Treasury Minutes on the First to the Fifth Reports from the Committee of Public Accounts Session 2009-10

Presented to Parliament by the Exchequer Secretary to the Treasury by Command of Her Majesty
March 2010

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First Report

Department for Environment, Food and Rural Affairs (DEFRA)

A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency

1. This is the third time in three years that the Committee of Public Accounts has taken evidence on the £1.6 billion Single Payment Scheme in England administered by the Rural Payments Agency (the Agency) and the Department for Environment, Food and Rural Affairs (the Department).

2. Oversight of the Single Payment Scheme is a singular example of comprehensively poor administration on a grand scale. A focus over the last two and a half years in bringing forward payments to farmers has enabled the Agency to bring its deadline forward by nearly seven weeks, but this is still six weeks off the deadline it had planned and a long way short of the standards set in Wales, Scotland and Northern Ireland. The Agency has spent £350 million on an IT system that can only be supported at huge cost and which is increasingly at risk of becoming obsolete. The data held in the system remains riddled with errors and efforts to recover overpayments have been slow, disorganised and haphazard.

3. The root cause has been poor leadership within the Agency and a lack of attention by the Department. Each claim costs over six times more to process in England than Scotland and yet the Chief Executive received a performance bonus in 2008-09. The Department was not able to demonstrate an adequate grasp of the costs of administering the scheme. There has been a high turnover of expensive senior management appointments in the Agency and it appears to have been reluctant to face up to the problems by taking the firm action required to turn the organisation round.

4. Responsibility rests with the Accounting Officers to resolve this misadministration. The Committee is very concerned at the absence of progress to date and it looks to the Departmental Accounting Officer to take personal responsibility for this scheme, develop an action plan and to report back to the Committee regularly on progress. The Committee expects to receive the first progress report by the end of January 2010 and to see clear evidence that its concerns are being properly addressed.

5. The Committee of Public Accounts (PAC) examined the progress made in addressing the Committee's previous concerns and the capacity of senior managers in the Agency and the Department to resolve matters.

PAC Conclusion (1): The Department and Agency Accounting Officers have failed to get to grips with the issues, resulting in a lack of any clear progress in addressing our concerns. This is wholly unacceptable. In the circumstances we have no option but to put the Department on report. We insisted and the Department agreed to provide this Committee with a clear action plan by the end of January 2010 that would explain how they have addressed all of the National Audit Office’s recommendations and would provide evidence of what progress they had made. We recommend that the Department sends us a progress report on a three monthly basis thereafter, and that these reports should be validated by the National Audit Office so that we can avoid the Accounting Officer having to appear before us again on this issue.

6. The Department accepts the Committee’s recommendation. The Department remains committed to providing the Committee with progress updates every three months, and more frequent informal updates to the National Audit Office (NAO). The Department submitted the first progress report, in the form of an action plan, to the Committee on 29 January 2010. The action plan detailed work undertaken since October 2009, and commits the Department and the Agency to undertake further work to address the remaining issues. The NAO is currently in the process of reviewing the action plan.
7. The Action Plan announced the establishment of a joint project between the Department and the Agency the ‘SPS debt and data project’ to address the underlying data issues which have led to inaccurate payments made to Single Payment Scheme (SPS) claimants. This project is expected to last around 18 months, and include all entitlement correction activity underway and planned within the Agency. It will involve a thorough evidence-based investigation into the remaining problematic sections of the claimant population with corrective activity performed, while developing a clear audit trail of the impact this additional effort is having on the underlying concerns of the Committee. The NAO have been closely involved in the scoping and planning of this project.

8. The Action Plan also includes work planned and underway to address the qualifications on the Agency’s accounts. The Department and the Agency have taken action in relation to the foreign exchange (FRS23) accounts qualification, and currently expect to be able to remove this qualification in the 2009-10 accounts. The Department and the Agency have deployed additional resource to improve the interim and final accounts and audit processes, as well as deploying specific resource to improve financial controls.

9. The Department accepts the Committee’s recommendation. The Agency’s Strategic Advisory Board is developing a new set of Ministerial and customer targets, which will present a broader picture of the Agency’s performance in the key areas, and enable greater Departmental oversight. From April 2010, the Agency will be reporting against these new targets.

10. The Agency has delivered year on year improvements in the payment timetable, and met the payment targets. The payment timetable is attached at annex A. This progress continued for the 2009 Single Payment Scheme with 86,500 farmers (80%) receiving £1.31 billion (70%) of the estimated funds within two days of the payment window opening on 1 December 2009. By the end of that month, 78% of the funds had been paid (compared to 59% in 2008). This is comparable with other devolved authorities in the UK.

11. As part of the 2013 Rural Payments Agency (RPA) Review, Deloitte undertook a sample of cases with the objective of establishing the full extent of overpayments beyond those already known. Deloitte concluded that the number of overpayments arising from incorrect processing of claims by the Agency reduced significantly after 2006. However, given the design of the scheme, errors in base data continue to affect the accuracy of payments in all scheme years. The SPS debt and data project has the aim of resolving the problems in the base data to improve payment accuracy.

12. The Department partially accepts the Committee’s recommendation in relation to assessing the costs and benefits of investing in a new IT system. The 2013 RPA Review IT Workstream is specifically considering the options for IT, and will provide evidenced recommendations on how to proceed, including assessments of costs and benefits. Once the 2013 RPA Review is complete, the Department and the Agency will decide how any recommendations should be adopted, taking into account value for money considerations. The Department will provide further detail to the Committee later in the year on decisions made.
13. The Department recognises the need to take a holistic view across all the Agency's systems to ensure that any IT system improvements are not undermined by problems in other processes or databases. The outcome of EU budget negotiations around the future of the CAP and European Commission proposals this year will dictate the IT requirements for the scheme. The scope of the IT workstream of the 2013 RPA Review includes consideration of these issues. Given the relative timescales of the EU negotiations on the substance of future reforms, the process of remedying the IT systems and preparing them for 2013 is likely to run for some time.

PAC Conclusion (4): Neither the Department nor the Agency were able to give the Committee a satisfactory explanation of the costs of employing Accenture consultants to maintain the Agency's IT system, though they had paid Accenture £84 million in total over the last two financial years. We therefore asked them to write to us to provide details of the number of consultants involved in Scheme work, the role they play, and their costs over the last 6 years. We expect the Department to provide this analysis in the action plan and progress report they have promised to send us by the end of January 2010.

14. The Department accepts the Committee's recommendation, and wrote to the Committee shortly after the evidence session on 26 October 2009 with the requested information about the role of consultants in administering the SPS.

PAC Conclusion (5): Many of the IT software and hardware packages used to process claims have already fallen out of support, thereby increasing the risk of a system failure. Earlier action would have allowed the Agency to avoid this situation arising but now that it has, the Department and Agency should prepare a risk assessment so that critical systems can be supported but further expenditure can be minimized until we know whether an alternative system would be more appropriate.

15. The Department accepts the Committee's recommendation that the risks around the existing RPA systems should be carefully assessed. The Agency's IT function and suppliers are providing the support necessary to ensure the continued functionality of the existing IT systems.

