



## **Treasury Minutes on the Forty Eighth, the Forty Ninth, and the Fifty First to the Fifty Seventh Reports from the Committee of Public Accounts 2007-2008**

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

**February 2009**

TREASURY MINUTES DATED 26 FEBRUARY 2009 ON  
THE FORTY EIGHTH, THE FORTY NINTH, AND THE FIFTY  
FIRST TO THE FIFTY SEVENTH REPORTS FROM THE  
COMMITTEE OF PUBLIC ACCOUNTS SESSION 2007-08

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# Forty Eighth Report

## Ministry of Justice

### The supervision of community orders in England and Wales

1. The Ministry of Justice (the Department) welcomes this report by the Public Accounts Committee (PAC) in which it examined the effectiveness of community orders following the introduction of the Criminal Justice Act 2003. However, the Department points out that work to address the conclusions in the PAC report was already underway at the time of the Comptroller and Auditor General's (C&AG) Report. Therefore, some of the conclusions in the PAC report have been superseded by more recent developments undertaken by the Department, particularly in relation to the measurement of re-offending.

2. The Department is also pleased that the Committee identified the impact that community orders have on reducing re-offending by referring to the statistically significant reduction in actual reconviction rates compared to predicted rates for offenders on community orders.

**PAC Conclusion (1): we welcome the Ministry's acceptance of all the recommendations made in the Comptroller and Auditor General's Report and the Action Plan which has resulted from it. The National Offender Management Service, part of the Ministry of Justice, encompasses HM Prison Service, the National Probation Service and the 42 Probation Areas, and is working to implement the Report's recommendations via a series of phased initiatives.**

3. The Department has no additional comment to make on this conclusion. References to the work to implement the findings of the C&AG Report will be made in this Treasury Minute response.

**PAC Conclusion (2): the Ministry lacks robust, national information about which offenders are less likely to reoffend if sentenced to a community order, rather than to a short custodial sentence. Without this key information, it is harder for probation officers to advise the courts properly on what might encourage particular offenders to stop or reduce their reoffending. The Ministry's planned research study, due for publication in summer 2015, should show the type and combination of community order requirements that work best for different types of offender. Rather than waiting until 2012 to release the first results, the Ministry should report emerging findings from this work, so that they can be absorbed into Probation Officers' day to day work, including information on the extent to which offenders gain and remain in employment.**

4. The Department accepts this recommendation, which is consistent with the work already underway to complete an Offender Management Community Cohort Study (OMCCS). This study will provide information about the characteristics of offenders on community orders, the work undertaken with them, and the short and long-term outcomes including impact on re-offending. Additional information will be provided by the Unit Cost in Criminal Justice Study, which will identify the relative costs and benefits of each intervention.

5. The OMCCS will begin collecting data at the start of 2009. Initial findings on the characteristics of offenders should be available in spring 2010. The first results covering short-term outcomes will be published, subject to ministerial approval, in summer 2010.

**PAC Conclusion (3): the most widely used measure of reoffending, the reconviction rate, does not include all offences committed in the two year monitoring period after sentencing and is not comprehensive enough to be a useful measure of sentence effectiveness. Offences occurring during the two-year monitoring period but identified more than six months later are not included in the reconviction rate, which is therefore understated. To gain a fuller picture of re-offending, the Ministry should supplement its two-year reconviction data with information on offences identified later.**

6. The Department partially accepts this recommendation, although it refers to the old reconviction method of producing re-offending data. The Department already has a plan to assess the links between re-offending rates over one year, three years and five years (using the current method) by the end of 2009. Once this work is completed, the Department will then know whether further supplementary information is needed to reflect any potential understatement of re-offending rates. However, the initial comparison of rates on the old method over one, two and five years shows that for the majority of offences, rates over one year are highly indicative of rates over two and five years.

**PAC Conclusion (4): the National Probation Service does not have accurate, complete and up-to-date information about its capacity to oversee community orders, the relative costs between areas or the number of community orders completed as sentenced. In the face of changing demands on the National Probation Service, good decision-making is difficult without accurate information. The changes set out in the Ministry's Action Plan should improve the reliability and timeliness of management information, and the National Probation Service should publish periodic reports on progress made on implementation.**

7. The Department accepts this recommendation and acknowledges the need for improvements in these areas, which were already being taken forward via two main programmes:

- Specification, Benchmarking and Costing Programme; and
- Performance Management Framework.

8. **Specification, Benchmarking and Costing Programme (SBC):** this programme has been set up (following the NAO report and Lord Carter's review) to support improvements in efficiency and effectiveness by addressing unnecessary variation in service provision. An early product of the SBC programme will be an agency-wide directory of all the services provided to offenders across the National Offender Management Service (NOMS) Agency, each of which will have defined outputs and outcomes as well as a service specification. Each specification will also be costed enabling fair comparison of the costs for the key services across probation.

9. The first specifications will be completed during the financial year 2009 to 2010 and a full set of specifications is currently being planned, subject to resource constraints, to be completed by March 2012. The completion of service specifications across probation will enable the development of standard measures of probation service workload and of business capacity, which can be used at both national and local levels.

10. **Performance Management Framework (PMF):** this work consists of a number of strands to provide better information on performance. A central element has been to develop a performance information hub, which widens access to performance information, improves timeliness of reporting, improves data quality and streamlines collection. PMF is also developing an enhanced management information strategy which aims to: make the best use of available data; ensure the quality and robustness of existing data; identify and fill gaps in management information and business intelligence; design and build an IT system that can contain and manage all of this information. In addition Best Value work is being implemented for Probation Services as part of the Probation Trust Programme and will focus on work with victims and Unpaid Work during 2009-10.

**PAC Conclusion (5): funding for the delivery of community orders is not aligned with the demands falling on individual local Probation Areas. The Ministry should adjust its funding arrangements to more flexibly respond to changes in demand from sentencers, as well as local Area circumstances.**

11. The Department partially accepts this recommendation and intends to ensure that allocation of funds is adjusted to better align with local demands and offender needs. The allocation process will be informed and improved by the results of the work set out above in relation to PAC Conclusion (4) and by other management information, such as conviction data for each Probation Area. Initial adjustments to take account of such factors will be made in the 2009-10 allocations.

**PAC Conclusion (6): some sentencers see community sentences as a soft option, meaning they are less likely to give them as a sentence. The Ministry could do more to improve sentencer and public confidence in community orders as a real alternative to custodial sentences by promoting community sentences more proactively to local sentencers. The Ministry could do this, for example, through using case examples and validated local information on the proportions of orders completed and breached, as well as reconviction rates.**

12. The Department is doing more to improve sentencer and public confidence in community sentences. Sentencers continue to demonstrate their satisfaction with community orders by making greater use of them, as indicated by the number of offenders starting court order supervision in 2007 being 5% higher than in 2006.

13. The Department is nevertheless keen to promote community sentences even further. For example, joint work with the Home Office is currently progressing on the *Justice Seen, Justice Done* campaign, which will highlight what offenders pay back to their local communities via community sentences. Alongside this a *Community Sentences Campaign* is also currently underway with similar aims.

14. Case examples of best practice in sentencer communications have now been placed on the probation intranet, backed up by statistics on re-offending and probation performance. The Department is also developing a local measure of re-offending, which will provide reconviction rates for all offenders at the probation area or trust level and at local authority level. These will be published in February 2009. A new protocol for probation liaison with sentencers was released in June 2008 and this will be supported by centrally developed communication materials promoting community sentences, including a Bench Guide and Handbook, DVDs and literature on community sentences.

**PAC Conclusion (7): there are variations in the way Local Probation Areas have implemented the National Standards which underpin the enforcement of community orders. These variations mean that offenders are treated differently in different Areas, and could reduce confidence in community orders. The Ministry should publish local Area information showing performance against national standards to identify poor performance and encourage Areas to implement standards properly, particularly those relating to acceptable absences and the completion of orders.**

15. The Department accepts this recommendation, but believes it has already taken the action required.

16. The NOMS Agency, and the National Probation Directorate before it, has routinely reported performance against National Standards since 2002, with reports being published on a quarterly basis and available to probation areas and trusts as well as to the central NOMS Agency. The reports identify variations in performance, which are followed up when improvement action is required. The Committee recommendation also makes specific reference to acceptable absences and completion of orders: Probation Circulars four and five of 2008 have already clarified and tightened instructions on both these areas.

17. The NOMS Agency also publishes an Integrated Probation Performance Framework (IPPF), which assesses and categorises each Probation Area on a four-point scale ranging from *exceptional* to *serious concerns* and draws on 20 performance indicators relating to National Standards. Probation Areas are held to account over their performance by their Regional Offender Manager (ROM) through service level agreement review meetings.

**PAC Conclusion (8): some of the programmes supporting the delivery of community order requirements may not be well suited to meeting the needs of women and members of minority groups, which could make it harder for these offenders to complete their order in line with court requirements. The Ministry should use the information it collects on the gender, ethnicity and disabilities of offenders, and the length and type of community orders they are serving, to check that the programmes provided meet their needs.**

18. The Department accepts the need to ensure that its services meet the needs of women offenders and members of minority groups and the NOMS Agency already monitors the delivery of programmes and uses this information to ensure that programmes can be accessed by all groups according to need. Diversity data on offenders attending programmes is routinely collected through the offender assessment system, OASys, and the Interim Accredited Programme Software (IAPS) and all programmes have to demonstrate their responsiveness to the diverse needs of the offender population in order to maintain their accreditation. Also, regionally based Directors of Offender Management are currently being appointed who will scrutinise all aspects of service delivery to ensure that the diverse needs of offenders are being met.

19. A NOMS Agency review of the impact assessments for accredited programmes has already commenced and will be completed during 2009. This, along with an analysis of the needs profile of offenders beginning community orders, will provide information to shape the further development of programmes.

**PAC Conclusion (9): the Ministry's current system of delivery targets for local Probation Areas could create perverse incentives. Offender managers, for example, may be incentivised to channel offenders towards programmes that are below target, and to avoid breaching those on such programmes. In other instances, targets for some requirements, such as unpaid work, are easily exceeded. The Ministry should refocus its performance measures to drive up the quality of offender management and encourage a better spread of programmes throughout the year.**

20. The Department accepts the recommendation to focus performance measures on driving up the quality of offender management, but does not accept the inference that offenders on programmes are not being breached appropriately. The NOMS Agency is already developing a performance framework, which will lead to a new suite of performance indicators for probation areas and trusts in 2009-10. Some changes will require significant developments, such as new Information Technology systems to support these changes; therefore we do not anticipate having a mature system design in place until April 2011.

21. In relation to programme targets, NOMS introduced a new indicator for 2008-09 to limit programme access to offenders meeting the eligibility criteria. In 2009-10 that indicator will become a Key Performance Indicator (KPI) and target levels set nationally. NOMS also plans to introduce a new pilot indicator within Service Level Agreements focusing on the eligibility levels of programme completers. The Department wants to move away from less meaningful volume targets towards targets based on completion rates, but will continue to collect information on the completion numbers for individual programmes to ensure that the profile of programmes provided is appropriate.

22. In 2009-10, NOMS will establish a 'priority development indicator', which is a measure of the quality of the offender assessment system (OASys). Alongside this NOMS will also develop a new quality assurance process for OASys, during 2009-10 with a view to having a full KPI in 2010-11. Measures of quality are complex and can be resource intensive; but NOMS will test these new measures before they are introduced.

**PAC Conclusion (10): unpaid work is focused on projects which benefits local community groups but could be broadened to include more schemes which improve communal areas, such as litter clearing and chewing gum removal. Nationally, unpaid work represented some 31% of all requirements issued in 2006. The National Probation Service should promote the performance and increase the visibility of unpaid work sessions, both within the local communities in which they occur and to sentencers.**

23. The Department accepts this recommendation and is already undertaking developments along these lines, including the existing pilots of Citizens' Panels in six local authority areas, wherein local communities help to select unpaid work projects. If successful the panels will be extended to 60 pioneer areas. Similarly, the NOMS Agency has introduced the use of distinctive clothing, including a Community Payback logo, for offenders undertaking unpaid work and will issue up to date guidance on increasing the visibility of all suitable work placements by April 2009. These developments are also in line with the *Engaging Communities in Fighting Crime* review by Louise Casey.

**PAC Conclusion (11): alcohol misuse was shown to cause a quarter of offenders to commit offences, but only 2% were given an alcohol treatment requirement. It is for the courts to determine an offender's sentence, but a lack of alcohol treatment in some areas may reduce sentencing options. This means that the cause of offending may not be being tackled effectively. The Ministry of Justice should work with the Department of Health to make the alcohol treatment requirement available to courts for all offenders with chronic alcoholism where this contributes to their offending behaviour.**

24. The Department partially accepts this recommendation, but would like to emphasise that the alcohol treatment requirement (ATR) can only be made available in so far as funds are provided for it by the Department of Health, as Primary Care Trusts are responsible for alcohol treatment for all local residents including offenders. Also, the Department does not accept that alcohol misuse has been shown to cause a quarter of offenders to commit offences: the evidence available to the Department indicates that around 25% of offenders have a problem with alcohol use that is linked to their offending.

25. Additionally, the Department believes that the ATR should only be made available to those offenders who meet the eligibility criteria for treatment. According to current eligibility criteria an ATR would only be proposed for those offenders who have a serious problem with alcohol use that is linked to serious offending. This would not cover all offenders with a chronic<sup>1</sup> alcohol problem, whose needs are currently met in a variety of other ways, including access to primary care trust treatment services, community based voluntary treatment services or via a supervision or activity requirement in a community order.

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<sup>1</sup> The word chronic has a specific clinical meaning, which refers to dependent drinkers. NOMS works with offenders who may not be dependent drinkers but whose drinking is otherwise hazardous and harmful and likely to result in offending.



