchased on shared ownership terms, an applicant may part-purchase a home with an initial share of 25 per cent. Shared owners then have the option to purchase further shares, a practice known as stair casing, in tranches of 10 per cent or more until they achieve 100 per cent ownership. Currently the Housing Corporation only collects data on the initial share purchased through its Continuous Online Recording database (CORE). At present the Housing Corporation does not record data on the sale of subsequent shares nor is there a requirement made on RSLs to collect this data. In some regions, such as London, RSLs are already informally collecting this data, which they use to benchmark performance.

7. As part of a formal review and consultation of the operation of the RCGF<sup>11</sup>, and subject to a proper assessment of costs and burdens, the Housing Corporation proposes to require RSLs to collect data on subsequent sales or tranches of shared ownership homes and the repayment of equity loans.

**PAC conclusion (iii): In 2004-05 only 15 per cent of those taking advantage of assistance were previously social housing tenants and the others helped were not normally in priority housing need. When targeted at these groups, low cost home ownership assistance is especially cost-effective as it frees up a social rent home at as little as half the cost to the taxpayer of building a new social rented property. The Department should establish a target for the amount of assistance directed at households whose purchase of a property will free up social rented housing.**

8. The Department accepts the value for money case of helping social tenants into home ownership and freeing up their rented property for another social tenant. Social tenants have always been one of the priority groups for LCHO assistance. The *Report of the Shared Equity Task Force* published in December 2006 confirmed that in future the Government will look to target its LCHO assistance as a first priority on freeing up social tenancies and then addressing problems in local and regional housing markets, for example, helping certain public sector workers. Decisions on the appropriate balance of resources between priority groups will be taken as part of the Comprehensive Spending Review in autumn 2007.

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<sup>11</sup> When a Registered Social Landlord sells a property, assuming that funding to build the property has come from Social Housing Grant, the receipt for the sale is available to be ploughed back into housing and related activities. When these properties are sold, rather than having to return the grants back to the Housing Corporation, RSLs can reinvest them. RSLs are required to have a Recycled Capital Grant Fund, into which the grant receipts are placed. The use of these receipts is subject to some controls as social housing grant conditions.

9. The Department proposes to task HomeBuy Agents specifically with improving the targeting of social tenants in their areas through their Service Level Agreements with the Housing Corporation for delivery of the National Affordable Housing Programme 2008. This will build on existing good practice including an effective interface with local authorities.

10. A decision on the setting of any target for the amount of assistance to be directed at households freeing up their social rented home will be taken in autumn 2007. The decision will be taken (i) in the context of the John Hills' *Review on The Future Roles of Social Housing in England* (ii) the Comprehensive Spending Review (Autumn 2007) and (iii) the choice and type of properties available, which may attract social tenants e.g. affordable family homes.

11. The 85 per cent of non-key workers assisted in 2004-05 who were not existing social tenants may not all have been in priority need for social rented housing, but they were required to demonstrate their need for LCHO assistance. All purchasers had to satisfy the RSL that they were unable to afford to purchase a home in those areas without help. The National Audit Office (NAO) found that in 2004-05 the average household income of LCHO purchasers was £25,500 for shared owners, and £29,500 for those taking out equity loans and that this compared to £35,000 for comparable first time buyers.

**PAC conclusion (iv): Some RSLs do not consider the housing need of applicants for assistance but automatically add applicants to housing waiting lists to ensure that they qualify for help. RSLs and local authorities need to work together to improve the quality of waiting list information so that they are better able to target help towards those in housing need who can afford to part-purchase.**

12. The Department accepts that LCHO assistance should be targeted at those people most in housing need who are unable to purchase without help. Since April 2006 twenty three HomeBuy Agents have been holding the waiting lists for LCHO assistance in their areas and are handling the entire application process, including carrying out robust eligibility and affordability checks for the Open Market and New Build HomeBuy products. Previously purchasers were nominated by local authorities from their waiting lists or applied direct to individual RSLs and were placed on their waiting lists. However, acceptance on to a local authority waiting list was not a guarantee of LCHO assistance. Applicants were still required to demonstrate to the RSL that they were unable to purchase a property on the open market without assistance and that they could sustain the longer term financial commitment of owner occupation.