16. Looking ahead, there are several pieces of work underway to determine whether the existing systems are fit for purpose, and what the options are, and costs associated, for any changes. The 2013 RPA Review is assessing where the weaknesses in the current systems lie, so that a clear course of action is agreed to provide assurance about the quality of the systems and value for money. The SPS debt and data project will also consider the role of the existing systems in creating payment errors, and how this can be remedied in the short and longer term.

PAC Conclusion (6): Inaccurate data in the Agency's systems, weak management information and poor record keeping hinder effective administration. The Department's commissioning of an external organisation to develop an action plan to tidy up claimants' data does not go far enough. The Department should commission an external organisation to tidy up and clean each claim in readiness for any new system, thereby freeing up the Agency to process 2009 claims.

17. The Department does not accept the Committee's recommendation that an external organisation should tidy up and clean each claim, on a variety of grounds. These are value for money issues, uncertainties about the effectiveness of creating a dummy claim processing system for the exercise, and the impact this could have on processing claims in future years. A review of claimants' data and payments by suitably qualified external support, without allowance for any correction activity, would be resource intensive and has been estimated to cost up to £100 million.
18. The Department recognises the importance of accurate data to underpin future payments. However, the Department will be targeting its claim cleaning operation on those sections of the claimant population known to be high risk. Through the 2013 RPA Review and other analysis, it has become clear that certain types of claim are more liable to contain errors than others. The Department has established a project to undertake this work (the SPS debt and data project), which will include representatives from the Department and the Agency, with support from external organisations. The Department and the Agency will seek to do this in a timely and cost-effective manner that will enable processing of 2010 claims but with a greater emphasis of accuracy of payment.

19. Prior to the establishment of this project, progress was being made towards resolving the issues with the SPS entitlement data. Around £119 million has been invested by the Agency to ensure the data which forms the basis of the annual payments is correct. In response to concerns about the robustness and efficiency of those efforts, as evidenced by a number of claimants having had their entitlement records amended multiple times, the Agency took a number of steps between August and November 2009, involving system changes costing £700,000, to improve control and efficiency of the process. The SPS debt and data project will validate, and if necessary improve, the impact of the changes made.

PAC Conclusion (7): Rather than put their energies into tackling the high processing costs, the Department and its Agency have muddied the issue by looking for ways to understate the true figures. This Committee takes a dim view of such ‘smoke screen’ tactics, which seem designed to play down the seriousness of a situation by questioning the facts of a National Audit Office report when there are no strong grounds to do so. The Department and the Agency should acknowledge the full scale of their processing costs, including the annual costs of the bespoke IT system. The Treasury should reiterate to all public bodies the need to be transparent about the full costs of their processes and systems and to measure performance on the basis of all relevant costs elements.

20. The Department agrees with the Committee’s conclusion. This was not born out of a desire on the behalf of the Department or the Agency to mislead or confuse, but from the dispersed nature of the data on which the costs are calculated. The Department accepts that in future, information should be provided in a more useful way, with greater transparency, including about how costs are calculated.

21. The Department is currently undertaking a lessons learned study, due to complete by mid March, to identify how the Department and the Agency could better interact with the NAO on future engagements.

22. The Treasury notes the Committee’s suggestion that it should reiterate the need to be transparent about full costs. The Treasury’s document, ‘Appraisal and Evaluation in Central Government’, commonly known as ‘The Green Book’, provides substantial guidance on costing and evaluating the outcome of programmes and projects. All departments should already be versed in the techniques on the option and appraisal process. The Treasury always encourages departments to take account of this guidance when appraising and evaluating programmes and projects.

PAC Conclusion (8): The average cost of administering each claim by the Agency in 2008-09 (£1,743) is around six times the amount in Scotland. This difference is partly explained by the decision to introduce a more complex scheme in England but, even taking that into account, the administration costs are unacceptably high. The time is right for a much more fundamental re-think of how much is being spent on administering claims by the Agency. The Department should draw up clear plans of how it will reduce IT, staff and other administrative costs in the Agency and should set firm budgets and improvement targets for each of these three cost elements. In drawing up its plans, it should consider how to reduce overheads and whether to develop alternative IT systems or to contract out some functions.
23. The Department accepts the Committee's recommendation. However, the cost of the Agency has reduced since 2008-09, when the budget allocation to cover the Agency's running and capital costs was £231 million, which reduced by 9% by 2009-10 (total allocation of £210 million), and by a further 11% for 2010-11 (total indicative allocation of £187 million). This is against a backdrop of improving payment accuracy and speed.

24. The 2013 RPA Review is providing recommendations about how the Agency could be improved, with suggestions for reducing costs, including an assessment of options for outsourcing or delivering differently. Plans exist for year on year cost and headcount reductions in the Agency, and the targets the Department has put in place for the Agency include delivering efficiencies.

25. When the 2013 RPA Review is complete and has reported, the Department will have an evidence base about the Agency’s performance, which will help inform any decisions about where improvements or efficiencies are possible. Through the setting of Ministerial targets, the Department and Agency are seeking to agree a target to reduce the cost of paying a claim, encompassing administrative and IT costs.

PAC Conclusion (9): The Agency's overpayment recovery has been woefully slow, haphazard and ineffective, with only around £25 million recovered compared with around £90 million overpaid. Farmers have received letters out of the blue with baffling calculations to ask for repayment. Recoveries are typically made by offsetting the sums for subsequent payments but there is a high risk of inequitable treatment. Systematic recovery depends on tidying up the data and we recommend that the Department tasks an external organisation with recovering overpayments where it is cost effective to do so.

26. The Department accepts the Committee's recommendation. The Department and the Agency have initiated a joint project to address the problems with the base data, ‘the SPS debt and data project’.

27. The Department and the Agency are considering how to tackle the debt that has been identified and not recovered. Options being considered include outsourcing recovery of debts to an external organisation (subject to practical, customer and value for money considerations), and making use of the EU provision which could resolve some of the debt problems by defining entitlements as correct at 1 January 2010.

PAC Conclusion (10): Poor leadership at the top of the Agency combined with the frequent turnover of senior managers in recent years have contributed significantly to the Agency's administrative problems. The Department should assess the Agency's management capability, reduce the demands on the organisation by considering the transfer or other responsibilities elsewhere and, if necessary, appoint someone with experience in turning around failing organisations.

28. The Department agrees with the Committee’s conclusion that a comprehensive assessment of the Agency’s management capability will be an essential first step before any decisions can be made about changes to the Agency’s management structure and responsibilities. The 2013 RPA Review is analysing the Agency’s management capability to inform decisions about whether changes will be necessary. The 2013 RPA Review will also provide evidenced recommendations about whether any of the services currently provided to the Department by the Agency could be outsourced or delivered by another member of the Departments network.

29. However, the Department would like to stress that while the SPS may be the central scheme delivered by the Agency, it also delivers a range of other activities, including administering non-SPS CAP schemes. The Department receives a good service from the Agency in these areas, and it would not automatically follow that by removing these schemes would improve the Agency’s delivery of the SPS.
30. The Department agrees with the Committee's conclusion that putting the correct incentives in place should help improve Agency performance. This is being achieved through the new Ministerial targets the Department has agreed with the Agency, which will ensure that Agency and hence senior management performance is assessed in relation to the agreed priorities. Improved indicators will allow the Department to provide an improved challenge function.