26. Nevertheless, the Department does accept that there is scope to increase the availability of ATRs and has been driving them up since they began. For instance, since their introduction in 2005, they have risen from 2,297 to 5,145 and 37 out of 42 areas do now have arrangements in place for their delivery. The NOMS Agency is also undertaking the following actions to increase and improve provision of alcohol interventions for people whose offending is linked to alcohol use:

- introduction of an ATR completion target for the financial year 2008 to 2009;
- development of an alcohol information pack for offenders under probation supervision;
- dissemination of key learning points and outputs from seven alcohol best practice projects, with a further eight projects recently commissioned;
- commissioning independent research to assess the effectiveness of probation work with alcohol misusing offenders;
- piloting and evaluating a joint prisoner befriending scheme in seven London prisons; and
- developing two programmes for prisons and one for probation to address alcohol related offending behaviour.

27. A high level Alcohol Provision Working Group, covering senior officials within the Ministry of Justice, Department of Health and other key stakeholders, is overseeing these developments and undertaking a strategic review of provision for alcohol treatment. The Group will report in March 2009.

# Forty Ninth Report

## Department for Culture, Media and Sport

### Making grants efficiently in the culture, media and sport sector

1. The Department for Culture, Media and Sport (the Department) welcomes this report by the Public Accounts Committee (PAC) in which it assessed the cost efficiency of making grants, of supporting grant applications, of sharing services and information, and of making applications on-line.

2. In 2006-07, the nine principal grant-makers sponsored by the Department for Culture, Media and Sport (the Department) awarded grants of some £1.8 billion, and spent some £200 million on administering the grants and related activities. The grants supported a range of projects from the work of individual artists to the repair of places of worship and the building of new sports facilities. The grants ranged in size from £200 to several million pounds.

**PAC Conclusion (1): the Department does not require grant-makers to report their costs against a common set of measures and has done little to encourage grant-makers to compare the costs of their grant programmes. The Department should take the lead in agreeing with grant-makers ways to measure and report the cost of making grants on a like-for-like basis. Where there is evidence of inefficiency, it should challenge them to identify the main drivers of cost and to find ways to make savings.**

3. The Department partially accepts this recommendation and will work with the grant making bodies to keep their costs to a minimum and encourage information sharing. It already requires Lottery distributors to report Lottery distribution costs separately from general running costs and has issued guidance on measures for reporting them.

4. It welcomes the standard method adopted by the distributors of reporting those costs over time and will continue to encourage them to make their system as uniform as possible. Individual grant programmes are designed by grant givers to achieve specific outcomes. No two programmes are the same, costs vary according to their design and the outcomes they are required to deliver. Therefore, comparisons are not very meaningful and it would be difficult to gather costs in sufficient detail to identify specific process inefficiencies. Nonetheless, best practice at keeping costs to the minimum will be adopted.

5. The grant makers have agreed to look at the methodology for recording grant-making costs to see if it can be shared. They know the main drivers of costs, many of them are undertaking further work to capture costs specifically and they continue to look for opportunities to make their grant programmes as efficient as possible. For example, Big Lottery Fund believe that the work they have done in this area will better enable the relative costs of different programmes to be taken into account when considering grants for the period 2009-15.

**PAC Conclusion (2): in 2006-07, the Arts Council England spent 35 pence to award a pound of grant to individual artists on its *Grants for the Arts* programme, compared to a cost of between 3 and 8 pence for the other grant programmes we examined. The Arts Council commits significant resources to supporting the work of individual artists, but does not know exactly how much this work costs. It should:**

**i) identify separately the cost of the development work it carries out with applicants, and evaluate whether the cost of such work is proportionate to the outcomes delivered; and**

**ii) assess whether the purely administrative cost of making these grants is in line with that of other programmes and, if it is not, seek to learn from other grant makers to see how its processes might be streamlined.**

6. The Department partially accepts this recommendation. The priority for the Arts Council in seeking costs savings is the Organisation Review, which reports in February 2009, and delivers outcomes from March 2010. It is anticipated that this review will achieve 15% administration savings across all activities. As part of the review, the ways of working currently adopted for the Grants for the Arts Programme will be considered. The model adopted for Grants for the Arts from 2010-11 will of necessity address both the cost of development work, and how to maximise the efficiency of the cost of administering grants.

**PAC Conclusion (3): on average, English Heritage spent nearly £10,000 to award a grant under its *Repair Grants for Places of Worship* scheme, and estimates that providing technical support, such as from surveyors and architects, to grant applicants, represents over half of the cost incurred. English Heritage should keep under review the cost of awarding these grants and should identify separately the cost of providing specialist technical support. It should seek ways to reduce this cost, such as by introducing a risk-based approach, which ensures that the level of specialist support, in particular the input of architects, is commensurate with the demands of each project.**

7. The Department partially accepts this recommendation. The cost was estimated by the NAO based on a detailed assessment of the cost process of managing the Repair Grants for Places of Worship programme at 7.6%. When established, the programme was estimated to cost 9.15% (2003-04) and allowing for inflation at 3%, the cost would be expected to have reached 10% by 2006-07. Consequently, English Heritage has made a 24% efficiency saving in three years through careful review and management. Of the 7.6%, 6.1% relates to mentoring, technical support and monitoring, with only 1.5% relating to the administration of the scheme.

8. English Heritage has a detailed risk assessment of the process and has used this to establish the most efficient and effective risk based process, contributing to the 24% savings made. The risk assessment identified the need for English Heritage resources to be focused early in the process. This has ensured that those few projects that are offered grant but are not deliverable are terminated at the earliest possible opportunity, before significant expenditure has taken place. The consequence of the approach adopted is that all cases that have drawn down their stage two repair funding have gone on to deliver the objectives of the funding within budget, in spite of contractors going bankrupt during works in a couple of cases.

**PAC Conclusion (4): applying for a grant can be a complex and time-consuming process but grant makers do not seek to understand what costs their processes are imposing on applicants. For Big Lottery Fund's *Reaching Communities* programme, applicants took on average 21 days to prepare an application, although the application had a one in five chance of being successful. Grant-makers should routinely monitor how much it costs applicants to complete the forms and provide the information necessary to apply for funding. Wherever possible they should make it easier to apply for grants by simplifying application forms, by improving guidance and access to advice, and by requesting only the information they need to make funding decisions.**

9. The Department accepts this recommendation. It has encouraged grant makers to ensure that the application process is as simple as it can be, taking account of the size and complexity of what is being requested, and the need to guard against fraud. While grant makers need to understand the main drivers of cost to applicants, they do this by routinely obtaining feedback from applicants as well as requesting only the information they need, continually making applications easier. As a result of this, monitoring of costs is subsumed within this process.

10. Big Lottery Fund is looking, specifically, to reduce time spent by applicants as part of its business process reengineering exercise. Heritage Lottery Fund (HLF), in response to feedback sought from customers about its third strategic plan, has simplified the application process for all its programmes and introduced on-line application from April 2008.

**PAC Conclusion (5): the Big Lottery Fund has increased the spread of successful applications across the United Kingdom and from different social groups, but more could be done by other grant-makers to raise potential grant applicants' awareness of available funding and to stimulate higher quality applications. Grant-makers should seek to learn from Big Lottery Fund's approach, including its regional outreach operations. They should work together in the regions, and with other partners such as local authorities, to establish one-stop shops and run events to promote grant programmes and offer advice.**

11. The Department accepts this recommendation. The other grant makers in the culture, media and sport sector (apart from Big Lottery Fund) work hard to make potential applicants aware of available funding and they have established outreach operations that work in cooperation with other grant makers, local authorities and other partners. Lottery distributing bodies are working very closely through the Lottery Forum to share best practice and have established a website<sup>2</sup>, which helps guide applicants to the appropriate Lottery grant programme.

12. Where bodies share a common interest/purpose, they work together. For example: English Heritage and Heritage Lottery Fund do so through regional seminars for potential applicants to the Repair Grants for Places of Worship (RGPOW), and are in, and will continue with, discussions as to how to promote these further to potential, but as yet not reached, applicants. A database of faith group contacts has recently been established in order to widen the scope of the RGPOW. This will ensure that all faith groups at a national level are aware of the opportunities available.

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<sup>2</sup> [www.lotteryfunding.org.uk](http://www.lotteryfunding.org.uk)

**PAC Conclusion (6): there is little effective sharing of information on the costs and processes of grant making. The Department should facilitate an initiative across the sector to share information about the administrative costs of grant programmes. It should:**

**i) work with the Lottery Forum to develop its role in sharing good practice and compare the costs and effectiveness of the grant-making process; and**

**ii) promote the exchange of information and learning about good practice, both within and beyond the sector, for example, by helping grant-makers set up a benchmarking club.**

13. The Department partially accepts this recommendation. The Lottery distributing bodies are sharing good practice and data on costs at a high level, and are working closely together to share best practice through the Lottery Forum. The Department will continue to work with the Lottery Forum to ensure that best practice is shared but does not believe it is appropriate to direct the grant makers in this respect since the benefit of sharing information on individual grant programmes designed to achieve unique outcomes is doubtful.

**PAC Conclusion (7): despite recommendations made by this Committee that they should work together, grant-makers have worked independently to rationalise office accommodation and identify efficiency savings. The sector has made little progress in sharing services, systems or accommodation and the Department should be more pro-active in encouraging sharing and co-operation between bodies in the sector in areas such as office accommodation. It should require those grant-makers with a regional presence to evaluate the costs and benefits of sharing office accommodation and facilities.**

14. The Department partially accepts this recommendation. The grant makers are already working together where appropriate. For example: the Big Lottery Fund accommodates both the Olympic Lottery Distributor and the National Lottery Promotions Unit and shares accommodation with the National Endowment for Science, Technology and the Arts (NESTA) and the Advisory, Conciliation and Arbitration Service (ACAS). The UK Film Council shares premises with the Department in one of its buildings. English Heritage and the Museums, Libraries and Archives Council have recently relocated outside London in line with the Gershon and Lyons Reports.

15. However, the size of the sector restricts the number of opportunities to share accommodation and any back office facilities. Experience in Nottingham showed little benefit in Lottery distributors sharing a regional office as they had relatively few interactions – however, there may be economies of scale generated by co-location. These economies could only be judged on a case-by-case basis due to the variances in the existing arrangements (leases etc) that each organization may have entered into. Timings for the duration of leases and service agreements, along with the size and type of accommodation being used, will govern when such opportunities may arise.

16. However, the Department would draw the Committee's attention to its High Performing Property (HPP) programme which requires all central Departments, their agencies and arms length bodies to adopt a strategic, value for money approach through delivery of asset management plans, overseen by Board level Property Champions and Property Assets Management Boards. These plans will indicate opportunities for co-location where that is feasible. The Department takes into account these requirements and works with its sponsored bodies to utilize accommodation, which will provide the best value for public funds. This may be through co-locating with like organizations, either public sector bodies or, in exceptional circumstances, the private sector (which may require the agreement of the Treasury).

17. Each body has a capital-spending limit for Exchequer funding, and any expenditure above this limit will require a business case to be made to the Department. As part of the approval process the Department will monitor the choices considered by the body, for example: if wishing to acquire new accommodation ensuring that sharing of office space is actively considered and, where not adopted, that that decision is justified.

**PAC Conclusion (8): grant-makers have procured and developed independently their own IT systems to manage grants and have done little to share information about each system's strengths and weaknesses. This approach is symptomatic of an apparent unwillingness to work together. The Department should promote closer working between the grant-makers in researching, testing, procuring and developing new systems. Before approving funding for new IT systems, it should require an evaluation of the scope to share or adapt systems already in use by other grant makers.**

18. The Department partially accepts this recommendation. It agrees that grant makers should learn from each other and work together where appropriate. It will encourage grant-makers to continue to work together and share best practice to achieve optimum efficiency. The grant makers routinely examine all of the IT systems available in the market place, which includes the systems used by other bodies. Having looked at what the market offers, grant makers will choose whatever available option meets their business needs at best value; adapting other systems may not best meet the appropriate business need.

19. Experience has shown that the specific needs of individual grant makers cannot easily be met from a common system. For example: Big Lottery Fund's recent system procurement concluded that no existing system could meet the requirements of its complex programme mix, despite reviewing a very wide range of existing options.

**PAC Conclusion (9): only Sport England of the four grant-makers has the ability to process applications online, even though such an approach can reduce the costs of their processes, simplify the grant application process and improve the grant applicants' experience of the process. Grant-makers should work together to explore how to increase the use of online applications in their processes. As a starting point, the development work being carried out by the Big Lottery Fund to introduce online applications should be shared with others.**

20. The Department accepts this recommendation. Its grant making bodies have made excellent progress in this area. In addition to Sport England, other grant makers have the capability, and many more are seeking to acquire it and move to online processing of applications. For example: Heritage Lottery Fund (HLF) introduced online applications in 2008, Big Lottery Fund will be able to do so later in 2009 and Arts Council England is actively considering adopting the HLF system. The implementation of this recommendation will also have the effect of reducing the overall cost of grant making for both the giver and the receiver of the grant.

**PAC Conclusion (10): the lottery distributors have established a common website which refers applicants to the distributor most relevant to their circumstances, but grant makers have yet to establish a one stop shop for grant applications, as exists in the United States. In the United States, a common website, which is shared by 26 Federal grant-making organisations, lets applicants know about grant opportunities and enables them to submit applications on-line. The Department should encourage grant-makers to work together to make better use of technology, such as by developing a shared grant application system similar to that in the USA.**

21. The Department partially accepts this recommendation. It encourages its NDPBs to be bold, innovative and to embrace new technology. It points to the success of [www.lotteryfunding.org.uk](http://www.lotteryfunding.org.uk) in letting applicants know about Lottery programmes and directing them to the appropriate ones, and details of how to make applications to them. It received 82,000 visits last year, 45% up on the previous year. In the Department's view, forcing all grant makers to adopt common application processes would mitigate against the advantages of outreach, which brings forward applications from those who might not otherwise apply, and to seek to do both would add to the cost of grant making.

22. For Exchequer funded bodies, such as English Heritage, it may be more appropriate, subject to inclusion of certain requirements such as being fully free to all potential applicants, for them to consider Government Funding<sup>3</sup> as a vehicle.