**PAC conclusion (v): If RSLs had encouraged all beneficiaries in 2004-05 to buy as large a share of a property as they could safely afford, an additional £63 million could have been available to help 3,420 additional households. The Department and the Housing Corporation need to work with RSLs to meet the Government's commitment to improve the assessments of applicants' finances. They should adopt best practice in assessing borrowing capacity from banking and private mortgage lenders.**

13. The Department accepts the Committee's recommendation in part. We agree that purchasers should be encouraged to maximise their share but borrowing needs to be sustainable in the longer term. The network of HomeBuy Agents, who are contracted by the Housing Corporation to manage the sale of LCHO properties, carry out a rigorous affordability checks for all purchasers taking into account, for example, debts and household size.

14. The Housing Corporation encouraged purchasers to maximise their initial share when accessing home ownership from April 2006. From April 2006 the Corporation recommended that, as a guide but not a limit, providers assess potential applicants' mortgage capacity using the standard mortgage income multipliers of 3 times joint and 3.5 times single income. The Department and the Housing Corporation is now seeking to build on this assessment with the introduction of an affordability guide and calculator.

15. The Housing Corporation has commissioned a consortium of HomeBuy Agents to produce a best practice affordability assessment and affordability calculator that it is rolling out across the HomeBuy Agents network and to other RSLs for use in assessing applicants borrowing capacity. The best practice guide will cover a review of current practice amongst a selection of RSLs and draw on the best available industry good practice.

16. The Housing Corporation is revising its advice to providers of LCHO assistance in its *Capital Funding Guide*<sup>12</sup>, which is the Corporation's online funding guide containing the rules and procedures for RSLs in receipt of Social Housing Grant, to replace the use of the income mortgage multipliers with a recommendation that HomeBuy Agents and RSLs adopt the standard best practice affordability assessment guide and the accompanying calculator.

17. Housing Corporation guidance will emphasise the need to ensure sustainable home ownership with purchasers maximising their borrowing as far as is consistent with maintaining home ownership given other financial commitments. The Housing Corporation is implementing these changes from May 2007, starting with the affordability assessment for Expanded Open Market HomeBuy and following with the guidance and assessment for the New Build shared ownership product by summer 2007.

**PAC conclusion (vi): In 2004-05 LCHO assistance mainly went to households with incomes over £25,000, while most new social housing tenants had household incomes of less than £20,000. The current Open Market HomeBuy product requires a purchaser to buy a 75 per cent share of a property, which makes it unaffordable for those with incomes below £20,000. Since we took evidence, the Government has stated that it is seeking to develop an option whereby households can buy 50 to 70 per cent of an open market property. The Department needs to press ahead with this option.**

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<sup>12</sup> The Housing Corporation's Capital Funding Guide can be found at: [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk)

18. The Department accepts this recommendation. 60 per cent of social tenants are in receipt of housing benefit and are not able to sustain home ownership. Of the remainder, tenants who want to buy a suitable home but cannot afford to buy a 75 per cent share and may not have the option of accessing a New Build HomeBuy at minimum 25 per cent shares within their local area, are unable to access home ownership. The Department is seeking to develop an alternative option to help both social tenants and key workers, who may need to live in a particular location, to get a foot on the housing ladder.

19. The Open Market HomeBuy scheme currently provides equity loans, funded by the Government via RSLs and mortgage lenders, to boost the purchasing power of the homebuyer. A new competition to increase the number of lenders who will provide shared equity mortgages and help more people on low incomes onto the housing ladder was announced by the Chancellor in the Budget. On 21 March the Housing Corporation published an early invitation to mortgage lenders, investors and housing associations to participate so they can prepare competitive products, consult with the Government and give feedback for the development of the competition to be launched in Summer 2007.

20. The invitation makes clear the Housing Corporation would welcome the development of an affordable and sustainable equity loan for households who are only able to purchase around a 50-70 per cent share.

21. Providing affordable housing products in partnership with mortgage lenders enables the Government to stretch funding and help more people who, without the scheme, would be unable to get a foot on the housing ladder. The new competition will enable the Housing Corporation to assist more households, not only social tenants, and bring closer the expectation of helping 160,000 households to become home owners between 2005 and 2010 through public and private sector shared equity schemes. The Government is committed to helping 120,000 households through HomeBuy by 2010, with the remaining 40,000 expected to be helped through private shared equity schemes.

22. The competition will aim to be attractive to a wide range of organisations, including mortgage lenders, institutional investors and housing associations. It offers an opportunity for the market to engage with the Housing Corporation to create innovative and viable financial products to deliver affordable home ownership.

23. In addition, the New Build HomeBuy scheme, under which purchasers may buy a minimum 25 per cent share in a property provided by an RSL, is available to help those on lower incomes who can sustain home ownership but cannot fund the 75 per cent share required under Open Market HomeBuy.