PAC Conclusion (12): The Department failed to scrutinise the Agency's governance rigorously, assessed the Agency's performance over-optimistically, and failed to hold the Agency to account for key areas of performance, such as overpayment recovery and IT operational risk. The Department should introduce a new target regime which focuses on all the Scheme's key risks, and uses a new and comprehensive set of metrics to aid proper monitoring of performance. A clear and robust service level agreement should be introduced between the Department and Agency based on the new targets to formalise their respective responsibilities.

31. The Department accepts the Committee's recommendation. The new target regime being put in place for the Agency has been developed with much greater input from the Department than in previous years, and should enable improved oversight of the Agency's problem areas and of shared priorities.

32. The Department is revising its requirements for management information from the Agency, so future performance discussions can be better informed about the real performance of the Agency. The Department is looking at governance of its delivery landscape as a whole, and as part of this and informed by the findings of the 2013 RPA Review will be deciding whether the structures in place within the Department to oversee the Agency are adequate, or whether they should be enhanced.
Annex A - SPS payment timetable

Payment targets

As well as having the EU target of making 96.154% (95.238% from SPS 2009) of payments by the end of the EU payment window (30 June following the year of the farmer's application), since SPS 2007 Ministers have also set the Agency in-year targets to ensure more money is issued to farmers earlier in the payment window. These targets were:

SPS 2007:

- 75% payments (by value) by end March 2008
- 90% payments (by value) by end May 2008

SPS 2008:

- 75% payments (by value) by end January 2009
- 90% payments (by value) by end March 2009

SPS 2009:

- 75% payments (by value) by end January 2010
- 90% payments (by value) by end March 2010
Second Report
HM Revenue and Customs (HMRC)

Improving the Processing and Collection of Tax: Income Tax, Corporation Tax, Stamp Duty Land Tax and Tax Credits

1. HM Revenue and Customs (the Department) collects the income that finances the majority of services provided by the Government. In 2008-09, total taxes and duties collected and receivable were £436 billion. At a time when the public finances are under pressure, protecting tax revenues remains crucial. The recession has presented a number of challenges for the Department. The Department has to ensure that it counters risks of non-compliance and deals with backlogs of processing from previous years.

2. The absence of information on tax losses through non-compliance and avoidance makes it harder for the Department to analyse risk and to judge how to deploy its resources where they will have most beneficial impact. It has saved £11 billion in potential tax avoidance since 2005, but does not have an estimate of how much tax has been lost because of avoidance or of the cost of the resources it devoted to tackling avoidance.

3. In 2007-08 claimant error and fraud resulted in incorrect tax credits payments of between £1.58 billion and £1.84 billion, leading to the qualification of the Comptroller and Auditor General's opinion on the regularity of tax credits expenditure. The Department is looking to reduce claimant error by improving the guidance and support it gives to people at the time they need to report changes in their circumstances.

4. The Committee of Public Accounts (PAC) examined the Department on how it is managing tax and tax credit debt; what it is doing to clear the backlog of PAYE and Corporation Tax settlements; how it is tackling tax avoidance, how it is improving the administration of Stamp Duty Land Tax (SDLT) and how it is seeking to reduce tax credits error and fraud.

PAC Conclusion (1): The Department estimates that £11.2 billion of the £27.7 billion of tax debt at the end of March 2009 is unlikely to be collected. The percentage of debt where recovery is assessed as doubtful has risen to 40%, up from 23% in March 2006. This increase reflects the effect of the economic recession and a deteriorating trend in debt recovery from previous years. The Department needs to improve its performance in recovering tax debt as a matter of urgency. It is currently focusing on collecting debt earlier and prioritising its collection by risk. The Department should establish targets for the amount of debt it collects, including the recovery rate it expects to achieve, and should report its progress against these targets. It should also set out the actions it will take to reduce the levels of debt assessed as doubtful to below those of 2006 and the date by which it believes this will be achieved.

5. The Department partially agrees with the Committee’s conclusion. The figure of £11.2 billion reflects the prudent accounting provisions made for doubtful debt in the Department’s accounts. It does not represent actual revenue losses or actual fiscal risk. This is because it includes large amounts that involve potential accounting adjustments to taxpayer records. For example, where an appeal will be settled, an outstanding return filed or other information will come to light which requires the previous legal liability to be reduced, sometimes to nil.

6. Actual levels of revenue losses in the accounts to 31 March 2009 fell by £1.3 billion (22%) from 1.2% (£5.9 billion) at 31 March 2008 to 1% (£4.6 billion) of total revenue at 31 March 2009. Around 90% of total revenue losses were due to insolvency, where further pursuit of the debt is barred by statute. Despite the current economic downturn, the headcount reductions and other efficiencies delivered by the Department, the latest indicative figures suggest that the Department has significantly improved its specialist debt management function with around £6 billion more debt collected in 2009-10 (to end December) compared with the same period in 2008-09.
The Department has announced that it will be introducing a new key performance indicator and associated target in respect of debt in support of its Departmental Strategic Objective 1. This indicator will be based on the industry standard debt “roll rate”. The Department expects to introduce this indicator from April this year for 2010-11 and subsequent years. The Department makes prudent and appropriate provisions within its accounts each year in respect of doubtful debt based on accounting practice and in the light of economic and other factors applying at the time the accounts are finalised. The Department is not able to commit, in advance, to actions or a timetable to reduce those provisions.

PAC Conclusion (2): Weaknesses in the Department's existing systems prevent it from analysing debts by age and value and from calculating a taxpayer's total debts across all taxes. The Department has deferred its plan to invest in a new debt management system because of other priorities. An effective debt management system would improve the Department's ability to recover debt by providing a profile of debt across taxes by age, value and risk of recovery. With £11.2 billion at risk of non-recovery, the benefits of investment in a new system could easily outweigh its cost. There thus appears to be a very strong case for investment. The Department should re-evaluate the costs and benefits of investing in a system that would enable it to profile debt effectively.

The Department agrees with the Committee's conclusion. The Department has previously considered investment in new debt management systems. However, on affordability grounds, it was concluded that it couldn't justify prioritising such investment on the scale that would be required. The Department has taken steps to improve its ability to profile debts, including cross tax profiling by age, value and risk of recovery. The Department has started to invest significantly in upgrading existing systems to further improve debt management. For example, it recently introduced a risk-based approach and will be bringing VAT into its main debt management IT system during 2010.

PAC Conclusion (3): There is a risk that the wider economic benefits of investment in revenue systems are not realised where the Department has to prioritise investment decisions within the constraints of the funding limitations of its spending review settlement. The Treasury should reconsider its approach to evaluating the economic case for investment in key revenue systems, and assess the costs of investment against its best estimate of the wider benefits to the public finances.

The Green Book remains the principal source of guidance for Departments when conducting an economic assessment of the social costs and benefits of all new policies, projects and programmes. Each Department is expected to use The Green Book methodology to deliver robust value for money solutions within the limits of its budget, setting priorities accordingly.

Departments are responsible for using their resources to achieve Departmental Strategic Objectives (DSOs). Given that the Department’s DSO 1 includes the commitment to ‘improve the extent to which individuals and businesses pay the tax due’, it is the Department’s responsibility to ensure that this is achieved by making good use of the resources available.