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<sup>3</sup> [www.governmentfunding.org.uk](http://www.governmentfunding.org.uk)

# Fifty First Report

## Revenue and Customs Prosecution Office

### Revenue and Customs Prosecution Office

1. Revenue and Customs Prosecutions Office (the Department) welcomes this report by the Public Accounts Committee in which it examined the Department on the events that led to the qualified audit opinion on its 2005-6 accounts, the measures taken to address the shortcomings identified and the lessons learned for other new organisations. The Department accepts the Committee's conclusion that there existed shortcomings in its internal control system which resulted in uncertainty over expenditure and accrual for counsel's fees; a senior member of staff awarding contracts to his spouse without due regard to proper stewardship of public funds and, having awarded the contracts, failing to seek HM Treasury agreement in advance to make payment.

2. The Department recognises the critical importance of accounting for its performance and, in particular, its financial management. The Department is pleased that the Committee has recognised the progress made. The Department agrees with the Committee's recommendations, all of which support its view that the actions it is taking are the right ones.

**PAC Conclusion (1): the Accounting Officer addressed the shortcomings identified in the organisation's system of internal control, but acknowledged he should have done so sooner. In the months following the creation of the new organisation, the Accounting Officer gave priority to operational performance at the expense of establishing a sound system of internal control, for which he is personally responsible. When appointing an Accounting Officer to a newly established body, HM Treasury should issue guidance to the Accounting officer, the organisation's management board and its sponsoring department on the need to strike an appropriate balance between operational performance and sound financial control, as required by the Treasury guide *Managing Public Money*.**

**PAC Conclusion (2): currently, a newly appointed Accounting Officer, with little or no experience of working for the public sector, undergoes the same basic training as one with previous public sector experience. Support and training needs for Accounting Officers vary, depending on their previous experience of working within the Civil Service. HM Treasury should set a date with the National School of Government for the roll out of bespoke training and support tailored to the needs and experience of newly appointed Accounting Officers.**

3. The Department agrees that the recommendations are appropriate, particularly the need for guidance and bespoke training for new Accounting Officers who have been appointed from outside the Civil Service, especially when the appointment is made as part of the creation of a new government body.



4. HM Treasury fully agrees that Accounting Officers, management boards and departments should strike an appropriate balance between operational performance and sound financial control. To this end, HM Treasury has agreed with the National School of Government that the School will offer new Accounting Officers, particularly those who have little or no prior public sector experience, tailored advice and support, focused on the particular needs of the individual Accounting Officer and his or her organisation. The National School of Government will also offer the guidance and expertise of a number of former Accounting Officers who work as Associates of the National School including recently retired Permanent Secretaries. These arrangements are already in place.

**PAC Conclusion (3): the Accounting Officer redesigned the counsel fee regime in response to concerns raised by the National Audit Office regarding cost certainty, but some fee notes are still submitted late. The Accounting Officer is to be congratulated for ending the longstanding practice of negotiating fee rates with counsel on completion of the work assignment. To encourage compliance with the new fee regime, the Department should explore and develop a common range of sanctions in conjunction with the other Law Officers' Departments. Ultimately this may include a decision not to instruct named counsel on new cases.**

5. The Department has put in place a clear fee regime for all its cases, which has been communicated to all barristers on the Attorney General's Unified List of Prosecuting Advocates (the List). As is specifically recorded in the Committee's recommendations, the Department has the ultimate sanction that it would not continue to instruct a Counsel who fails to comply with the fee regime. RCPO is exploring how best practice in the management of Counsels' fees can be identified and shared across the Law Officers' Departments (LODs). And is engaged with the NAO's *Counsel Fees Good Governance Study* across those departments.

**PAC Conclusion (4): the three Law Officers' Departments undertaking criminal prosecution work have no common processes for allocating briefs to counsel, negotiating fees or monitoring the submission of fee notes. The Department should liaise with the Crown Prosecution Service and the Serious Fraud Office to align more closely their processes for appointing counsel and managing their fees. This should include the allocation of briefs and the establishment of agreed procedures for the submission of timely invoices, the end of year certification exercise and the fee regime.**

**PAC Conclusion (5): reliance on a few specialist suppliers may create excessive dependency and the perception of a cosy relationship. The Accounting Officer acknowledged the Department's reliance on counsel from a few specialist chambers, selected for their expertise and experience in prosecuting major revenue and customs fraud cases. The Department should keep the level and values of work provided to these chambers under review and periodically assess whether these allocations continue to be defensible. In the medium term, the Department should seek to encourage a broader range of suppliers to gain the necessary expertise.**

6. As mentioned, the NAO is undertaking a *Counsel Fees Good Governance Study*, which is examining the potential for common processes for engaging with Counsel across the LODs. The LODs have recently established a Strategy Programme, which is aiming to prepare the delivery of effective and efficient prosecution and legal services for the future. This Programme is driving better joined-up delivery across the LODs and will encompass the relationship with Counsel.

7. Barristers are self-employed individuals. The fees paid to each individual depend entirely upon the cases on which they are instructed and which may last for several years. Whilst statistics may show that aggregate sums are paid to barristers within specific sets of chambers, in reality there is no meaningful way in which fees are paid to chambers.

8. It is therefore critical that the Department has systems in place to ensure that there is fair distribution of work to all Counsel on the List as individuals, rather than as members of chambers:

- counsel are placed on the List on the basis of merit only after a thorough, fair and open selection procedure conducted by lawyers from all the relevant prosecuting departments. A similar system is used for the selection of Standing Counsel;
- counsel are offered briefs in rotation;
- the Department reports to the Attorney General's Office (AGO) quarterly to demonstrate that a fair spread of work is being provided; and
- where a complex case requires a silk to be instructed, the choice of Counsel must be specifically endorsed by AGO.

9. The Department's long-term strategy is to ensure that it appoints the best candidates from as wide a pool as possible. The Department is actively trying to attract solicitor advocates to the Lists, particularly on List C.

10. The Department is constantly trying to improve the selection and appointment process (in part as a result of the Attorney General's expectation statement on equality and diversity in relation to advocates undertaking government work). To this end, it has taken advice and has:

- improved its advertisements to make them more attractive to a wider audience;
- taken steps to advertise more widely;
- modified the application form to enable good applicants without all of the stated skills, experience and knowledge to give good examples of comparable skills etc; and
- improved the selection process by involving external assessors in the panels.

11. The Department has a demonstrably open and fair appointment system, designed to attract and recruit the best applicants, wherever they are from. The recent Standing Counsel exercise gives cause for optimism that this strategy is working.

12. All appointments to the List will terminate in 2010. Advocates will have to re-apply if they want to re-join.

**PAC Conclusion (6): inadequate separation of duties, a weak control system and failure to make a full disclosure of related party transactions enabled a senior member of staff to award his wife a lucrative consultancy contract. HM Treasury should remind Departments of the importance of demonstrating propriety in procurement particularly where someone related to a senior manager applies for a position within the same public sector body.**

**PAC Conclusion (7): the Accounting Officer and his advisers did not realise the Department needed the prior written approval of HM Treasury to enter into transactions where there was a potential conflict of interests. Retrospective HM Treasury approval should be the exception not the norm. HM Treasury guidance to public bodies on novel and contentious expenditure makes explicit the need for prior HM Treasury approval, but is silent on the process of obtaining approval. They should draw the attention of Accounting Officers to the need for a body to demonstrate to HM Treasury in advance that it has sufficient defensible information that the payment is value for money, conflicts of interest have been addressed and that the payment is within the bounds of regularity.**

13. HM Treasury fully accepts that departments and public organisations should demonstrate a high degree of propriety and ethics in public procurement. Accounting Officers should satisfy themselves fully that there is no scope for potential or perceived conflicts of interest in procurement or recruitment. They should have in place, within their organisations, guidance that such potential conflicts of interest are properly addressed and that officials are alert to dangers, perceived or otherwise, of related party transactions. Even where Accounting Officers are satisfied of the propriety and value for money of a particular procurement or recruitment, they should nevertheless seek HM Treasury approval in advance, in the normal way, if they believe that subsequent payments might be considered novel and/or contentious by Parliament or the public.

14. HM Treasury shall, by means of issuing a Dear Accounting Officer letter, remind Accounting Officers of their responsibilities in this area and update *Managing Public Money* appropriately.

**PAC Conclusion (8): the Department operated for 15 months with no code of conduct to highlight the responsibilities of staff when considering potential conflicts of interest and to set out the standards of expected behaviours. New entities should aim to have an appropriate code of conduct in place as soon as possible after operations commence. All staff should be required to sign it to demonstrate they have read, understood and complied with it.**

15. The Department accepts the conclusion and agrees with the recommendation. The Department now has a code of conduct, which was published in June 2007 on the Department's intranet site. New staff are made aware of the code of conduct upon joining. The contract of employment, signed by all staff, refers to the code of conduct and states that staff are expected to comply with it.

# Fifty Second Report

## Postal Services Commission (Postcomm); Office of Gas and Electricity Markets (OFGEM), and Office of Communications (OFCOM)

### Protecting consumers? Removing price controls

1. The Postal Services Commission (Postcomm), the Office of Gas and Electricity Markets (OFGEM) and the Office of Communications (OFCOM) welcome this report by the Public Accounts Committee in which it examined the decisions of Ofcom, Ofgem, and Postcomm to remove price controls, the benefits of these decisions to different groups of consumers, the challenges of regulating the respective markets, and the success with which regulators have met these challenges.

2. With regards to the postal sector, the report examined Postcomm's decision to remove the price control on the Special Delivery (Next Day) product for business account users from April 2006.

3. Ofgem accept the Committee's conclusion that consumers need to have good information about different suppliers, be able to switch supplier easily, have sufficient confidence in the market to believe that changing supplier can make a difference, and to be able to obtain redress where a company behaves anti-competitively. Ofgem also accepts that regulators need to make sure that competition is working well and that vulnerable consumers are protected especially at a time of large increases in energy prices.

4. Ofcom accepts the conclusion that it is not always easy for consumers to find information on telecoms products, particularly given the complex nature of communications products and bundles. It recognises the need for Ofcom to provide consumers with information to help them take full advantage of the competitive market in this sector and has introduced a number of initiatives to this end. Ofcom is also pleased the Committee has drawn a positive conclusion about the impact of the removal of price controls in the communications sector, which has led to a fall in the costs of telecoms services, compared with rising costs in other sectors.

**PAC Conclusion (1): regulators rely on consumers' ability to switch suppliers in order to put pressure on suppliers to provide lower prices and better service, but a survey of electricity consumers who had switched found that about a quarter had inadvertently moved to a more expensive supplier. Ofgem should commission research to establish the scale of this problem, to determine if it extends to gas customers as well, and to identify the obstacles that have prevented such customers from getting a better deal by switching.**

5. Ofgem accepts the Committee's recommendation. As part of its recent probe of the energy supply market, Ofgem commissioned Ipsos MORI to undertake a survey, similar to what the Committee suggests, amongst both domestic electricity and gas consumers. This survey investigated consumer attitudes and behavior, including awareness of, and participation in, the switching process, and helped establish the extent to which the market is working for consumers. Evidence from the survey showed that the switching process is now working well with just over three quarters

of those surveyed saying that the process had gone smoothly for them. However Ofgem analysis confirmed that for both gas and electricity customers only around sixty percent of consumers benefit from switching.

6. Ofgem has therefore proposed in the probe a strengthening of the marketing license condition and a number of improvements to the quantity and quality of information suppliers have to provide to consumers. Ofgem has also proposed a programme to promote confidence in price comparison and switching sites and to extend their scope, in particular to enable pre payment switching and switching among low income and vulnerable groups who do not have internet access.

**PAC Conclusion (2): around one in six customers complained that it is not easy to find out what companies in the telecoms sector offer. Ofcom should commission research to establish whether telecoms customers are having difficulties similar to those of gas and electricity customers, and also inadvertently switching to suppliers who are more expensive than their previous supplier.**

7. Ofcom does not, at present, commission research to establish if customers inadvertently switch to other suppliers who are more expensive than their previous supplier.

8. The complicated nature of the telecoms market presents huge challenges to the collection of such research and, due to question marks associated with any results, puts into doubt its ultimate value. There are complexities in the telecoms market that are not such a factor in the gas and electricity markets, where comparisons are made on the basis of 'relatively' straightforward units of fuel. Indeed, it's worth noting that the Wilson and Waddams-Price<sup>4</sup> working paper, cited in the Committee's Report, which looked at whether consumers in the electricity market had switched to the best deals, did not examine the impact of dual fuel offers on the prices of new deals in the energy market and highlighted the need for further research.

9. As noted in the Committee's Report, Ofcom has been keen to provide information to telecoms consumers on the best offers available and been active in setting up a price comparison accreditation scheme that seeks to ensure consumers can find supplier information that is accessible, accurate and as comprehensive as possible. Ofcom has accredited two switching sites as part of its Price Accreditation Scheme: Simplifydigital and Broadband Choice<sup>5</sup>.

10. Ofcom is in active discussions with other sites to accredit them to ensure consumers can switch suppliers with confidence. The accreditation of these price comparison calculators for fixed line, mobile, broadband and digital television, which is awarded only after a rigorous independent audit, lasts for one year, after which it will be reviewed and a further audit conducted. Accredited sites bear Ofcom's logo prominently on their site, assuring consumers the site is an up-to-date and reliable source of information.

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<sup>4</sup> *Do Consumers Switch to the Best Supplier?* Chris M. Wilson and Catherine Waddams-Price May 2006 and July 2007 (first version)

<sup>5</sup> Ofcom accredited two switching sites in July 2008: Simplifydigital [www.simplifydigital.co.uk](http://www.simplifydigital.co.uk) and Broadband Choices [www.broadbandchoices.co.uk](http://www.broadbandchoices.co.uk)

11. Given the complexity of telecoms pricing and the speed with which these prices often change, Ofcom has placed emphasis on encouraging accredited third party schemes to provide this information to consumers as the most practical way forward to meet consumers' needs.

**PAC Conclusion (3): Ofgem believe that pre payment meter customers are paying more for their energy than is justified by the additional costs of the meter. In 2005, we recommended that suppliers should not discriminate against pre payment meter customers. Ofgem should investigate why companies appear able to charge these customers more, and whether the apparent discrimination against them represents an infringement of the companies' licences, or of consumer protection or competition law.**

12. Ofgem accepts the Committee's conclusion. Ofgem investigated this more fully in the probe and whilst, on average, tariff premiums are reflective of the cost differences for pre payment meters Ofgem believes that some consumers are paying more than is justified.