**PAC conclusion (vii): The impact of helping key public sector employees through LCHO assistance is not analysed separately from the effects of other measures public sector employers have been taking to improve retention. The Department should carry out a full cost benefit analysis of this assistance, including a comparison of its performance against other measures being taken to address these problems.**

24. The Department accepts the need to identify the benefits of LCHO assistance against other measures been taken by sponsor employer departments to address recruitment and retention issues. The Department is consulting with the Departments of Health and Education and Skills and the Home Office to take this forward, building on the previous evaluation of the Key Worker Living (KWL) scheme.

25. Eligibility criteria for KWL is regularly discussed and reviewed with the key worker sponsor Departments and decisions on eligibility are informed by up to date recruitment and retention data.

26. An independent evaluation of the KWL published in 2006 explored the extent to which KWL has impacted upon key workers decision to remain in their occupation, region and/or current position. It found that it was not possible to disaggregate the impact of KWL from other programmes designed to recruit and retain key workers. However survey results indicated that KWL was achieving its goal of increasing retention of key workers where they would otherwise have problems purchasing affordable homes. The vast majority of employers also felt the programme had contributed to a decline in turnover and wastage rates in previous years. Examples include:

- employer A, who had had a net outflow of 50 staff members the year before KWL went into operation, and had a subsequent outflow of 15. Individual key workers informed the employer that this was due to housing assistance;
- employer B, who cited a vacancy rate of over 300 two years previously, which had fallen to around 100 at the time of interview. The employer considered that housing assistance had played a key role in this;
- employer C, who had had 399 transfers out and 400 transfers into their workforce three years previously (in 2002) at a time when they were trying to boost numbers, leading to a situation where the workforce was generally below strength and, in some areas, comprised 50 per cent new recruits. Following the use of a 5-year Housing Strategy, including KWL, as well as other recruitment and retention activity, the workforce was at full strength at the time of interview.

27. Sponsor Departments will carry out further analysis to compare the impact of the programme with other recruitment and retention incentives and build on the findings of the KWL evaluation. However, because KWL is targetted on the individuals that are in need of housing assistance, there can be little doubt that it is cheaper to the public purse and better value for money than the across the board wage increases which would be necessary to bring home ownership within the reach of eligible employees.

**PAC conclusion (viii): The Department lacks information on the take-up rates for key worker assistance at individual institutions, such as police stations or hospitals, and on the reasons for any variations in these rates. The Department needs to identify those institutions with the greatest recruitment and retention problems and compare with the current pattern of provision of assistance. The Department and Regional Housing Boards should take account of this exercise when determining the criteria for eligibility for assistance.**

28. The Department accepts this recommendation in part. Since the launch of the KWL Programme in 2004 the Department (and its predecessors) has gathered extremely detailed and comprehensive information on take-up rates within each sector on a monthly basis. For example, for the police, the Department monitors how many Police Officers and Community Support Officers within regular police forces, the Civil Nuclear Constabulary and British Transport Police have applied and purchased through the scheme. This information is collected at zone level so, for instance, in London these figures are broken down between the East, North, West, South East and South West of London. This data tells us the number of applications in the pipeline as well as the number of completions. It therefore gives the earliest possible indication of any issues around take-up.

29. This valuable information is shared with sponsor employers and Government Offices in the regions to inform decisions around eligibility criteria for the KWL programme and other priority first time buyer group for the region. Since the expansion of the HomeBuy Agent role in April 2006, data about take up of affordable housing options for each of our priority groups, including key workers, is now collected for every one of the 37 zones across the 9 English regions.

30. The Department has explored the idea of targeting assistance on certain institutions within our core sectors but rejected it on the basis that this could create a perverse employment incentive. Such a policy could draw key skills from an ineligible institution to an eligible institution leaving critical gaps still to be filled. Feedback from the independent evaluation of the KWL scheme also suggested that narrowing the eligibility criteria further could be divisive in the workplace at the local level.

31. The Department aims to prevent variations in take up rates caused by a lack of awareness of the assistance available by requiring the HomeBuy Agents to adopt a rigorous and consistent approach to marketing. The HomeBuy Agents' contract with the Housing Corporation requires them to raise general awareness of the various LCHO schemes and make use of appropriate marketing techniques to achieve this. The contract also obliges them to liaise with local authorities, developing organisation including RSLs, Regional Assemblies (in their housing role) and local employers to ensure effective targeting of assistance to eligible groups. The Department chairs regular meetings between the employers and HomeBuy Agents to ensure all parties work together effectively to pick up and resolve any issues such as large variations in take up rates.