The Treasury is continuing to review its wider processes to ensure the greatest achievement of economic benefits possible within the constraint of fiscal consolidation. For example, the 2009 Pre-Budget Report announced that the Government would focus capital spending in the next Spending Review in the areas where it generates high economic returns, in order to achieve maximum long-term benefit for the taxpayer.
PAC Conclusion (4): The backlog of unresolved Pay As You Earn (PAYE) cases awaiting processing stands at 17 million. The elimination of this backlog is vitally important to taxpayers as it will identify who owes tax and who is entitled to a refund of tax. The Department can start clearing these cases in April 2010, when the final stage of its modernised PAYE system will be implemented. The Department should then clear this backlog as a matter of priority, focusing its effort on those cases which are likely to involve a refund or additional payment of tax. It should plan to clear the backlog by March 2011.

12. The Department partially accepts the Committee’s recommendation. The Department is investigating solutions to clear cases by better data matching and delivering more automation. The Department is also risk assessing the open case population in order to target those uncleared cases, where it is more likely that the tax is incorrect. The order of priorities is being discussed with the National Audit Office.

13. The Department will prioritise its work, so that cases are not worked where there is no material effect. In this way, the different statutory time limits, which apply, are not exceeded. The Department will clear all the older open cases by automation, better matching, or clerical clearance before the statutory time limits expire. It will not be possible to clear all the cases by March 2011. However, the aim is to do so before the statutory time limits expire. The Department will repay tax to those who have overpaid as quickly as possible. Customers can contact the Department to query their PAYE position within the statutory time limits.

PAC Conclusion (5): At March 2009 Corporation Tax assessments amounting to over £10 billion, and in some cases over 16 years old, were ‘postponed’ awaiting resolution. A postponement occurs when a company appeals against the Department’s view of its tax liability, or when the Department expects that a company’s tax assessment will be reduced. Cases can be complex and difficult to resolve and the Department is reviewing how it handles them. As part of this work, the Department should analyse and prioritise postponements to establish a clear action plan to resolve them. The action plan should include targets to allow the monitoring of progress in managing high value cases and reducing the existing volume of lower value cases.

14. The Department partially accepts the Committee’s recommendation. There are processes in place to monitor the progress of cases under enquiry. The highest value cases, which account for the bulk of the total amount postponed, have individual action plans.

15. All high value postponements, those dealt with by the Department’s Large Business Service where the amount involved exceeds £25 million, and others where the amount involved exceeds £10 million, are reviewed in detail annually in the period leading up to the production of the Department’s balance sheet. For 2010, this will involve approximately 250 cases and around £6.9 billion of postponed Corporation Tax. The high value postponements, and remaining postponement cases in the Department’s Large Business Service, involving around £2.2 billion, are reviewed periodically throughout the year.

16. Lower value postponements are reviewed periodically. The most recent review looked at 1,879 cases, involving £224 million of postponed Corporation Tax (October 2009). These were generally the oldest cases and those, which indicated that the Department’s record might be out of date. For example: where the company had been struck off the Companies House register. They were chosen from a total population of nearly 13,000 cases involving about £1.2 billion of postponed Corporation Tax. The lessons learned from this review are due for consideration in February 2010.

17. The Department’s review of individual cases checks that the amount postponed is correct, and for high value postponements, assesses the amount that ultimately is likely to be collectible when the case is settled. Where necessary, records are updated and the amount postponed altered.
18. The Department does not think that it would be appropriate to adopt targets for clearing postponements where unresolved disputes are actively being worked, because the timetable for resolving these will depend on factors that are unconnected with the fact of the postponement (for example, the progress of litigation). The Department will monitor the management of postponements through its Corporation Tax Delivery Group to ensure that records are being updated on a prioritised basis and that the amounts postponed are correct.

PAC Conclusion (6): The Department does not have an estimate of the total value of tax lost through tax avoidance or the number of staff it deploys on tax avoidance work. Following the introduction of anti-avoidance legislation in 2004, the Department has collected £11 billion of revenue that may otherwise have been lost through tax avoidance. The Department's decisions about how to deploy its resources in tackling tax avoidance for 2010-11 and subsequent financial years should be informed by a full assessment of the revenue it is not receiving because of avoidance.

19. The Department agrees with the Committee's conclusion and has recently published its estimates of the tax lost through tax avoidance. *Protecting Tax Revenues 2009*, published on 9 December 2009, estimates that avoidance contributed to 17.5% of the overall net tax gap of around £40 billion in 2007-08.

20. The Department has developed analytical tools, which identify and prioritise key compliance risks facing the Department in 2010-11 and subsequent financial years. These tools are used to inform strategic and high level tactical planning across all of the Department's administered duties and responsibilities, including tackling tax avoidance.

21. One of the Department’s key Departmental Strategic Objectives is to improve the extent to which individuals and businesses pay the tax due and receive the credits and payment to which they are entitled. The Department's implementation of this objective in 2010-11 will focus the greatest resource on customers and issues of highest tax risk. The investigation of avoidance cases will be managed within a project framework to ensure that the Department makes the best use of resources.

PAC Conclusion (7): The Department considers that general anti-avoidance rules as adopted in other jurisdictions may not work in the United Kingdom. The Department should evaluate the relative merits of its existing anti-avoidance measures compared with the general anti-avoidance provisions adopted elsewhere, including the comparative cost of administering an effective general anti-avoidance rule.

22. The Department keeps the effectiveness of existing measures against avoidance under review, including the question of whether further measures such as a General Anti Avoidance Rule (GAAR) would help to improve revenue protection. Alongside this work, the Department also monitors developments in the effectiveness of GAARs in other jurisdictions. The Department has an active anti avoidance strategy, with priority given to measures that help prevent avoidance. Such measures include the development of legislation that minimises the opportunities for avoidance.

23. The former Inland Revenue consulted on a general anti-avoidance rule for direct taxes in 1998, and HM Customs and Excise on a GAAR targeted at VAT on construction services in 1999. Responses suggested that a GAAR would create additional uncertainty and compliance costs for taxpayers. The view of businesses and their advisers was that, if there were to be a GAAR, a clearance system would be essential to reduce business uncertainty and minimise the impact on commercial transactions. The Department concluded that a clearance system would have the major disadvantage of requiring significant expert resources to be diverted from revenue raising compliance work to deal with requests.
24. The Department is committed to achieving a balance by making anti-avoidance legislation as focused as possible without creating too many bright lines for avoiders to step around. Whilst the question of a GAAR is kept under review, a range of anti-avoidance tools such as Targeted Anti-Avoidance Rules and Principles Based legislation are being employed which, together with the Disclosure regime for tax avoidance schemes, have enabled effective action against avoidance.

PAC Conclusion (8): The Department lost knowledge and expertise when it reduced its headcount and centralised its administration of Stamp Duty Land Tax (SDLT). The Department has been successful in increasing online filing of SDLT, with 83% of returns now filed online, and has reduced the number of staff working on the tax from over 400 to around 135. However, the closure of the Bristol and Manchester offices and the centralisation of SDLT administration in Birmingham resulted in a loss of expertise. In future, the Department's plans for reducing or redeploying staff should identify how it will retain key knowledge and skills, particularly for jobs requiring specialist expertise, such as avoidance work.