13. Ofgem has made clear that action is necessary to ensure this is rectified and that the premium charged to all pre payment customers is placed on a sound cost basis. Since the probes release the energy suppliers, in agreement with Ofgem's finding that many disadvantaged households are paying unfair prices, have started to strip more than £300 million of the price premiums paid by customers including those paid by pre payment meter users. Ofgem is still concerned with the rate of progress being made by suppliers. Thus on 8 January 2009, Ofgem launched a further consultation on its proposals to introduce tougher new rules for energy suppliers to address the unfair pricing identified in the probe.

14. Ofgem is consulting on proposed options to ensure that price differentials are fair and justified. In considering this, Ofgem will guard against the most harmful effects of discriminatory pricing on consumers whilst ensuring that innovation or the further development of competition is not hindered.

**PAC Conclusion (4): as long ago as 2000, we recommended that Ofgem take action against mis-selling by energy companies, but this abuse continues to occur. Ofgem has imposed fines on some companies but these have been small in relation to the companies' turnover. Ofgem should not hesitate to use the powers given to it by Parliament to impose heavy fines where the circumstances justify them in doing so. Ofgem should also impose an obligation on suppliers to give customers balanced and appropriate information reflecting their needs, analogous to the obligation to provide best advice operated in the financial services sector.**

15. Ofgem accepts the Committee's recommendation. Ofgem has used, and will continue to use, its powers under the Gas and Electricity Acts to ensure that the market works for consumers and that improper conduct such as mis-selling does not undermine consumer confidence. Since the publication of the Committee's report Ofgem has announced it is to fine npower £1.8 million after the supplier failed to take sufficient action to prevent mis-selling of energy contracts to customers.

16. This decision sends a clear message to energy suppliers that failing customers and falling short of the licence standards will lead to action and the level of the penalty reflects the nature of the licence breach and the prompt action taken by npower. Ofgem has the powers to fine larger amounts and in other circumstances the penalty could have been much higher.

17. In the energy market probe Ofgem also proposed changes that will assist consumers to make well-informed choices. As part of this Ofgem will work with consumer groups and suppliers to explore the development of an easy-to-understand price metric which will enable consumers to compare prices quickly and easily.

**PAC Conclusion (5): Ofcom requires suppliers to have redress schemes, but it is often difficult for consumers to know how to complain about service levels and to seek redress. Ofcom should audit companies' compliance with these schemes and commission research to confirm that the schemes are operating correctly, for example, using mystery shoppers, and that knowledge of how to use them is getting through to customers.**

18. Ofcom is currently reviewing telecom providers' complaint handling processes and the effectiveness of Alternative Dispute Resolution (ADR). Ofcom completed a consultation on proposals on a number of improvements to existing arrangements, including proposals to reduce the time period within which consumers can take cases to ADR from 12 to eight weeks and to improve signposting of ADR to consumers with complaints. In developing these proposals Ofcom has researched consumers' experience of providers' complaints processes and of ADR; Ofcom continues to do this on an ongoing basis. Ofcom plans to set out the conclusions of the consultation and next steps by April 2009.

19. Ofcom has explored the use of mystery shopping in other areas of its work. However, it is difficult to carry out in this instance because providers would need an actual customer profile and real complaint for it to be fully effective. Ofcom will however consider the scope for using this technique further.

**PAC Conclusion (6): prices of gas and electricity have risen rapidly in the recent past, and almost doubled since the start of the decade. Businesses and consumers need to be confident that markets without price controls are being effectively regulated and working well, especially at a time of rapidly rising prices. Regulators should regularly monitor business and consumer confidence in the market and its regulation so that they can respond quickly if confidence falls.**

20. Postcomm accepts the Committee's recommendation to monitor markets where price controls have been removed. However, Postcomm has so far only removed one product, (Special Delivery Next Day for business account users), from the 2006-10 Price Control. The recommendation may become more pertinent in post in the future as competition develops and more Royal Mail products are removed from the Price Control. For the product already removed from the price control (Special Delivery Next Day for business account users), Postcomm currently monitors the level of volumes and revenues on a monthly basis.

21. Postcomm is committed to reviewing developments in the UK mail market to ensure the continued provision of a universal service, to monitor the development of competition, and to assess the impact of Postcomm's policy decisions in the market. Postcomm already monitors the market through its annual customer surveys and Competitive Market Review. Where appropriate, Postcomm has used the findings of the annual surveys and Review to inform its policy-making and will continue to do so going forward.

22. The annual Business Customer Survey is a key tool used by Postcomm to gather market information and specifically to assess the extent to which, from a customer perspective, competition has evolved in the postal market and the extent to which customers' interests are being furthered by competitive developments. Postcomm's annual Competitive Market Review outlines recent market developments and summarises the experiences of mail users and mail operators in the UK. The annual Review also identifies issues for future consideration for the development of effective and sustainable competition in the UK postal market.

23. Postcomm also undertakes a separate annual survey to identify the needs of residential users, small business users, and Special Interest groups and how their needs are changing as the market evolves.

24. Ofgem accepts the Committee's recommendation. Ofgem works hard to ensure that energy consumers are protected and that the energy market works effectively. Ofgem feels that the market generally works well for consumers though Ofgem will, as in the case of February 2008 in regards to companies pricing behaviour investigate the market when required in order to ensure consumer confidence. The probe found no evidence that prices have increased by more than can be justified by wholesale costs or that prices rise more quickly in rising wholesale markets than they fall in declining markets.

25. As part of Ofgem's Consumer First initiative, which ensures that consumers remain at the heart of everything it does, Ofgem undertakes consumer research to inform its key policy decisions. This allows Ofgem to build an understanding of consumer attitudes on a range of market aspects and is further complemented by a Consumer First Panel. The panel is made up of 100 households recruited from five locations across Great Britain and meets at least three times a year to discuss key issues impacting on their participation in the energy market, as well as other issues related to energy. This helps inform Ofgem's understanding of consumer confidence and participation in the market.

**PAC Conclusion (7): Ofgem can only obtain key information on the operation of the market, such as suppliers' margins and their purchasing strategies, if it launches a formal probe into the market. Ofgem has now launched such a probe, but we are concerned that it took so long. Ofgem and other regulators should establish clear principles for using their market investigation powers, such as when rapid or large price increases occur, especially when they take place across the market.**

26. Postcomm accepts this recommendation. Postcomm is in regular dialogue with stakeholders in the postal market and can launch an investigation when it appears that Royal Mail (or another operator) may have breached a condition of its licence.



27. In October 2008, Postcomm published a document setting out enforcement procedures relating to possible licence contraventions. The guidance explains procedures likely to be followed by Postcomm when it considers complaints, investigates licensed postal operators, takes enforcement action, and imposes financial penalties. Postcomm believes that published guidance facilitates transparency and consistency and ensures that all postal industry stakeholders understand Postcomm's enforcement procedures.

28. Ofgem accepts the Committee's recommendation. The probe was launched in response to specific supplier pricing behaviour and Ofgem continues to monitor the market, taking action where necessary, to ensure that supplier activity does not harm consumer confidence. Future investigations will continue to be, as in the case of the probe, launched when a range of criteria and principles have been considered.

29. Ofgem will, as a result of the probe, look at ways to further enhance and strengthen its market monitoring activity. Additionally Ofgem will, as requested in the Chancellor of the Exchequer's PBR, publish quarterly information on the relationship between wholesale and retail prices.

**PAC Conclusion (8): Ofgem and Postcomm rely on specialist consumer bodies in their industries to provide consumer information, but close to the launch of the new National Consumer Council, Ofgem has still not clarified who will be responsible for providing consumer information. Ofgem should establish, as matter of urgency, the respective roles of itself and National Consumer Council regarding consumer information.**

30. Ofgem notes that overall it is the Government's responsibility, not Ofgem's, to assign roles to the different bodies. Ofgem throughout 2008 sought clarity from Consumer Focus' transition team as to whether or not they were going to take on the role of providing consumer information. Ofgem made it clear that it stood ready to do so if they did not. Consumer Focus have confirmed that they see the provision of consumer information as an important part of their role.

31. Ofgem continues to look for opportunities to work with Consumer Focus on these issues including the information remedies that it is developing as a part of the energy supply market probe.

32. Postcomm and Consumer Focus have agreed and published a Memorandum of Understanding (MoU) which sets out how both organisations will work together to further the interests of postal users. Both bodies are committed to developing a relationship, which recognises the expertise and unique competencies of the other for the benefit of postal consumers. Both bodies recognise that to achieve the best outcomes for postal consumers it is essential they respect each other's roles, responsibilities, and contributions. The MoU aims to secure an open and transparent relationship between the organisations and explain how Consumer Focus and Postcomm will work together to help postal consumers.

**PAC Conclusion (9): Postcomm was not able to assess fully whether to remove the price control on Special Delivery for business and account customers because the Royal Mail's competitors did not require licences, which meant that Postcomm had no powers to require them to provide it with information. Where regulators lack the power to require companies to provide them with the information they need to make decisions, they should seek to obtain this information voluntarily, and not hesitate to come back to Parliament if they feel that their powers are inadequate.**

33. In its assessment of whether to remove the Special Delivery Next Day product for business account users from the price control, Postcomm set out specific criteria to measure the strength of competition, using more qualitative information to assess the likelihood of a competitive market developing. Postcomm also consulted extensively on its proposals and the majority of respondents agreed that Special Delivery Next Day for business account users should be excluded from the price control. Postcomm considered that it had sufficient evidence before making its final decision to remove the product from the price control.

34. Postcomm will always seek to have the best information available to it to make sound policy decisions. It has powers under section 47 of the Postal Services Act to require information and documents from any person for any "relevant purpose" as defined in the Act. Where it considers that it does not have the appropriate legal powers to be able to meet its statutory duties then it will refer the matter to BERR.

**PAC Conclusion (10): Postcomm published three important documents almost immediately after our hearing, without informing us that publication was imminent, or alerting us to what these documents contained. The documents had a direct bearing on the matters on which we had questioned Postcomm, and their imminent publication should have been drawn to our attention. We expect witnesses to give the Committee full and frank answers to our questions, and Postcomm was mistaken in not telling us more on this occasion.**

35. Postcomm accepts the criticism. Postcomm has since appeared before the Committee on 30 June 2008 to explain that it did not intend to offend or mislead the Committee over its actions on 14 May 2008.

36. Postcomm did not consider it appropriate at the hearing on 14 May 2008 to promote its own views in a policy area that was not covered by the NAO report. Postcomm's announcement on 14 May 2008 was in relation to recommendations to the independent review panel on how to sustain the universal service – Postcomm did not consider that it had to refer to the documents that were due to be published later that day in order to answer the specific questions asked by the Committee. Postcomm accepts that this was a mis-judgment.

# Fifty Third Report

## Department for Transport

### Reducing passenger rail delays by better management of incidents

1. The Department for Transport (the Department) welcomes this report by the Public Accounts Committee (the Committee) in which it examined how the rail industry, led by Network Rail, manages incidents on the rail network, and how passengers are treated when delays occur. During 2006-07 over 1.2 billion passenger journeys were made in Great Britain on services that arrived on time almost nine times out of ten. The Department acknowledges that the railways are used by an increasingly large number of people, resulting in a more congested network and greater disruption when problems occur. The Department notes that performance is now at levels not previously seen since the introduction of the Public Performance Measure (PPM).

2. The Department notes that the Committee recognises that new integrated control centres are helping staff to make decisions more quickly, and in the interests of passengers, when incidents occur. The Department also notes that the Committee acknowledges the good practice guide produced by The Association of Train Operating Companies to help operators provide more useful information to passengers more quickly. The Department does, however, acknowledge that more can be done to improve communication with passengers, and with third parties such as the emergency services, when an incident occurs.

**PAC Conclusion (1): Network Rail receives over half of its funding from the taxpayer, but as a private sector company it is not directly accountable to Parliament. The Department should strengthen the governance and accountability arrangements of the rail industry to make Network Rail more directly accountable to the taxpayer for the money that it receives and for improving passenger rail services.**

**PAC Conclusion (2): the Office of Rail Regulation sets its targets for Network Rail for a five year period and does not revise them within that period to reflect changes in circumstances. In 2006-07, those targets were less demanding than Network Rail's own targets. The Office of Rail Regulation should review and, where appropriate, revise its targets at least once during the main control period so that they take account of changing conditions and continue to be challenging.**

3. The Department agrees that Network Rail needs to be held accountable through effective regulation and governance. The company is already accountable for its performance through a variety of means. Under the Railways Act 1993, as amended by the Railways Act 2005, Network Rail's funding requirement is determined by the independent Office of Rail Regulation (ORR) within the context of the High Level Output Specifications and Statements of Funding Available set by the UK Government and Scottish Ministers.

4. ORR monitors Network Rail's performance against its targets, including efficiency targets, as established through the Periodic Review process, ensuring continued improvement in value for money. ORR has recently published its determination on outputs and funding for Network Rail for 2009-14 and a key element of this is further strengthening of the company's accountability for delivery of outputs.

5. Under the Railways Act 1993, ORR has powers to hold Network Rail to account for failure to comply with the conditions of its network licence, including the core duty to provide effective stewardship of the infrastructure so as to satisfy the reasonable requirements of its customers and funders. ORR may issue an enforcement order, requiring specified measures to address a problem, or impose a financial penalty for non-compliance. For example: in 2008 ORR imposed a £14 million penalty on Network Rail for the company's failure to plan and execute engineering work possessions effectively.