**PAC conclusion (ix): From April 2006, key public sector workers who receive assistance by sole virtue of their employment are required to repay this assistance if they leave eligible employment. The Department and the Housing Corporation should require participating employers of key workers to apply controls for the recovery of this assistance.**

32. Although there is no evidence that controls are inadequate, the Department accepts the Committee's recommendation *Clawback*, which is the repayment of Government assistance when a key worker<sup>13</sup> leaves their employment, was first introduced by the Department in April 2004. Equity loan assistance must be repaid on the sale of the property within two years of the key worker leaving qualifying employment and this rises to five years for homes bought on a shared ownership basis, including under New Build HomeBuy from April 2006.

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<sup>13</sup> A full list of key workers eligible for key worker assistance can be found at annex B of the Key Worker Living Chapter of the Housing Corporation's Capital Funding Guide <http://www.housingcorp.gov.uk.server/show/ConWebDoc.8516>

33. The Department has made clear to sponsor employers that their assistance in tracking the status of beneficiaries is a condition of access to the KWL scheme. Since the NAO report the Department has carried out a review of employers' tracking mechanisms and are satisfied that the majority have robust systems in place. Further improvements are needed in a few cases and the aim is for these to be fully implemented by autumn 2007.

34. The Department, in conjunction with the Housing Corporation, is doing all it can to ensure that KWL funding is recycled quickly and effectively so that it continues to benefit eligible individuals. In addition to the legal obligation on the purchaser and the requirement on the employer to track the status of beneficiaries, the Housing Corporation has also made it clear in funding conditions that the RSL should establish robust mechanisms to regularly review and confirm the qualifying employment status of key workers. RSLs should then implement speedy grant recovery procedures if *Clawback* applies.

35. On an annual basis RSLs are required to check with the key workers employer that the key worker remains in eligible employment, initiate *Clawback* where the key worker is found no longer to be eligible and confirm with the Housing Corporation that this check has been carried out. The Housing Corporation has written to and obtained assurance from all HomeBuy Agents and the forty relevant developing RSLs that they have effective controls in place for implementing and monitoring claw back.

36. The Department has no evidence that the existing controls are inadequate. The Department carried out audit spot checks in 2005 and 2006 and no problems were reported. Of the 87 cases across 14 zones that were randomly surveyed in 2006, 3 key workers had resigned and *Clawback* had already been invoked in all cases. The Housing Corporation plans to carry out a further spot check later this year.

**PAC conclusion (x): The new arrangements for funding the Open Market HomeBuy product mean that private lenders, rather than affordable housing sector, will benefit from any rises in the equity value of homes bought with assistance.**

37. The Department has entered into an agreement with four commercial lenders whereby they part-fund the Open Market HomeBuy equity loan. Purchasers are expected to raise finance to buy around 75 per cent of a home selected on the the open market. The participating lenders offer a regular mortgage combined with an equity loan of 12.5 per cent of the property's value alongside a 12.5 per cent loan from the HomeBuy Agent. No charge is levied on either of the equity loans for the first five years. After five years purchasers can be charged a maximum of 3 per cent interest on the lender's equity loan, rising up to – but not exceeding – the lender's standard variable rate after 10 years. There are never any ongoing monthly payments on the HomeBuy Agent's equity loan.

38. On repaying the equity loan purchasers are required to share any increase in the property's value with the lender and the HomeBuy Agent. Purchasers are required to repay the lender's equity loan upon repayment of the final instalment of their mortgage and have to repay both the lender's and the HomeBuy Agent's equity loan on sale of their home. Key workers who qualify by virtue of their employment are required to repay the HomeBuy Agent's equity loan within two years of leaving qualifying employment.

39. Under the previous HomeBuy scheme, which was operating in 2004-05 and considered by the NAO, purchasers received an equity loan for around 25 per cent of the purchase price from a RSL and repaid 25 per cent of the value of the property on resale or, in the case of key workers, when leaving qualifying employment.

40. The arrangement with lenders, which commenced in October 2006 enables the Government to help more people into home ownership with the same funding, contributing to the commitment to help 120,000 households into home ownership between 2005 and 2010. Although part of the gains arising from equity loans now go to lenders, RSLs will not receive less of a receipt. The funding available for HomeBuy Agents has not been reduced so HomeBuy Agents can potentially offer more loans to more people and receive the equivalent equity gains.