25. The Department agrees with the Committee’s conclusions and accepts the need to plan for the retention of key knowledge and skills in areas of specialist expertise such as tackling avoidance of stamp taxes. This issue can arise with re-organisations and apply to groups and teams, or specific individuals. The Department has in place a succession planning process at Senior Civil Service level, which looks to assess risk and provide succession cover for its business critical roles. The process ensures the provision of appropriate time for the development and handover of skills.

26. For other roles affected by re-organisations, the decision making process for agreeing a move to a new structure is undertaken at Directorate level and considers the availability of skills to deliver the requirements of the business in the new organisation. The Department’s approach involves use of a rigorous framework for forecasting requirements and addressing skills gaps.

PAC Conclusion (9): The Department’s work to test taxpayers’ compliance with the SDLT regime has been disrupted by delays in implementing the computer system and the effect of office closures. In 2008-09, it only opened 203 enquiries on one million returns. Effective compliance work is essential to the successful operation of the tax, helping taxpayers to meet their obligations and deterring people from deliberately under-estimating the tax they owe. The taxpayer must know there is a possibility that any return could be subject to an enquiry. In deciding how much compliance work to undertake, the Department should estimate the volume of enquiries needed to provide an effective deterrent against non-compliance and should resource the work accordingly.

27. The Department agrees with the Committee's conclusion and the need to make decisions on resource deployment based on a detailed analysis of the risks of non-compliance. Given that there is a clear incentive for transactions to be notified, so that title can be registered, the conveyancing process, which underpins the notification regime, is itself closely regulated. Most transactions are residential and do not involve the use of tax avoidance schemes and the majority of SDLT transactions are regarded as low risk. The risk rises significantly where there are large commercial transactions making use of marketed avoidance schemes. The Department’s enquiry programme includes projects to check the validity of the risk-judgments being made.

PAC Conclusion (10): The disclosure rules for SDLT did not require taxpayers to tell the Department when they were using an avoidance scheme, making it difficult to estimate the scale of avoidance. The Department is extending the disclosure rules to residential property and requiring taxpayers to tell it when they use an avoidance scheme. The Department should use the additional information it gets on the use of avoidance schemes to improve its estimate of the tax it ultimately fails to collect and to direct its compliance resources to the areas of highest risk.
28. The Department agrees with the Committee’s conclusion. The disclosure regime is being extended in two important ways: to provide the details of users, rather than just promoters of tax avoidance schemes and to include transactions involving residential property. The Department believes that these changes will significantly improve the information used to inform both estimates of tax at risk and the deployment of compliance resource to tackle those risks.

PAC Conclusion (11): 53%, or £2.3 billion, of the £4.4 billion debt arising from tax credits overpayments is unlikely to be collected. The Department has already written off £1.3 billion of tax credits debt where it believes there is no possibility of recovery. It is reviewing its approach to tax credits debt, recognising that it has to reach a judgment as to whether the people it is pursuing are able to pay and whether collection is cost effective. As a priority, the Department should identify all debt that is either uncollectable or not cost effective to collect and decide by March 2010 what should be written-off. It should ensure that all tax credits debt remaining on its books at 31 March 2010 is being actively pursued and not ignored.

29. The Department agrees in principle with the Committee’s conclusion. It is not the Department’s policy to ignore debt, but to collect it in a way, which does not cause hardship. The Department hopes to have identified the majority of cases to write off by March 2010. However, some will require a more detailed examination to see if they meet the criteria. The Department will continue its approach of suspending recovery when an overpayment is disputed for the first time. A debt, which was clearly recoverable beforehand, may not be so in the future because circumstances change.

30. The Department’s policy and practice around tax credit overpayment recovery is set out in Code of Practice 26: What happens if we’ve paid you too much tax credit? It is currently remitting £235 million of older tax credits debt. These are a mixture of small debts where there has been no progress on collection, or there has been an IT or process failure, and no action has been taken on them. The Department estimates that it will write off, in total, around £0.5 billion on value for money grounds.

PAC Conclusion (12): The Department has been less successful in recovering overpayments directly from claimants where the award has ended. In 2008-09 it recovered £225 million of this type of debt, which grew from £1.8 billion to £2.1 billion. It is examining new methods of recovery including recovery by adjusting income tax (for those in employment) and, working with the Department for Work and Pensions, by adjusting benefit payments (for those in the welfare system). The Department should set targets for implementing these recovery methods, and should aim to have them in place in time for the annual renewal of awards for 2010-11. It should extend the recovery of overpayments against ongoing awards to include any debts the claimant may have from previous awards.

31. The Department notes the Committee’s conclusion. It would be premature to set targets for implementing the various recovery methods ahead of final evaluations. The PAYE pilot is due to be completed by end of 2009-10, and the Department will come to a view about the effectiveness of recovery through PAYE codes during 2010. The voluntary recovery of overpayments from certain social security benefits is due to commence from April 2010. The trial is planned to last for two years in order to collect enough evidence for it to be evaluated robustly. The Department is currently evaluating whether it is possible to extend recovery of overpayments against ongoing awards, to include any debts the claimant may have from previous awards.

32. The Department has launched a new campaign approach to tax credit debt, based upon segmentation of its customers according to their likely circumstances and behaviour. The Department expects this to make a significant difference to the amount of directly recovered tax credit debt collected.
PAC Conclusion (13): The Department has implemented changes to improve the quality of its support to tax credit claimants, but its ability to improve its service is constrained by weaknesses in its computer system. While the Department requires claimants to report changes in their circumstances as they occur, limitations in the computer system prevent the Department from telling the claimants when they contact the Department what the effect on their award will be. The Department should assess the costs and benefits of investing in an enhanced tax credits computer system that offers the flexibility to introduce service improvements promptly and to update claimant records in real time.

33. The Department agrees with the Committee’s conclusion. The Department is committed to looking at the costs and benefits of enabling tax credits claimants to claim online, as part of the Smarter Government initiative, and plans to complete this work by the end of 2010. However, going further and completely replacing the Tax Credits IT system to give more flexibility is likely to be expensive, and would have to be justified on a value for money principles. The Tax Credits IT system updates records promptly. Over 95% of changes of circumstances reported by telephone are processed within 24 hours.
Financial Management in the Foreign and Commonwealth Office

1. Against a backdrop of historically weak financial management, the Foreign and Commonwealth Office (the Department) has made considerable progress over the past three years to improve the accuracy, reliability and timeliness of financial information. Having recognised the need to take action, the Department set up its ‘Five Star Finance’ Project with a series of targets and milestones, which is due to be completed in the summer of 2010. The challenge is now to complete the project successfully, and to ensure that all the improved procedures and practices are embedded in the normal running of the business.

2. The Department has benefited from recruiting a professionally qualified finance director, taking full advantage of having an experienced non-executive director on the Board, and increasing the number of professionally qualified accountants within the finance function. The Department is also playing its part in sharing good practice across Whitehall, although it was unclear to the Committee whether the Treasury was doing enough to lead the process of sharing knowledge of financial management practice across the whole of Government.

3. Following four successive years of significant under-spends, the Department has strengthened its budget management and costing of activities, including having better information on the costs of individual embassies. The Department now needs to move to the next level, with increasingly refined costing of its different activities, and benchmarking costs across different locations to help drive efficiency.