6. The company is also accountable to its Members, selected from the rail industry and the wider public, who exercise a parallel function to that of shareholders in a PLC. Network Rail's Members are currently conducting a review of the company's governance processes. This is a matter for the company's Members and Board to take forward, not for Government. ORR has also been examining how it might change the conditions of Network Rail's licence to reflect any changes to the company's governance that its Members might decide upon. It should be noted that, as required, Network Rail reports in detail in its Annual Report and Accounts on its compliance

7. ORR ensures that Network Rail's targets are both demanding and achievable. It seeks to challenge the company, but not to set it up to fail. To ensure it meets the targets set by ORR, Network Rail sets itself tougher targets. Should it become clear during a five year control period that the settlement agreed at the start of the period is no longer viable, then mechanisms already exist to allow ORR to initiate an interim review. However, one of the most important benefits of the periodic review process is that it creates a level of certainty and stability that did not exist before, during the time of British Rail, which in turn provides Network Rail with an incentive to perform beyond the targets. It is not, therefore, in the interests of the passenger industry that such an interim review should be triggered lightly.

8. As a result, the Department does not agree that there should be a presumption that Network Rail's performance targets will be re-set within a review period. The important thing is to set the right five-year targets, and ORR's recently published determinations provide much greater disaggregation of targets than hitherto. It is in the nature of the railway industry that much of its investment activity is long term in nature, and it is therefore important that the targets that are set enable steady and efficient improvement that is sustainable in the long term.

**PAC Conclusion (3): approximately 20% of the most disruptive incidents examined by the National Audit Office involved the attendance of one or more of the emergency services but the relationships between the rail industry and the emergency services are fragmented. The Department should play a more active role in bringing together the rail industry, the emergency services and other stakeholders (such as coroners, the Samaritans and Passenger Focus) to improve incident management, for example, by organising an annual conference. It should also look to other transport sectors and other industries to identify expertise that will benefit the rail sector.**

**PAC Conclusion (4): many emergency services deal infrequently with the rail industry and do not always have sufficient information to enable them to make contact promptly when required. The Office of Rail Regulation should provide assurance to the Department that Network Rail has appropriate mechanisms in place to allow the emergency services to contact relevant rail staff during incidents.**

9. The Department accepts these conclusions. There are already some examples of good inter-agency working, notably Network Rail's work with the London Fire Brigade to investigate new ways to tackle the problem of disruption caused by line side fires involving acetylene gas cylinders. This includes trialling the use of remotely operated vehicles to assess and deal with cylinders, allowing incidents to be resolved more quickly. However, the Department will explore ways to develop even closer working between the rail industry and the Emergency Services.

10. Network Rail is required by its safety authorisation, as an infrastructure manager, to have in place arrangements for liaison with the emergency services and ORR is picking up this specific point with Network Rail. The Department also notes that the Rail Accident Investigation Branch's report on the Grayrigg incident includes recommendations designed to assist the emergency services to optimise their response to an accident and to improve communications between rescue organisations.

11. The Civil Contingencies Act 2004 (CCA) mandates the national framework for contingency planning, liaison and response arrangements across the UK. Network Rail is a member of all 57 Local Resilience Forums (LRF) through which the requirements of the CCA are delivered. Each LRF includes the emergency services of that area.

12. Network Rail regularly checks that the Control Centres for all the UK emergency services have up to date information to enable them to contact Network Rail. Once an incident has started the communication between Network Rail and the emergency services should be from Control to Control, as agreed in an existing joint protocol. However, there is a need to ensure more effective implementation and compliance of the existing mechanisms and procedures by all relevant civil authorities. As such, it is proposed to examine whether a national or series of regional contact telephone numbers would be operationally beneficial to the emergency services, without compromising safety.

13. Similarly, in order to improve working relationships further, it is proposed to invite the emergency services to participate in TOC and Network Rail contingency planning meetings in addition to continuing involvement in joint exercises.

14. To assist, the Department intends to consider whether the role of the British Transport Police to direct policing operations on the railway should be reinforced and to work with the national training functions of the three emergency services to promote the existing protocols/guidance in their training and briefing programmes.

**PAC Conclusion (5): passengers are not receiving the information they need during delays and are not always told how to claim compensation for delays. The Department, in conjunction with Passenger Focus, should monitor:**

**i) the progress of Train Operating Companies in implementing the Association of Train Operating Companies' guidance on providing information to passengers, including communications by drivers on services where there are no other on-board personnel;**

**ii) whether passengers are aware of their rights to compensation;**

**iii) whether the value of compensation payments made are consistent with factors such as the numbers of eligible passengers, the delays incurred on services and the compensation arrangements in force for each Train Operating Company; and**

**iv) that, where relevant, Train Operating Companies provide compensation claim forms to passengers on delayed services.**

15. The Department does not accept that passengers are not receiving the information they need during delays although it accepts that there is room for improvement. Passenger Focus already works with industry on improving information during disruption, for example, it did the research for the industry, which reviewed what passengers expect at times of service perturbation. This was as part of a review of industry information arrangements conducted by a working party under the auspices of the National Task Force Operators Group (NTF-OG). It reports to the National Task Force on performance and there is senior Departmental representation on both these bodies. Train operators' compensation arrangements for service delays are set out in their individual passenger's charters.

16. Passenger Focus also champion compensation arrangements for passengers and will report non-compliances with charter arrangements to the Department. Failure to observe the terms of a passenger's charter would constitute a franchise compliance issue. Both Passenger Focus and London TravelWatch regularly conduct research to determine passenger perceptions of issues of concern.

17. The Association of Train Operating Companies has set up a working group to investigate how to improve communication with passengers, and has recently issued good practice guidelines to help Train Operating Companies provide better information to passengers during service disruption. The Association of Train Operating Companies estimated that, in 2007-08, the combined value of cash refunds, travel vouchers and goodwill payments issued by train operators was around £9 million.

18. Additionally, an improved compensation system, known as Delay/Repay, is being introduced for passengers as franchises are replaced. Delay/Repay became policy after consultation with Passenger Focus and London TravelWatch. Under Delay/Repay, all passengers are entitled to claim compensation for each delay of more than 30 minutes, which they experience, whatever the cause. Entitlement is 50% of the single fare for delays of 30 to 59 minutes, 100% of the single fare for delays of more than 60 minutes, and 100% of the return fare for delays of more than 2 hours.

# Fifty Fourth Report

## Ministry of Justice

### Compensating victims of violent crime

1. The Criminal Injuries Compensation Scheme (the Scheme) provides for financial awards to be made to blameless victims of violent crime. The Scheme sets awards based on a tariff system reflecting the type of injury, ranging from £1,000 to £250,000. The Scheme also allows for payments to cover loss of earnings and various expenses, which can increase the total award to a maximum of £500,000. To be eligible, the violent crime must have occurred within England, Scotland or Wales.

2. The Scheme is administered by the Criminal Injuries Compensation Authority (the Authority), and operates as a Non-Departmental Public Body of the Ministry of Justice (the Department). Although in Scotland criminal injuries compensation is devolved, Scottish Ministers are content for the Authority to administer the Scheme in Scotland under the sponsorship of the Department. Appeals against the Authority's decisions are heard by the Tribunals Service – Criminal Injuries Compensation (TS-CIC), with the Tribunal Service being an Executive Agency of the Department.

3. The Department, the Authority and the TS-CIC welcome the report from the Committee and accept that between 2000 and 2006, cases were not resolved as quickly as they should have been and this was partly due to lack of efficient management within the Authority and, prior to the introduction of the major reform programme in 2006, a lack of effective governance arrangements with its sponsor department. However, since the period on which the report focused, much has been done to improve performance and evidence shows that the number of cases in progress is the lowest it has been in nearly 20 years. In general this Treasury minute agrees with the Committee's conclusions and recommendations, and gives an account of what has been done to significantly improve the way the scheme is administered.

**PAC Conclusion (1): in 2006, 64% of victims of violent crime were unaware of the Criminal Injuries Compensation Scheme and only 5% applied. The Scheme continues to be undersubscribed and application rates varied by gender, age, location, employment status and ethnicity. The Ministry and the Authority should increase awareness of the scheme by using research and the Authority's database to examine the characteristics of both applicants and eligible victims and to improve the marketing of the scheme. It should also make information more widely available on how and where to apply, and who is eligible.**

4. The Department and the Authority accept the recommendation. The Authority has already undertaken a number of measures as part of their commitment to meeting the recommendation. They consulted widely with victim's groups and other stakeholders and participated in victim's conferences to raise awareness of the Scheme. The Authority also arranged Stakeholder conferences, which took place in Glasgow on 19 September 2008 and in London on 1 October 2008. Literature has been revised and guidance notes re-written to make clear who is eligible for compensation. The website has been redesigned and is much more user friendly, giving clear guidance on how and where to apply and who is eligible.

5. Additionally, the Authority intends to undertake research to find out whether or not those who are eligible to make a claim are being made aware of the Scheme: this is due to commence in March 2009. The Authority will also produce a short leaflet on the Scheme to raise awareness, which will be made available in public libraries, Accident and Emergency units and doctors' surgeries – it will be available in April 2009 and subsequently distributed.

6. There is evidence that suggests that there is a greater awareness of the Scheme as the number of applications has increased by more than 15% in 2008-09 (although until research has been completed it is not possible to establish the reasons for this increase). The new applicant support team is explaining eligibility criteria more clearly (through contact via the applicant support help-line), meaning that fewer ineligible applications are proceeding to the case working stage. Applicants who have been advised that they are not eligible may still decide to submit a claim. However, there is evidence that the numbers who are doing so is reducing. The number of ineligible applications that have moved past the initial stages of an application has fallen from 44% in June 2008 to 40.2% in November 2008.

7. Increasing the number of applicants to the scheme and improving the efficiency with which those applications are processed will put pressure on funding. The Ministry of Justice is exploring options to ensure that the scheme's funding is sustainable.

**PAC Conclusion (2): almost a fifth of applicants responding to the Authority's survey found the application form difficult to complete, and almost half of those using representatives did so because of the form's complexity. The Authority should:**

**i) make use of good practice developed elsewhere in government and by bodies such as the Plain English Campaign to make its application forms easier to complete;**

**ii) advertise its helpline number widely and encourage applicants to use the service to apply over the phone, with appropriate support; and**

**iii) encourage use of its interactive online application form.**

8. The Authority accepts this conclusion and recommendation. The Authority has progressed with the following measures:

- it will ensure the use of plain english in all key documentation;
- by July 2008, the Authority had provided a single Freephone help-line for all applicants, which is publicised on all its literature and its website;
- by November 2008, it had revised all application forms, making them easier to complete;
- the Authority will introduce an on-line application form with interactive help by September 2009; and
- the Authority will also introduce a new service to allow applicants to complete their application over the phone – this will be piloted in March 2009 and, if successful, fully implemented by December 2009.



9. The information the Authority produces about making a claim for compensation is designed to be easy to use. All members of the Authority's communications team have received plain english training. New application forms were introduced in November 2008 to coincide with the implementation of the new Scheme. The new application process was designed following consultation with stakeholders and comprises a suite of forms, which target the questions to the type of applicant and the nature of their claim, to ensure that only the relevant information is gathered. The Authority anticipates that the number of e-applications will rise in the coming year.

**PAC Conclusion (3): although not a requirement, over half of applicants were using representatives and, of those, over a quarter thought they had to be represented. The Authority should improve the information it provides to applicants to make it clear that they do not need to be represented, thus enabling them to make an informed choice.**

**PAC Conclusion (4): 30% of applicants pay to be represented by solicitors and only 21% are represented by Victim Support, which provides a free service. The Ministry and Authority should improve the information provided to victims to tell them about the free service provided by Victim Support and ensure that there is no encouragement given to 'no win, no fee' lawyers at public expense.**

10. The Authority accepts these conclusions and recommendations. The Authority has already introduced the following measures:

- in July 2008 it established a new in-house telephone support team who explain to applicants that they do not need representation;
- it has included an additional paragraph at the top of all application forms that explains that representation is not required, and will not be paid for by the Authority;
- since November 2008, applicants are advised that free support is available from Victim Support and are given the contact details; and
- the Authority changed the Scheme guidance to make it clearer that free support is available and how this can be accessed.

11. In November 2008, the Authority also made it a requirement that a person choosing to use paid representation completes an additional form making it clear that they know that in choosing paid representation, instead of the free support available, that they will be responsible for meeting the fees. Additionally, the Authority is planning to review its position on accepting mandates, which allow for compensation awards to be paid directly to representatives including claims management companies.

12. Since July 2008, the TS-CIC has been piloting the use of a DVD to explain to applicants better what will happen at the appeal hearing and how to prepare for it. The DVD is available on the website and a copy sent to all appellants who are granted a hearing (around 900 in the pilot to date). Copies have also been sent to key stakeholders. More detailed guidance has been provided on the TS-CIC's website on how to appeal and the process for cases decided without a hearing.

13. Full revisions of the Authority's guidance and the TS-CIC's own guidance have been completed to support the Criminal Injuries Compensation Appeals Panel's transition into the Social Entitlement Chamber of the new First Tier Tribunal, which created the TS-CIC on 3 November 2008 in line with the implementation of the Tribunals, Courts and Enforcement Act 2007.

**PAC Conclusion (5): the Authority's outsourced call centre fails to answer 15% of calls, and of those that are answered half have to be referred to the Authority's staff as call centre staff are not able to resolve the query. The Authority should equip its new applicant support service with people who have knowledge of the scheme and have access to information about individual cases to answer queries effectively, and set challenging targets for the timeliness and quality of their responses.**

**PAC Conclusion (8): the Authority returns only 2% of application forms immediately on the grounds of incompleteness, which leads to cases which cannot be processed clogging up the system. To increase the number of ineligible applications that are identified at this early stage it should put more experienced staff on the initial application review stage and provide training.**

14. The Authority accepts these conclusions and recommendations. In July 2008, the Authority developed a new case-working model, which placed greater emphasis on applicant support. At the same time it provided a new in-house telephone support service putting an end to its outsourced contract. The Authority placed more of its resource at the front end of the case working process to ensure that all calls are answered by fully trained staff and whilst the basic service has been available since July 2008, recruitment and training of new staff is expected to be complete by March 2009.

15. The Authority will also make more use of technology to allow for more queries to be answered by telephone support without the need to refer to the case working teams (an interim system is in operation which will be replaced by a new case and call handling system by March 2010).