**PAC conclusion (xi): RSLs have made substantial gains from their involvement in low cost home ownership but some have been slow to reinvest these gains in affordable housing. The Government plans to work with the Housing Corporation and RSLs to recycle such gains back into the provision of affordable housing. There is however uncertainty over whether the Housing Corporation has the necessary legal powers and the Department needs to clarify the legal position.**

41. The Department accepts the Committee's findings. The Housing Corporation has taken legal advice to clarify its powers and this gives the Corporation the confidence that it can recover (via RSLs' RCGF) an amount above the grant given, including an amount linked to the value of LCHO properties at initial sale and on subsequent stair casing.

42. The Housing Corporation through its consultation<sup>14</sup> on the operation of the RCGF has set out to bring about this change. At present, the maximum amount recycled into the RCGF is no more in monetary amount than the grant originally given. The Department and the Housing Corporation recognise that there are strong arguments that the amount of grant to be recycled through the RCGF should be calculated in a way that takes account of the growth (or fall) in the property's value after grant is first invested in it. The Government, on behalf of the taxpayer, has invested resources through grant and should benefit from any increase in the value of its initial investment.

43. RSL receipts that are not recycled through the RCGF (i.e. surpluses) are channeled in other ways to pursue housing and related objectives for the benefits of communities. The Housing Corporation and the Department recognise that RSLs do not distribute surpluses<sup>15</sup>. However, by introducing the link to value, and increasing the funding that flows through RCGF, we wish to ensure that RSLs are intending to focus that spending on national and regional housing strategic priorities including new supply. Subject to consultation responses, the Housing Corporation plans to make the proposed changes to the operation of the RCGF from April 2008 to coincide with the start of the next National Affordable Housing Programme.

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<sup>14</sup> The Housing Corporation's consultation on the RCGF and the link to value can be found on its website at [http://www.housingcorp.gov.uk/upload/pdf/Recycled\\_Capital\\_Grant\\_Fund\\_consultation.pdf](http://www.housingcorp.gov.uk/upload/pdf/Recycled_Capital_Grant_Fund_consultation.pdf)

<sup>15</sup> RSLs cannot lawfully distribute surpluses: section 2(2) Housing Act 1996.

**PAC conclusion (xii): RSLs' equity stakes in LCHO properties are currently valued at potentially between £610 million and £720 million. One of the Housing Corporation's aims is for RSLs to lever more private finance into the affordable housing sector which could be achieved if RSLs used their equity stakes as security to raise extra borrowing from commercial lenders. The Housing Corporation should work with RSLs and commercial lenders to overcome any obstacles to RSLs raising additional funding in this way**

44. The Department accepts the Committee's findings. The Housing Corporation is committed to ensuring that RSLs maximise their borrowing by utilising historic investment. In Feb 2007 the Corporation published *Unlocking the Door: Delivering more homes from the Comprehensive Spending Review*.<sup>16</sup> This publication includes analysis of the potential for additional RSL borrowing, and the Corporation has followed up with a number of meetings with key individual associations.

45. RSLs are regulated by the Housing Corporation and this acts as comfort for commercial lenders who are prepared to loan to RSLs against their shared ownership assets at very competitive rates. The *Frontier Model*<sup>17</sup> on the costs and benefits of regulation sets out the 'savings' that RSLs get in terms of preferential rates as a consequence of Housing Corporation regulation. Frontier (2005) states that there is a saving to RSLs of between 30 and 35 base points on private borrowing attributable to the comfort lenders take from the regulation of the sector.

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<sup>16</sup> *Unlocking the Door* is available to download from the Housing Corporation's website at [http://www.housingcorp.gov.uk/upload/pdf/Unlocking\\_the\\_door.pdf](http://www.housingcorp.gov.uk/upload/pdf/Unlocking_the_door.pdf)

<sup>17</sup> This report was commissioned by the Housing Corporation with the main objective of developing a framework with which to examine the costs of regulation for the Corporation and housing associations and the corresponding benefits for them and for residents and society more widely. The report can be found at [http://www.housingcorp.gov.uk/upload/pdf/RPT-mb-sw-final\\_revised\\_CBA-STC-050905\\_20061218143940.pdf](http://www.housingcorp.gov.uk/upload/pdf/RPT-mb-sw-final_revised_CBA-STC-050905_20061218143940.pdf) Page 27 deals with a range of 30-35 basis points savings attributable to the regulatory regime.



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ISBN 978-0-10-170772-5



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