4. Over half of the Department’s expenditure of some £2 billion is paid out in foreign currency. As a result of the weakening of sterling against other major currencies, the Department has suffered a significant reduction in its purchasing power. To provide budget certainty, the Department forward purchases US dollars, euros and yen. The Department confirmed that its aim is to maximise the benefits from each of its Embassy’s in pursuit of British trade and foreign policy interests, and that it has no plans to sell-off any of its prestigious buildings around the world.

5. The Committee of Public Accounts (PAC) examined the Department on its developing financial management capability and capacity, and on the challenges it faces to embed sound financial management at all levels across its business.

PAC Conclusion (1): The Department has a history of significant under-spending in recent years, exposing a culture of weak financial stewardship, a lack of financial skills to monitor budgets effectively and a lack of trust in its financial information. It recognised the need to take action and set up its ‘Five Star Finance’ project with a series of targets and milestones to measure improvement. The Department has made significant progress in the last two years towards having reliable high-level financial oversight of its business. Monthly produced Key Performance Reports now highlight variations in spending and enable FCO to take prompt action. The Committee notes the assurances made by FCO that following completion of the Project, all the processes and practices will then be embedded into ‘business as usual’ activities. The Department needs to ensure completion of the Project by July 2010 and that momentum is maintained.

6. The Department agrees with the Committee’s conclusion and welcomes the Committee’s recognition of the steps taken to address the Department’s financial management. The Department’s Board and Senior Management have continually communicated to staff the importance of achieving a full spend against budget. The performance appraisal system now rates financial management performance, which is included in the key competences for managers. There is a robust plan for the next phase of the Five Star Finance programme, with a target date of 31 July 2010 to achieve 4.5 stars. The focus of this phase is on mainstreaming good financial management practices throughout the Department, both in the UK and the overseas network.
7. As with most change programmes, the activity involved in this phase is geared towards more transformational outcomes rather than just resolving technical issues. This phase will focus on improving financial and resource management in all areas of the Department. This will produce a more sustainable step change in performance and will help maintain the momentum for continuous improvement.

8. The National Audit Office (NAO) will assess whether the Department’s financial management has reached the 4.5 star phase and make any recommendations for further development, and how to embed them.

PAC Conclusion (2): The Committee is pleased to note that the Department has acted upon previous recommendations made by our predecessors on this Committee and has recruited a qualified finance director to sit on the Board, which has had a number of positive impacts on the Department. The benefits include driving up skills, increasing the understanding across the organisation of the importance of good financial management, improving confidence in the numbers leading to better informed decisions, and the ability to manage budgets actively and produce better quality annual accounts on a more timely basis. The Department should increase further the level of qualified finance staff and monitor its progress in increasing financial awareness throughout the organisation, especially across its global network.

9. The Department agrees with the Committee’s conclusion. In the finance field, the Department currently employs 33 qualified accountants. The financially qualified staff constitutes 13% of those in UK-based finance roles in the Department, an increase from 8% in June 2009. The Department recruits trainees to the Government Finance Professionalism (GFP) scheme, with 14 trainees currently employed, and a further five trainees joining in September 2010.

10. The Department runs a Professional Finance Training Programme (PFTP) for existing staff, which allows them to study for varying levels of finance qualification. There are currently 52 trainees participating in the PFTP, of which 27 were accepted on to the scheme in December 2009. The Department has five trainees in the Fast Stream Finance scheme, organised by the Treasury. This scheme offers an accelerated route to a finance qualification for fast-stream entrants to the Civil Service.

11. The Department continues to provide training opportunities for all staff on improving financial management performance. This includes courses that relate directly to the Professional Skills for Government (PSG) finance competency, which is mandatory for all staff. The Department records state that 1,916 staff has taken part in this PSG core finance training. The Department offers more intensive finance courses for those with a significant element of resource management responsibility at overseas posts.

12. In 2009, 92 staff performing this resource management role overseas participated in such training. From the start of the financial year 2010-11, an improved mechanism for tracking attendance across the full range of finance courses will be implemented. This will provide better management information on the take-up of specific finance courses and help identify any areas where awareness could be further developed.

PAC Conclusion (3): The Department has improved its financial management by allocating budgets before the start of the year, with budget holders reviewing costs allocated to them and challenging unfamiliar items. The Department should aim to move to the next level of good practice, where mis-postings are rare and its staff become more confident in the financial forecasts they produce.

13. The Department agrees with the Committee’s conclusion. To improve forecasting and reduce mis-postings, the Department has introduced Quarterly Reviews of performance with Directors, improved financial training to equip the Department with improved budget management skills, and introduced a drive to produce more accurate in year performance information. This resulted in the Department’s combined Request for Resources (RFR1 and RFR2) under spend reducing to 3.2% in 2008-09.
14. The Quarterly Reviews process allows the Department to rebalance budget allocations by collecting in surplus funds and using them to meet urgent budgetary pressures. The Department’s improved financial monitoring has ensured budget holders forecast and profile more accurately. Additionally, the time taken to notify in-year budget changes to budget holders has reduced by three weeks, giving budget managers more timely budget information to inform their forecasts.

15. Robust management information systems and processes are essential to effective monitoring and accurate forecasting of expenditure. The Department is introducing new Management Information tools to provide an end to end planning and budgeting solution for home and overseas users. This will improve reconciliations and provide up to date information to support effective budget management.

PAC Conclusion (4): The Department has not yet made effective use of activity recording to ensure that its operations and policies are fully costed. Although the Department has made some progress, it should take further action to implement a workable and effective system of costing activity in all locations to enable it to make informed decisions about its operational priorities in a very tight fiscal situation. The Department should also benchmark costs and identify regional variations to help drive efficiency, and should make its charges to other government departments for the use of its facilities more transparent and understandable to help encourage joined-up working overseas.

16. The Department agrees with the Committee’s conclusion. The Department will continue to build on the improvements to activity recording. Costed activity recording is still relatively new and the Department is continuing to refine the process. Activity recording has been used to produce indicative figures for total cost and cost-per-head for the Department’s posts.

17. The Department is looking at ways to improve both the data and the way it is collated, so that in future it will be able to provide a more workable and effective system of costing activity in all locations. The Department is using its Departmental Strategic Objectives as a way of enabling the Department to make informed decisions about operational priorities in a tight fiscal situation.

18. The Department has improved the quality and accuracy of its activity recording data from Posts about the Management and Support performed for Partners Across Government (PAGs) on its platform. Following the renegotiation of a new Service Level Agreement (SLA) with PAGs in 2008, the Department has been working with its partners to implement a charging framework, which allows the Department to recover its costs in line with Treasury guidance, whilst at the same time offering value for money to PAGs.

19. The Department is currently undertaking a fundamental review of the charging options, in order to try and ensure that it is fully funded for its operations, whilst still being able to offer an attractive and cost-effective platform for PAGs. The review will involve a thorough analysis of overseas and central costs with a view to identifying efficiencies, as well as assessing the additional costs incurred as a result of providing PAGs with the services they require. The Department is working with the Treasury and PAGS on a new charging framework for introduction in financial year 2011-12.