16. There is a process in place where the Authority contacts applicants regarding any missing information. It captures applications where information is missing at the first stage of the process and currently returns around 15% of applications because they are incomplete. Applications only reach the case-working process when the application form is complete.

17. The new Applicant Support service has allowed more applicants to receive an update on their application without needing to speak to a caseworker. This has enabled caseworkers to focus on managing the clearance of cases, including phoning outwards to applicants or their representatives.

18. Through the business planning process the Authority has established Key Performance Indicators (KPIs), which specifically challenge the timeliness and quality of its processes. Its performance is compared to its targets and fed into the Authority's balanced scorecard. The Department monitors the Authority's performance regularly. It reviews the monthly balanced scorecard; attends the quarterly Policy and Performance Board hosted by the Authority; holds quarterly performance meetings with the Chief Executive Officer and the Directors of the Authority; and approves the Authority's KPIs at the beginning of each financial year.

**PAC Conclusion (6): after the Authority changed its policy so that it requested medical records only when the police report indicated that a crime of violence had occurred, it took four years for the Authority to alter the standard nil award letter so that the position on requesting applicants' medical records was properly spelt out. This delay could have disadvantaged some applicants. The Authority should consider the effect of all policy changes on its standard literature and amend it quickly as necessary, as well as put in place robust processes to ensure that this situation cannot arise in the future.**

19. The Authority accepts this conclusion and recommendation. In response to this recommendation, the Authority has undertaken an initial review of its key documents to ensure these are as up-to-date as possible. In October 2008 the Authority provided a single source of policy guidance which is kept up to date by the Authority's Policy and Legal Directorate and which can be easily accessed and searched electronically by all staff. The Authority will introduce new internal procedures, which ensure that any changes to policy are assessed with regard to impact on the content of standard letters and other documentation by the end of March 2009. The impact assessment will also look at the effect on processing times.

**PAC Conclusion (7): the Authority and the Panel have not developed appropriate targets or adequate incentives and, as a result, case processing has been inefficient. The Authority and Panel should:**

**i) develop performance targets that cover the process from initial application to final appeal, ensuring each body is accountable for their part in the process;**

**ii) put performance management systems in place that link personal objectives to organisational targets, monitor performance, and provide incentives for delivering against those targets; and**

**iii) finish and roll out its new casework model to support caseworkers, minimise handovers and identify ineligible cases as quickly as possible.**

20. The Authority and TS-CIC accept the above conclusion and recommendation. In April 2008 the Authority published its Corporate Plan and introduced ten key performance indicators (KPIs), six of which cover the process from initial application to final appeal. They measure the time taken to register an application, the percentage of ineligible applications, the size of the live case load, the active caseload cycle time to first decision, the active case load time to complete the review, the percentage of cases outstanding over two years, the appeals stage response times from appeal to notification list, and the percentage of decisions overturned once they reach appeal. In June 2008 the Authority published a Performance Management Framework, which links personal objectives to organisational targets.

21. The TS-CIC also has a full Performance framework in place, which links personal objectives to organisational targets. The Tribunal Service is committed to moving, from April 2010, to a target that measures time taken from when they were logged into the system, to disposal of all tribunal cases. Data on the TS-CIC end to end performance will be collected between April and September 2009 to enable shadow running from September 2009 during which targets will be set for 2010-11. Within this overall target and in the meantime, the Authority and the TS-CIC will agree and publish performance targets relating to that part of the process for which each have primary responsibility. The TS-CIC also attends the quarterly Policy and Performance Board, which enables it to challenge and comment on changes in policy and to discuss performance issues.

22. The TS-CIC and the Authority have held two workshops to further develop the Authority's new end to end case working model and explore the interdependencies between the appeal stage and earlier stages in the decision making process. The TS-CIC and the Authority continue to meet on a regular basis and are working together to introduce changes that will reduce processing delays and improve efficiency in decision making at the appeal stage. This includes improving the forms used to obtain information so that better information is available earlier in the decision process; allowing more local access to swifter hearings through making greater use of MOJ Estate; aligning TS-CIC's operational teams to realise the potential of the Authority's new geographic based structure; and, piloting the presentation of cases via video link.

23. The Department has developed the role of the interdepartmental committee (involving both the Scottish Government and the Department), which considers the end-to-end process of the Scheme. This committee is attended by representatives of the Authority, the TS-CIC, the Scottish Government, the Victim and Witness Unit in the Office for Criminal Justice Reform (OCJR) and the sponsor unit in the Department. The committee meets quarterly and considers performance against targets for all parties involved in the administration of the Scheme. The committee is chaired by the sponsor unit of the Department, and has overall responsibility for ensuring an effective and coordinated approach to the delivery of the Scheme.

**PAC Conclusion (9): the Authority relies on information from third parties to assess eligibility in 98% of cases but police forces, hospitals and General Practitioners often fail to meet the 30-day response deadline required by the Code of Practice for Victims of Crime. To improve performance in deciding cases:**

**i) the Authority should improve relations with GPs and hospitals in the short term and over a longer timescale, develop other ways of gathering medical information to decide cases;**

**ii) the Authority should review its forms to check it requires all the information requested and to make them easier to complete;**

**iii) the Ministry should discuss with the Home Office and the Association of Chief Police Officers how to improve the individual performance of police forces against the requirements of the code. Similar action will be required by the Scottish Government with respect to the Association of Chief Police Officers for Scotland.**

24. The Authority and the Department accept the conclusion and recommendation. In fulfillment of this recommendation in July 2008 the Authority established regional case-working teams who have built relationships with local police forces and medical authorities. The Authority and the Department have worked with the Association of Chief Police Officers (ACPO) and other relevant bodies (both in England & Wales and in Scotland) to agree the best way of collecting information from police forces and to redesign the forms accordingly – (this project is underway and due for completion in 2009).

25. The Authority has liaised with the British Medical Association to gain a greater understanding of the best way in which to collect medical information. Further work is being done to create a more streamlined approach to the collection of medical information and this is due for completion in March 2010. In November 2008 the Authority requested that applicants enclose Accident & Emergency reports with their applications, to provide quicker access to basic medical information.

26. With the introduction of the Victims' Code in 2006 in England and Wales and the requirement for English and Welsh police forces to return forms within 30 days, the Ministry of Justice and the Authority has already seen an improvement in the proportion of forms returned on time. In December 2008, the number of forms returned by police forces in England and Wales within 30 days had increased to 54% compared with 42% in June 2008 (around the time regional casework teams were introduced). However, it recognises that it has further to go and is working with ACPO and the OCJR to bring about further improvements).

27. Although the Victims Code does not apply in Scotland, the Scottish Government and the Department will look to secure similar improvements in the performance of Scottish police forces. The Authority and TS-CIC are holding discussions centrally with ACPO(S) and the Crown Office and Procurator Fiscal Service with a view to applying a GB-wide protocol for the provision of police information.

**PAC Conclusion (10): since 2000, the Authority has introduced operational policy changes incrementally and without fully considering their impact, which have had the cumulative effect of increasing processing times. Before introducing any further changes to its operational policies or working practices, the Authority should consider the likely impact on processing times and assess whether the benefits of change outweigh any increases to processing times or unit costs.**

28. The Authority accepts this conclusion and recommendation. The Authority intends to continue to pilot new approaches in order to satisfy itself that there will be no unexpected impact on operational performance or cost. The new regional set up provides the Authority the scope to test a number of approaches under controlled conditions. Once piloted, Executive and Non Executive Directors on the Management Board will review any changes before a decision is made on implementation.

**PAC Conclusion (11): increases in the time taken to resolve cases and increased costs have led to a real terms increase in the Authority's administrative costs per case of over 50% between 1998-99 and 2006-07. The Authority should monitor the administrative cost per case and set targets to reduce the cost per case in real terms for each of the next three years.**

29. The Authority accepts this conclusion and recommendation. The Authority's Performance Framework includes targets for reducing the administrative cost per case and the cycle times for processing each stage of the application. In fulfillment of this recommendation, it has set itself targets to reduce the live caseload. It has also set targets to reduce the cycle times to first and review decisions, and for reducing the administrative cost per case.

30. The Authority has a target to reduce its caseload by 20,000 by April 2009, assuming that applications remain at the same level. As applications are expected to have increased by around 8,000 in the current financial year this means that the Authority is aiming to have a live caseload of less than 72,000 by April 2009. This is against a baseline figure of 84,000 reduced by 20,000 through improved productivity and increased by 8,000 to reflect the increase in the number of applications.

31. The Authority has set itself targets to reduce its administration costs to less than £350 per case in the next three years. Its initial target (which it is already meeting) is to bring the cost per case to below £380. Following the introduction of a new case-handling system the Authority will review this target to see if it can achieve greater administrative efficiencies.

32. Initial progress has seen a reduction in the timescale to first decision from an average of 14 months in 2006-07 to an average of less than 11 months for the year to the end of December 2008.

**PAC Conclusion (12): there has been a real terms increase of 15% in the Panel's cost per appeal between 2005-06 and 2006-07. The Tribunals Service should examine why this is and cut costs, looking particularly for economies of scale.**

33. When the TS-CIC (the then Panel) became part of the Tribunals Service in April 2006 the measurement of cost per appeal changed in line with other Tribunals within MOJ to include a far greater range of overhead costs. This distorted the actual cost per appeal, making it appear that there was an increase, when in fact on a consistent cost measurement basis unit costs have in fact decreased by 3% from 2005-06 to 2006-07. This reduction was achieved despite the impact of the closure of the Authority's London office and the requirement to build the Authority's capacity and capability in Glasgow on the number of cases being referred for appeal. Future unit costs will be calculated on a basis comparable to 2006-07, enabling trend analyses to be readily calculated.

34. The TS-CIC processing office in St Vincent Street Glasgow was closed in December 2007 with operations integrated within another TS building in Glasgow generating estate savings estimated at £175,000 per annum. With effect from October 2008 the processing office in London was also closed with all operations transferring to Glasgow. This closure was part of a major restructuring of TS estate in London and the TS-CIC share of the efficiency was estimated at around £375,000 a year.

35. This will enhance the TS-CIC's ability to work closely with the Authority and create a centre of excellence as well as allowing the TS-CIC to benefit from economies of scale and consolidate non-jurisdiction specific work with other Tribunals. That said, there have been some areas of the TS-CIC's work, which have required strengthening such as IT, Health and Safety and Learning and Development, which have incurred additional costs.

**PAC Conclusion (13): the Ministry has not set rigorous performance targets for the Authority and the Panel nor held them accountable for their performance. Only from 2006 did the Ministry take substantive action and only now does it plan to introduce an accountability and performance management framework. The Ministry should:**

**i) operate the framework to include regular and effective monitoring of the performance of the Authority and the Panel against its targets; and**

**ii) introduce a systematic process to review the performance of all its Executive Agencies and Non-Departmental Public Bodies regularly so that it can react quickly to poor performance and recognise and disseminate good working practices.**

36. The Department accepts the conclusion and recommendation. In 2006, the then sponsor unit (in the Home Office) created the Transitional Project Board, which established the major reform programme within the Authority. Membership of this Board included the interim management team for the Authority, and the sponsor unit. The Board set the Authority challenging targets and met quarterly to monitor performance and progress. The Board saw the development of an effective relationship between the Authority and its sponsor unit whereby they worked together and created the foundations, which the current performance management framework was built on. Following Machinery of Government Changes in May 2007, the sponsor department for the Authority transferred from the Home Office to the newly established Ministry of Justice.

37. The Department created a new business group Access to Justice and within this group a specific unit was set up to monitor the performance of some of the arm's length bodies (ALB) within Access to Justice: the sponsor unit for the Authority was transferred over on 1 September 2008. The aim of the Sponsorship and Performance Unit is to share best practice from other organisations and establish performance-monitoring systems that can be applied across its ALB's.

38. The Authority's performance is monitored on an ongoing basis. It reviews the monthly balanced scorecard, attends the quarterly Policy and Performance Board hosted by the Authority, holds quarterly performance meetings with the Chief Executive Officer and the Directors of the Authority and approves their KPIs at the beginning of the financial year. Information from the Authority's balanced scorecard is fed into Access to Justice's balanced score card and discussed at the Corporate Management Board.

39. The Criminal Injuries Compensation Scheme Interdepartmental Committee (CICSIC) has extended its terms of reference to include monitoring of performance against PAC Recommendations. Therefore, CICSIC is now the official forum for monitoring both the Authority and TS-CIC's performance against the recommendations and their targets. TS-CIC performance is also monitored within TS at Area; Regional and Executive Board level.

40. The Ministry of Justice's corporate centre is responsible for providing a centre of excellence function supporting performance management, by sponsor teams within respective Business Groups of Executive Agencies and Non Departmental Public Bodies (NDPBs). This is currently being established and will support all those at business group level to perform sponsorship functions at a consistent and high level. Work is underway within Assurance and Corporate Support Division, in consultation with stakeholders across the Department, to formally establish a centre of excellence in non-financial corporate governance.

**PAC Conclusion (14): the Ministry only met five of our predecessors' sixteen recommendations in full even though witnesses at Committee hearings are responsible for implementing the recommendations they sign up to in the Treasury Minute. The Ministry now plans to appoint an official to liaise with the National Audit Office and the Committee, and to monitor the Ministry's response to their recommendations. The Ministry should ensure that it has a senior official specifically tasked with tracking action on Committee report recommendations and reporting to the Accounting Officer regularly on progress. In addition, the Authority should report to the Committee on its progress before the end of the current Parliament. The Committee also looks to the Treasury to take a more proactive approach in future to following up the undertakings made by witnesses.**

41. The Department accepts the conclusion and recommendation. The Department has appointed a Senior Official who is responsible for monitoring progress on all PAC report recommendations. This person receives weekly up-dates from the recommendation owners and keeps a detailed log of progress. Central guidance requires departments to report on the recommendations made by the PAC in their 2008 Autumn Performance Reports (APR). The Department published its APR on 11 December 2008, which can be found on the Department's website.

42. HM Treasury issued central guidance<sup>6</sup> emphasising the importance that the Committee has confidence that promises in Treasury Minutes will be honoured, and similarly that any that cannot be carried out are explained appropriately. All departments included information in their 2008 Autumn Performance Reports. HM Treasury expects departments to continue to publish updates on progress in implementing agreed Committee recommendations in the future.

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<sup>6</sup> DAO(GEN)03/08 – Following up PAC Reports



# Fifty Fifth Report

## HM Revenue and Customs

### HMRC: Tackling the hidden economy

1. HM Revenue and Customs (the Department), welcomes this report by the Public Accounts Committee in which it examined the progress made in encouraging people and businesses into the formal economy and detecting and imposing sanctions on those operating in the hidden economy. The Department accepts the Committee's conclusions relating to the success of the Offshore Disclosure arrangements in bringing people forward and the overall value for money achieved in tackling the hidden economy. The Department also acknowledges the improvements needed in progressing Tax Evasion Hotline cases and increasing the deterrent effect of sanctions.

**PAC Conclusion (1): in common with other tax authorities, the Department does not have robust estimates of the tax lost from the hidden economy. A firmer estimate would help the Department judge the scale of the problem posed by the hidden economy and whether it is doing enough to tackle it. Given the difficulties in developing such estimates, it is important to capitalise on the work of others in this area. The Department should work closely with the European Commission on its project on undeclared work to develop an estimate for the UK.**

2. The Department keeps fully informed of developments in measuring the hidden economy and is receptive to any emerging methodologies that can more accurately measure this population. It will engage with the European Commission project to learn from the work they are undertaking in developing more robust estimates in this challenging area.

3. At the same time it will continue to pursue its preferred method for identifying people operating in the hidden economy through data matching techniques. This method is preferred because experience has shown estimates undertaken at international and domestic level through direct surveys generate significant doubts about the credibility of the results, which clearly suffer from underreporting issues and so can never give more than a lower bound. The Department has more serious reservations about the stability of results produced by macro-economic techniques. These concerns are also shared by the Organisation for Economic Co-operation and Development (OECD) who have previously advised against the use of these techniques.

**PAC Conclusion (2): the Department has not fully assessed the risks to tax from different sectors and groups in the hidden economy. It should bring together information it currently holds in a structured way to identify the highest risks and gaps in coverage where further analysis is needed.**

4. This conclusion is accepted and the Department has acted in this area. In July 2008 the Department commissioned an initial iteration of a hidden economy risk assessment, which began to outline the risks at a strategic level. The report acknowledged that further in-depth analysis would be required to more accurately gauge the risks, and a second report has been commissioned for 2009 to provide comprehensive details. This work will be taken forward by the Department's hidden economy steering group, created in late 2008 to provide a more effective structure to co-ordinate these activities.

**PAC Conclusion (3): through its Offshore Disclosure arrangements, the Department has succeeded in persuading 45,000 people to put their tax affairs in order, thereby raising £400 million in additional tax at a cost of £6 million. The Department should devise similar schemes in other risk areas such as the home repair and improvement sector and buy-to-let landlords. Such schemes would involve obtaining information on groups of potentially non-compliant people or businesses through data matching and other sources, and using that information to secure voluntary disclosure.**

5. This conclusion already forms part of the operating model for the design of campaigns. Applying the learning from the original Offshore Disclosure Facility (ODF) the Department will be implementing a follow up campaign providing a New Disclosure Opportunity (NDO) in 2009 to tackle evasion through offshore vehicles. Using information from a new range of sources, customers with undeclared liabilities linked to accounts, will be given a similar opportunity to put their tax affairs in order as was available in 2007. There will be planned follow up activity for those choosing not to comply involving a full range of interventions.

6. The Department is currently operating a property bulk data project using the principles outlined by the Committee. The project matches data from local authorities, letting agents and Stamp Duty Land Tax and to date it has identified over 23,000 cases for further investigation where there has been a non-declaration of taxable income. This project will continue into 2009.

7. Matching data from internal and external sources the Department will continue to target those who operate outside the tax system. As specific populations are identified and verified the Department will seek to secure disclosures on a themed campaign basis.

**PAC Conclusion (4): around 80% of those operating in the hidden economy are likely to owe relatively small amounts of tax, but the total tax at stake could be significant. Methods which encourage groups of people to put their tax affairs in order, such as publicity campaigns and voluntary disclosure schemes have proved more cost-effective than formal investigation of individual cases. The Department should further publicise the benefits of joining the formal economy and how to do this. It should use publicity campaigns to encourage take up of further voluntary disclosure schemes.**

8. The Department is looking at ways of improving its publicity to maximise the potential of voluntary disclosure schemes. Building on the knowledge gained from previous initiatives the Department is considering the best methods for communicating its key messages to customers, to be applied throughout the life cycle of each scheme.

9. The Department is planning a number of initiatives for 2009-10 aimed at encouraging certain customer groups to voluntarily put their tax affairs in order. This will include help and guidance on keeping proper tax records, updated education through outbound telephone centres and greater use of publicity and compliance marketing. A range of interventions and initiatives are being planned for 2009-10, which will focus on improving overall rates of tax compliance in both the hidden economy and formal economy. This will include more prominent guidance to better enable the Department's customers to register for tax at the right time and risk-led formal enquiries into individual cases.

**PAC Conclusion (5): the Department has detected some 30,000 hidden economy cases a year since 2003-04, a detection rate of around 1.5%, so the chances of getting caught appear minimal. The Department could boost the detection rate by following the example of the Department for Work and Pensions and make more use of data matching techniques. Comparing tax records with information on businesses that pay business rates and on local authority licences for doormen, street traders and taxis could help identify those evading tax.**

10. The Department agrees with the Committee's conclusion and is using new technology that will significantly improve its ability to match data and identify risk.

11. The fundamental scope of the Department's hidden economy national campaign is to apply bulk data matching techniques to identify large numbers of ghosts, moonlighters and businesses who fail to register. Examples of areas being taken forward in 2009 are:

- using Departmental data to match self employed tax payer records to Tax Credit claims where the claimant declares a self employed income;
- using data from other government departments to identify individuals suspected of working whilst claiming Jobseekers, Incapacity and Disability Living Allowance. The Department is currently in the process of sampling such data provided by Department for Work and Pensions (DWP) where claimants have signed off benefit following challenge and should be registered for tax; and
- within the home repair and improvement sector, using details of members registered with the Council for Registered Gas Installers (CORGI) to ascertain whether these individuals / companies are registered with the Department. If this source of data proves to be a good means of tracing those working in the hidden economy, there are plans to extend this type of work into other trade bodies within the sector.

**PAC Conclusion (6): the Department has a large and growing backlog of Tax Evasion hotline cases awaiting investigation. It has not reached its target for completed investigations and it is not keeping pace with the caseload generated. The Department should speed up the investigation of hotline cases by redeploying resource that are no longer required on investigating VAT missing trader fraud and suspicious activity reports. The Department should complete 11,900 cases awaiting investigation and aim to complete a similar number of investigations each year.**

12. The Department remains committed to improving the throughput of Tax Evasion Hotline cases and to assess every piece of information received with the aim of converting the most valuable data into timely interventions. However, the deployment of Departmental resources is constantly under review, being prioritised against a number of competing factors so it is not possible to commit to the redeployment of resources as described by the Committee.

13. Hotline cases are constantly being generated. As new information arrives older cases are reevaluated to deliver the best return on investment. In this respect the outstanding cases have been taken through the system but due to necessary selection criteria will not all have merited a full investigation. To remedy this, the Department is planning to use a greater number of lighter touch interventions such as letters and phone calls on those cases not initially thought to be worthy of full investigation. This will initiate contact with a larger number of people and allow investigators to concentrate on tackling the more serious threats using visits, surveillance and interviews.

14. The variable nature of Hotline information supplied by the public and the priority that must be given to the most valuable cases, potentially derived from other sources, means the Department is unable to offer any guarantees with respect to concluding a fixed number of Hotline cases in any given period. However it can confirm that it is looking to generate a similar number of cases to those suggested by the Committee per year to be split equally between lighter touch and full investigation cases.

**PAC Conclusion (7): the Department makes higher returns on certain types of investigation, such as small businesses, businesses not registered for VAT, and employer compliance reviews. Hotline investigations have also generated much higher returns than initially expected on such cases. The Department should concentrate more detection work in these areas. It should also increase the number of such cases reported to the hotline by focusing further advertising campaigns on these areas of risk.**

15. The Department accepts the need to maintain a strong focus in these areas and is doing so through its specialist investigators dedicated to finding businesses that are not registered for VAT. In 2008 it increased its flexibility to tackle non-compliant businesses by bringing together its employer compliance and hidden economy investigation teams under a single management command.

16. The Department agrees with the recommendation to focus Hotline activity towards the areas of the greatest risk but is not convinced increasing the number of calls and correspondence to the Hotline is the most efficient method of achieving this. The success of the Hotline can in part be judged in its effect to motivate customers to register as self employed via the Newly Self-Employed Helpline. As part of a wider media strategy being developed in 2009 the Department is therefore considering how best to encourage individuals and businesses to come out of the hidden economy ensuring there are no barriers to exit and visible signposts to join. The Department fully recognises the importance of tackling business and employer compliance and this will feature in the media approach.

**PAC Conclusion (8): the Department has raised £27 million from investigating suspicious activity reports but expected to raise £74 million. It expected to use the suspicious activity reports made to the Serious Organised Crime Agency under the Money Laundering regulations, to detect significant numbers of people with undeclared income. A court ruling in 2006 has restricted the information it can obtain in this way from solicitors and accountants. The Department should consider whether to seek alternative powers to strengthen this work.**

17. The Department accepts the need to revisit this area in consultation with other government stakeholders to consider whether alternative powers would indeed strengthen its approach. It will also examine if other factors are contributing to lower than expected performance such as the application of disclosure rules when a Departmental case goes to appeal. Additionally, the Department is considering new ways to enhance the effectiveness of suspicious activity reports (SARs), by examining the feasibility of matching the information contained within SARs against other information held by the Department.

**PAC Conclusion (9): the Department can impose penalties of up to 100% of the tax detected but usually does not do so. The average penalty is only 3%. When the new penalty regime comes into force, the Department should use the full range of penalties available, and track the number and value of penalties levied compared to the tax involved. It should also rigorously apply the penalty rules for those it detects who failed to come forward voluntarily under the Offshore Disclosure arrangements.**

18. In addition to the recovery of outstanding revenue, the imposition of graduated tax geared penalties remains a key feature of the new penalty regime. The regime is designed to steer customer behaviour towards compliance and this principle applies equally to the hidden economy. In respect of the average penalty figure it is worth mentioning the Department has the provision to reduce penalties in circumstances where an individual or business offers full cooperation with the investigation. This remains a valuable tool for influencing behaviour. Additionally, where low sums are involved the Department can apply a surcharge, instead of a tax-gearred penalty, which is not always cost effective. Again this contributes to a lower headline figure.

19. The Department agrees with the PAC conclusion to carefully monitor the introduction of new penalties and will introduce systems to do so. It also accepts the need to rigorously apply the existing penalty rules for those it detects who have failed to come forward, including those given the opportunity to declare through the Offshore Disclosure arrangements.

**PAC Conclusion (10): in 2006-07, the Department abandoned 284 criminal investigations, roughly the same as the number it opened that year. Over a third of cases have been under investigation for more than one year. Reducing the number of abandoned investigations and meeting its target for completing its investigations within a year would release resources that could be used to increase levels of other activities, such as prosecutions. The Department should improve its selection of cases by identifying the factors that lead to cases being abandoned. The Department should also manage more closely the progress of cases against its one year target and interim milestones.**

20. The Department continues to work closely with the Revenue and Customs Prosecutions Office (RCPO) and the prosecuting authorities of Scotland and Northern Ireland, the departments responsible for HMRC prosecutions.

21. Within this framework the Department fully recognises the importance of learning from historic casework (both successful and unsuccessful) in improving risk assessment, case selection and effective case working practices for the future. The department has already introduced new processes to identify and prioritise the cases adopted for investigation. These include a pre-registration intelligence build to identify the existence of criminal activity, identification and location of participants, financial background checks and calculation of the potential tax at risk. Additionally a tasking and co-ordination strategy has been introduced to ensure that sufficient resource is available to allocate to each case that is to be adopted in line with Departmental prioritised targets.

22. The previously mentioned Departmental hidden economy steering group has been created to ensure that the resource in this area both in criminal investigation and in the use of the Department's civil powers are more coherently and effectively deployed.

**PAC Conclusion (11): for every thousand cases detected only two are prosecuted. The Department achieves limited publicity for prosecutions reducing the deterrent effect. In comparison the Department for Work and Pensions secures 60 prosecutions per thousand benefit fraud cases. The Department should double the number of prosecutions. It should also raise public awareness about the risk of detection and punishment by advertising the results of its work through, for example, its website and contacts with trade and professional organisations.**

23. HMRC take a differentiated approach to hidden economy cases detected. Unlike DWP this includes a civil approach as an alternative to the pursuit of a criminal investigation, which in many cases is highly effective. Nevertheless the Department accepts and recognises the requirement to ensure an appropriate and effective investigative response to those evading their taxation responsibilities. In doing this our aim is to ensure a strong deterrent effect by achieving a high success rate in front of the courts and by more actively publishing the results of this work.

24. HMRC analysts are continuing to calculate the right level of publicised prosecutions, balancing cost against benefit that will support this deterrence ambition when allied to the civil responses mentioned in response to conclusion 10. We will continue actively to publicise prosecutions where appropriate, bearing in mind that it is up to media outlets to decide what they do and do not carry. We will ensure that the Department's activities in this field, both criminal and civil, are actively advertised and publicised and that the department works more closely with appropriate professional and trade organisations that are active in this area.

# Fifty Sixth Report

## Foreign and Commonwealth Office

### British Council: Achieving Impact

1. The Foreign and Commonwealth Office (the Department) and the British Council welcome this report by the Public Accounts Committee in which it examined the work of the British Council, how it makes best use of its resources, and its drive to increase consistency across its network.