PAC Conclusion (5): The Department has a history of poor forecasting of its expected spend and also of under-spending against its budget. After incurring a significant under-spend in 2007-08, the Department exerted better in-year control of spending in 2008-09, so that it spent within 1% of its budget for ‘controllable’ costs. Although the Department appears now to have a good level of financial discipline over the spending it controls within each financial year, it needs to improve the accuracy with which it forecasts expenditure which is harder to control, such as changes in the value of its estate. It should identify what practical actions it could take, such as moving forward the dates for valuation of fixed assets, so that appropriate provision for cost movements can be made in time for the Spring Supplementary Estimates.
20. The Department agrees with the Committee’s conclusion. The Department continues to work on improving financial management through the *Five Star Programme*. For example, a new tool to improve budget management, which will enable the Department’s overseas posts to manage their budgets in local currency. However, the Department is not able to predict expenditure affected by exchange rate movements and this will remain an area that causes difficulties, although the continued forward purchasing of three key currencies will allow the Department to achieve greater cost certainty.

21. In previous years, the Department did not have any control over the amounts of impairment charged to Annually Managed Expenditure (AME), which resulted in the Department under-spending. Impairments are not recognised until Estates complete the revaluation work at the end of the financial year. The Department’s Estates Director has commissioned a full review of the Estate valuation process and in particular the timetable for provision of data for use in the Resource Accounts. Improvements identified will aim to standardise, streamline and accelerate the process.

22. The Department experienced a significant under-spend on impairments due to revaluation of assets. This more than offset an over-spend on other non-cash items shown in the Accounts. Impairments do not score in Resource Departmental Expenditure Limit (DEL). The removal of the impairments under-spend pushed the Department over its Resource DEL Treasury control total.

23. The Treasury has developed a project called *Clear Line of Sight* to ensure that from 2010-11, the Treasury and Parliamentary control totals are fully aligned. This alignment of Treasury Budget controls with Parliamentary Estimates and Resource Accounts will result in greater coherence and comprehensibility in the Government’s reporting to Parliament.

PAC Conclusion (6): The relative weakness of sterling in the last year or so against foreign currencies has significantly reduced the Department’s purchasing power. The Department has had to re-prioritise expenditure and make further efficiency savings to stay within budget. In all, the Department is exposed to the effects of currency fluctuations against over 120 currencies, including the US dollar, euro and yen. This is not an issue peculiar to the Foreign and Commonwealth Office and, with input from the Treasury, it should work alongside other departments, such as the Ministry of Defence and Department for International Development, to identify the most effective way to manage exchange rate risk for the government as a whole.

24. The Department welcomes the Committee’s recognition of the difficulties it has faced managing the effect on its purchasing power of currency movements from within its own resources. The Department will continue to work with Treasury, and its Partners in Government, to share best practices and identify possible solutions. The Foreign Secretary announced a range of measures agreed with the Treasury to help manage foreign exchange pressures in the next financial year.

PAC Conclusion (7): The Committee is of the opinion that historic residences, which are national assets, should not be sold off for money saving reasons and was pleased to note that the Department has no plans to do so. The Department confirmed that it was its standard practice to make best use of its assets, exploiting opportunities for commercial use of properties where available. The Committee welcomes the appointment of a professionally qualified Estates Director and looks forward to the forthcoming C&AG’s report on the Department’s Estates, which is expected to be published early in 2010.

25. The Department agrees with the Committee’s conclusion. The Department confirms that it has no plans to sell historic residences, which are national assets and will continue to manage the estate according to best asset management practice.
PAC Conclusion (8): The level of fraud uncovered at overseas posts has reduced to a relatively low level because of improvements made in the Department's financial management procedures and practices. The Department needs to continually test the adequacy of its processes for preventing and identifying fraud against its assessment of the risk, recognising that the types of fraud may change over time.

26. The Department agrees with the Committee's conclusion. The Department is not complacent about the loss of taxpayers' money and seeks to maintain a robust, cost effective control framework, which adequately mitigates the risk of fraud. In 2009, the Department took a fresh look at its controls, removing unnecessary or duplicate ones, and introduced improvements. These improvements effectively manage the risk whilst maximising benefits for the Department. Whenever Departmental procedures change, the Department's Internal Audit and Counter Fraud teams are consulted.

27. To maximise the likelihood of potential fraud being reported to management, the Department runs a confidential whistle blowing hotline. All reports are investigated. The Audit and Risk Committee review the use and effectiveness of whistle blowing procedures regularly. Additionally, the counter fraud team carries out a series of surprise proactive visits to ensure key fraud controls are in place. Internal Audit has a robust system of overseas audit visits each year with a further process of self-audit at Posts and Home to re-enforce improved procedures and reduce the risk of fraud.

PAC Conclusion (9): The Department recognises that it has not always had a workforce that reflected the diversity of the population of the United Kingdom. It aims through its current recruitment policy to create a workforce, which is representative of modern Britain and monitors the diversity of its staff by gender, ethnicity and disability. It should identify what other data it could gather to monitor the extent to which the social background of its employees is representative of the wider population.

28. The Department agrees with the Committee's conclusion. The Department welcomes the acknowledgement that its recruitment policy aims to create a workforce representative of modern Britain. Through a range of recruitment activities and outreach programmes, the Department aims to ensure that it attracts talented applicants from diverse backgrounds, particularly women, members of minority ethnic groups and people with disabilities. For example, the Department runs a Partner University Programme, which aims to attract high-calibre undergraduates from ethnic minority and low-income backgrounds to join the Department.

29. The Department does not hold data on the social background of its employees and has no plans to gather such information. From 2010, the Cabinet Office will begin collecting and publishing data on the socio-economic background of entrants to the Senior Civil Service and the Civil Service Fast Stream. This will include Fast Stream applicants who go on to join the Department.

PAC Conclusion (10): Robust challenge provided by suitably experienced non-executive directors has made a positive difference to the Department's financial management capacity. The Department has valued the contribution that a financially qualified non-executive director can make and, importantly, has created a receptive environment. The Treasury should work with all departments in encouraging them to recruit non-executive directors with the right mix of skills to fit the needs of their business.

30. The Department agrees with the Committee's conclusion and welcomes the recognition of the positive role of the financially qualified non-executive directors. The Department will continue to make use of the strong expert challenge and scrutiny function that they have provided.
31. The Treasury has always been concerned to ensure that departments and other public sector organisations recruit to their boards the right calibre of non-executive directors who bring with them in-depth experience, expertise and challenge, particularly in relation to sound financial management. In its guidance document, ‘Corporate governance in central government departments: Code of good practice’, the Treasury recommends that the membership of boards should have a balance of skills and experience appropriate to directing the business of the department.

32. In particular, the guidance emphasises the need for independent non-executive members, drawing on their wider experience, to maintain a critical overview of the department’s financial controls and procedures for assessing and managing risk. A recent informal survey indicates that most boards of major departments have non-executive directors who are either qualified accountants or come from a strong financial management background, many of whom chair or are members of departmental audit committees.

33. The Treasury is currently revising the code of Corporate Governance in central government departments and will take into account and promote the Committee’s recommendation that departments should recruit non-executives who have the right balance of skills and experience to fit the needs of their business including some who have proven record of high financial skills and expertise.