2. The British Council, a Registered Charity, executive Non Departmental Public Bodies and a Public Corporation, seeks to build trust and engagement between people in the UK and other countries and increase the appreciation of the UK's creative ideas and learning opportunities. The British Council has offices in 110 countries and engages with over 15 million people a year.

**PAC Conclusion (1): we congratulate the British Council for its achievements in promoting the English language and culture overseas, sometimes in difficult conditions. The Committee noted that the British Council is a valued and valuable organisation and thanked the Council's staff for their hard work.**

3. The Department agrees with this conclusion and the benefits of the globally recognised model of an arms-length cultural relations organisation.

**PAC Conclusion (2): the Council's English language teaching operations are an important means of promoting English language and culture overseas. However, the Council's current teaching model, based on premium prices and concentrated mainly in capital cities, severely restricts its reach. The Council should implement lower cost and more flexible teaching operations without further delay, in order to broaden its reach beyond people able to afford its current premium prices. It must strive to be genuinely inclusive when forging links between people and organisations overseas and in the UK.**

4. The Department agrees with the importance of the Council's role in promoting English language and culture around the world. The British Council's current teaching operation, with a total turnover of almost £103 million in 2007-08, is only one part of its English-language offer. The British Council is clear that direct teaching of this kind will not on its own meet the needs of the 1 billion people estimated to be learning English, but that it provides a vital contribution to the reputation of the British Council as a language provider.

5. In addition to its face-to-face teaching operation, the Council provides free, online materials for teachers and learners of English, accessed by over one million people each year, and is developing new programmes with national and local governments to improve their provision of English language teaching. In this way it achieves global reach and impact through ensuring that the UK is a partner in the development of English language teaching for all sectors of society.



6. The British Council is developing new business models to broaden the reach of its face-to-face teaching, increasing the provision of high-quality English language teaching thereby responding appropriately to global demand. The British Council does not use its Grant-in-Aid to run its teaching operations, therefore lower-cost teaching models must at least cover their costs.

7. In India, for example, the Council plans to open a further nine teaching centres over the next few years staffed with local teachers, providing training for 72,000 students each year. In addition, the Council is working with State Governments to improve their provision of quality English-language teaching and is delivering a teacher-training programme, which will reach 750,000 teachers and over seven million students over five years.

**PAC Conclusion (3): the Council's programme of change has had negative impacts on its staff and their view of the Council's leadership. It is right that the Council should move its resources to better meet strategic priorities and changing demand. In doing so, however, the Council should identify ways to better communicate with, and listen to the views of, Council staff.**

8. The Department agrees that the British Council should move its resources to meet strategic priorities and that in doing so the Council needs to keep its staff well informed and able to contribute their views on the process. The Council has introduced quarterly updates to its annual staff survey to give staff an additional opportunity to comment on the organisation, as well as providing the Council's Executive Board and senior managers with an up-to-date picture of views on its change management. The Council's Executive Board have adopted new ways to communicate with staff through on-line channels and increased internal communications. In the half-yearly update to the 08 staff survey, these changes led to a 9% increase in staff linking their contribution to the British Council's success and the same increase in staff's assessment of how regional leadership communicate a clear vision.

**PAC Conclusion (4): the Council currently has no single customer relationship management system, but we welcomed their decision to minimise expenditure on a technical solution while the detailed specification was still unclear. The Council needs to move as quickly as possible to a single record of its customers that all its businesses can use. In considering the way forward it should not exclude the possibility of simple templates based on its standard office software.**

9. The Department agrees that the Council should explore simple and cost effective solutions to its customer relationship management (CRM). The Council has established a relationship management pilot project in China to explore whether it can adopt a common approach across its business. To date, the pilot has been implemented in 4 out of the 5 British Council offices in China (Beijing, ChongQing, Guangzhou and Hong Kong). The Shanghai office will go live in February 2009. The pilot has now identified, cleansed and imported 26,000 contact records. The Council is also piloting an improved approach to managing its senior contacts in the UK. The outcomes of both pilots will lead to a new CRM framework for exploiting the benefits of relationship management and guidelines for the Council's global operation.

**PAC Conclusion (5): the British Council's sponsorship and partner income has fallen year on year since 2000-01. The Council should do more to reverse this worrying decline especially if it is to achieve its ambitious target of an annual 12% rise in income over the next three years. In particular, it must reinforce the consistent application of its sponsorship strategy across its Country network and put more effort into involving UK and Overseas Companies during the development of its new regional projects.**

10. The Department agrees with the recommendation. The British Council is implementing its sponsor and partner income strategy, which includes increasing support for its global operations and using its commissioning process to identify opportunities for sponsorship much earlier in the development of new programmes and projects. The Council has set an ambitious income target of £49 million, an increase of almost 20% on the previous year's figure. As of November 2008 the Council had achieved £31 million of its target. However, the Department agrees that the Council is prudent to be cautious about its ability to secure significant sponsor income in 2009-10 in light of the current economic climate.

**PAC Conclusion (6): the Council has pockets of good practice, but there is a lack of consistency across the network. The move to regionalisation should help to improve the spread of good practice across the Council. Regional directors should be the link between the corporate centre and the Region, and should be held accountable for the performance of their regions, enforced through their performance appraisals.**

11. The Department agrees with this recommendation. The Department recognises that the British Council has developed some areas of excellent practice, is using performance data to review its business performance and that the process of regionalisation offers an opportunity to mainstream this across the organisation.

# Fifty Seventh Report

## Department for Transport

### Shared Services for the Department for Transport and its Agencies

1. The Department for Transport (the Department) welcomes this report by the Public Accounts Committee in which it examined the progress made in establishing a Shared Service Centre for the Department. The shared services initiative is one, relatively small, part of the Department's Gershon efficiency programme which, overall delivered savings of £973 million in 2007-08, well in excess of its target. The Department nevertheless acknowledges that there have been deficiencies in the planning and implementation of this particular project, which impact on the delivery of the original business case.
2. As the National Audit Office has acknowledged in its report published on 23 May 2008, the Department has already recognised the need to strengthen its Shared Services Programme and has taken steps to do so. The shared services initiative was conceived as a change to the way that the Department delivers business administration services over the long term. Further improvements are envisaged and the business case will continue to develop.

**PAC Conclusion (1): the Department's planning and management of this important project have been extremely poor. This case is one of the worst this Committee has seen and responsibility for these serious weaknesses rests firmly with some of its top officials. Regrettably, other cases before the Committee in the recent past have shown similar poor performance by departmental senior management. To secure proper accountability, the Department must define and communicate clearly the incentives for success and the penalties for failure in projects such as this, including the expectation of the termination of employment contracts and naming those responsible. More widely, the Treasury and the Cabinet Office need to advise departments on the effective handling of new and complex projects, and the management of change.**

3. The Department accepts that there were weaknesses in the management of this programme, arising from an attempt to deliver savings sooner rather than later.
4. There have been consequences for individuals responsible for those weaknesses; but as the Department explained in its evidence, the Department's duty of care to its employees means that the details of those consequences are confidential between the employer and the employee.
5. DfT, like other departments, is responsible for its governance structure in relation to project management. Only projects above DfT's delegated authority are referred to Treasury at the business case stage, for scrutiny and approval. Like all government departments DfT has access to guidance and expertise in the public sector on managing projects. DfT will continue to use such resources and embed best practice from other projects, whilst learning lessons from the shared services exercise. The Department confirms it now has experienced staff in place with the necessary skills to take this programme forward.

**PAC Conclusion (2): the Department's plans for implementing Shared Services were too optimistic and were imposed in the full knowledge of the risks, difficulties and slippage. The tight timetable led to the Department taking shortcuts, which subsequently caused problems. In any future work, the Department should subject planned timetables to rigorous challenge from stakeholders and gateway reviews, and obtain formal agreement from all those involved that it is feasible.**

**PAC Conclusion (3): two months after the project started, the Department knew that the initial assumptions were incorrect but did not deviate from its timetable. At every significant milestone or change of direction, the Department should assess progress and its effect on both the timetable and budget and verify with all those involved that the timetable and budget are still feasible.**

6. The Department accepts these conclusions. The Shared Services Programme was subject to regular reviews by the DfT Board, which tracked changes in major assumptions and the evolution of the business case. In retrospect the Department accepts that the scrutiny and review processes did not provide sufficient visibility and control at all relevant milestones. The National Audit Office has acknowledged that the Department has already implemented structural changes which have enhanced senior management oversight of the programme, leading to greater senior management visibility, more robust planning and closer monitoring of timetables and budgets.

**PAC Conclusion (4): to save time the Department used an existing framework agreement for the development of the system, rather than competitive tendering, despite an initial cost estimate of £16 million. This choice contributed to poor specification of its requirements, the piecemeal placement of work and poor management of its suppliers. The Department has a duty to seek competitive tenders for projects of this size and nature and should not use the absence of competition as an excuse for failing to specify precisely the requirements and placement of work with suppliers.**

7. The Department does not accept this conclusion and believes that it adopted an appropriate procurement strategy. The framework agreement used for the shared services platform had previously been let through open competition, and its use for this programme was within the contract scope. Its use offered the Department advantages in terms of speed, quality, access to expertise and efficiency by using existing contract management arrangements.

8. In some aspects of delivery, supplier performance did not meet expected standards. Since 2007 the Department has tightened its contract management and relationship with the key supplier, reviewed the operation and value for money of the contract and has secured improved commercial arrangements. The Department will continue to ensure that it adopts appropriate procurement methods and effective supplier management on this and other contracts.

9. The Department recognises that it did not develop a sufficiently detailed and robust specification of its requirements prior to initiating procurement and that this has made implementation more difficult. However, this resulted from a lack of internal expertise and timetable pressures, not the procurement strategy.

**PAC Conclusion (5): the Department lacked sufficiently skilled or experienced project management staff. Senior members of staff with ultimate responsibility for project implementation must have appropriate training and experience in project management.**

10. The Department accepts that, in retrospect, it had underestimated the challenge of this programme, and consequently the scale of leadership and the time commitment necessary from those with the appropriate expertise.

11. Within the Department, including its Agencies, there are significant skills and expertise in project management; but these are deployed on the much larger projects and programmes for which the Department is responsible. With the benefit of hindsight, the Department should have more accurately recognised the scale of the Shared Service Programme and used the greater expertise available elsewhere to deliver it.

12. Obtaining sufficient managers with appropriate commercial, operational, IT, business change, and process optimisation skills is challenging for many government departments. Given the nature of its business and the level of programme delivery within its portfolio, this is particularly the case for DfT.

13. The Department regularly reviews the level of commercial and business skills to support its activities, and seeks to strengthen its internal capability. This is supported by training and development of staff in charge of responsibility of programme management.

**PAC Conclusion (6): the Shared Service Centre is not meeting most of its performance targets and it is clear that some of them may not be met for some time. The Department should set a realistic month-on-month improvement target so that it can monitor the progress of the Shared Service Centre and take action if the improvements are not satisfactory.**

14. The Department accepts this conclusion and has already set improvement targets to monitor the performance of the Shared Service Centre. Monthly performance figures demonstrate a strong upward trend, for example, in November 2008, 11 Key Performance Indicators were achieved compared with only four at the time of the NAO fieldwork in March 2008.

15. Recent performance reports from the Shared Service Centre demonstrate that the Agencies that went live at the beginning of the project (April 2007) are achieving the 30-day prompt payment target; and the performance in respect of the central Department, which was the most recent addition to shared services (April 2008), is steadily improving.

**PAC Conclusion (7): many users do not trust the system due to the problems that they have experienced but the Department considers that some key performance indicators such as those for creating and maintaining customer details are not important. To build more trust in the system, the Department should take users' concerns seriously, for example, by improving the performance of the Shared Service Centre in those functions, which are customer focused.**

16. The Department accepts that trust in the new system was initially very low.

17. In developing the Shared Services Programme, the Department sought to take account of user views, through a variety of consultations. However, user views need to be balanced against the business requirements, including the potential benefits from standardised processes, which may not initially be popular.

18. In July 2008 the Department undertook a series of user surveys that were very helpful in establishing areas of concern and priorities for improvement. Regular feedback is now provided to all users on progress and future plans. User communications currently include: a monthly update by the Senior Responsible Owner, weekly key messages published on the Shared Services Intranet site, bi-monthly detailed updates on Shared Services developments to customers, monthly Newsletter which provides information to all users throughout the Department. News items of current interest are also published to all shared service users on the Shared Service Centre "portal" home page.

19. The Shared Service Centre is also now performing more strongly across the range of indicators. It is important that any key performance indicators set are well founded and, when there are pressures on resources, priorities are determined.

20. Nevertheless, the Department accepts that given the history of the Programme, it will take time to build user confidence in the new system. However, feedback suggests that the level of satisfaction has improved as familiarity with the systems has increased and some transition problems have been addressed.

**PAC Conclusion (8): the Department's excuses for failing to measure up to the performance of private sector organisations are that it does not have the economies of scale and it has to satisfy government reporting requirements. There are clear benefits in regularly comparing performance with other organisations. The Department should identify a range of public and private sector bodies with whom to benchmark its performance against key indicators. This monitoring will allow it to identify the scope for driving further efficiencies from its shared service operations.**

21. The Department is working with other Shared Service organisations in the public sector to agree standards and benchmarks in order to develop reliable comparable information. In establishing comparators with other public sector and especially private sector bodies, it is important to ensure that benchmark data, methodologies and analyses are comparable or the results may be misleading.

22. The Department is committed to using such data and to examining models of efficiency and effectiveness in both the private and public sectors in order to compare the performance of its Shared Service Centre, to learn lessons, and take forward a programme of continuous improvement.

**PAC Conclusion (9): the Department is confident that adding routine procurement to its Shared Service Centre will deliver substantial benefits but this optimism may be misplaced as the costs and benefits of this new facility have not been established. The Department must produce robust costings and benefits to provide a sound basis for deciding whether to add routine procurement to its Shared Service Centre.**

23. The Department accepts that it needs robust costings and benefits before reaching a decision on adding routine procurement. Options for the development of procurement functionality are being actively considered as part of the wider development of the next phase of the Shared Services Programme. Any business case for procurement will be subject to careful review and challenge before the Department approves implementation.



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