PAC Conclusion (11): Government has not always learnt lessons systematically by disseminating examples of good practice on financial management across all government departments and agencies. As part of the ‘Five Star Finance’ project, the Department has demonstrated that it is keen to share good practice through the Director General Finance’s membership of the cross-Government Finance Leadership Group, and by the Director of Finance’s cross-Whitehall Business Improvement Group. Treasury should adopt a firm leadership role, identifying the key success factors of the Department’s programme-based approach and disseminating this good practice across Whitehall.

34. The Department agrees with the Committee’s conclusion that it has pro-actively shared its best working practices in both the cross-Government Finance Leadership Group and the cross-Whitehall Business Improvement Group.

35. Through its sponsorship of the Government Finance Profession, the Treasury has been actively promoting examples of good practice in financial management. This includes promoting the Department’s Five Star Programme via the Government Hundred Group of senior financial managers in September 2009. The Treasury provided specific, qualified resource and expertise to support the Programme's steering committee. The Government Finance Profession continues to work closely with all Departments, to identify lessons that can be disseminated more widely. This includes working with the leadership that the Department is providing for the Business Improvement Group’s work across departments on improving financial management capabilities beyond the skills agenda.
Fourth Report

Department for Transport (DFT)

Highways Agency: Contracting for Highways Maintenance

1. The Managing Agent Contract (MAC) contract operated by the Highways Agency (the Agency) largely follows best practice and offers the potential to secure value for money and, since its introduction, there has been greater certainty over delivery of maintenance schemes within budgets and to timescales. Despite this the Agency needs to understand more about the cost information it is getting from these contracts to ensure that they are delivering value for money. It has failed to exploit cost information to benchmark prices and drive efficiency improvements, and has lacked the quantity surveying and commercial skills required to manage the contracts effectively. These shortcomings are especially worrying given overall increases in costs and the wide variability of costs between areas.

2. While recent indications are that the market for road maintenance contracts is becoming more competitive, there is a risk that the Agency is too reliant on the procurement stage to deliver performance improvements rather than through the proactive management of contractors during the term of the contract. The Agency’s principal value for money objective is to minimise the whole life cost of maintaining the network. Only 20% by value of the schemes entering the Agency’s renewals programme are subjected to formal whole life cost appraisal and, even where whole life costing is used, it does not appear to drive programme design. Despite Agency initiatives to improve safety on its road network in recent years, safety at road works for both road users and road workers has not changed much in recent years.

3. Despite Agency initiatives to improve safety on its road network in recent years, safety at road works for both road users and road workers has not changed much in recent years. The Committee is concerned that the latest year for which statistics on road worker injuries were available was 2006.

4. The Committee of Public Accounts (PAC) examined the extent to which the Agency is an informed customer and is challenging contractors to deliver value for money and better outcomes for road users and for those who work on the network.

PAC Conclusion (1): While the Agency has good access to detailed information on contractors’ costs, it is only now beginning to exploit its access to this data. As a priority, the Agency needs to benchmark the unit costs of routine and planned maintenance between contractors and areas in order to assess their relative performance and drive efficiency improvements over time.

5. The Agency agrees with the Committee’s conclusion. Routine and planned maintenance are delivered by the Agency through the Managing Agent Contractor (MAC) contracts. MACs deliver routine maintenance for a tendered lump sum, while planned maintenance is delivered by the MAC itself, or by using a framework, or discrete contract managed by the MAC. Planned maintenance is delivered through schemes with an agreed target cost, while payments are paid on actual costs incurred. A shared pain and gain arrangement is in place for the difference between the target and actual cost.

6. For routine maintenance activities the Agency had collected sufficient actual cost data by October 2009, to begin making a meaningful comparison of cost and quality performance, across different MAC areas and contractors. The Maintenance Community Group (Agency/contractor best practice forum) has joined with the Agency in investigating any performances variances for selected activities. The Agency through analysis of these costs will identify best practice and pursue changes to procedures in order to make cost savings. There are provisions within the MAC contracts where the contractors are required to share any such savings with the client resulting from agreed changes in standards or procedures.
7. Planned maintenance costs have been collected and monitored progressively since April 2009, using activity benchmark sheets, gathering quantities and costs of key items of work. As provision of quantities and costs becomes a contract requirement, the Agency will, by the end of June 2010, produce and maintain a formal database of unit costs of key items of work. The Agency will use this data to benchmark costs and to check and challenge the robustness of target costs. The Agency will use unit rate comparisons between MAC’s and framework contractors to assess relative performance between contracts and between contractors and as a means to drive efficiency improvements over time.

8. Having just re-let the three remaining MAC contracts, under the current MAC model contract, the Agency will now review the MAC model contract and improve where necessary. This will be completed in time for the next MAC contract renewal in March 2011. A contract to deliver audit services is currently being tendered, and will provide the evidence, to drive efficiency improvements. This audit functionality will build on the current Network Operations Audit of Contract Compliance (NOACC) of MACs, which since April 2009, has been improved to include the MAC contractors’ commercial processes.

PAC Conclusion (2): We are concerned at the wide variation in unit costs of jobs between different Agency Areas. The Agency should establish the reasons for the variations, determine whether the differences are justified and challenge prices for jobs more effectively.

9. The Agency agrees with the Committee’s conclusion. The Agency will investigate reasons for variations in unit costs of planned maintenance activities between different MAC contractors and different framework contractors. The Agency quantity surveyors will check and challenge any higher rates or prices to ensure the robustness of scheme target costs, using the formal database of unit costs from end of June 2010.

10. Since October 2009, the Agency has identified a number of routine maintenance activities for benchmarking and sharing best practice between MAC contractors. In December 2009, the Agency started the benchmarking process by producing reports comparing unit costs of selected routine activities and respective quality performance scores. These reports will be discussed at the MAC contractor’s forum with the aim of achieving cost savings and establishing best practices. Accordingly, the Agency will review its procedures and introduce changes where appropriate to make savings in the existing MAC contracts.

PAC Conclusion (3): Costs for both fixed cost activities and work where the contractor reclams actual costs have increased during the lifetime of MAC contracts. The Agency should monitor expenditure more closely on these types of work to ensure that costs are properly charged and to limit cost increases.

11. The Agency agrees with the Committee’s conclusion. When mobilising new MAC contracts the Agency is now delivering commercial training to area teams responsible for managing the MACs and framework contracts. The training covers payment mechanisms, which gives the individuals responsible for managing the contract, a better understanding of contractual obligations and liabilities. This training continues to be developed and improved. Specialist commercial training has started for quantity surveyors.

12. In May 2009, the Agency’s quantity surveyors commenced a programme of financial audits of MAC contractor’s costs covering fixed cost activities and reimbursable costs. From June 2010, the financial audits will be further enhanced by the inclusion of regional finance managers who will bring professional accounting skills to the audit team.

13. From April 2010, the Agency’s quantity surveyors will use available information on costs reclaimed by contractors and will produce quarterly reports showing design costs as a percentage of construction costs. The first quarterly report will be issued to the area teams for use in driving efficiencies in design cost. These initiatives will ensure that annual expenditure is monitored closely, costs are properly charged and cost increases are challenged as well as managed effectively.
14. The Agency agrees with the Committee’s conclusion. The commercial training delivered to the Agency’s area teams and quantity surveyors will ensure that staff managing contracts have the right skills for commercial management and continuous efficiency improvement.

15. The Agency will have data to permit a stronger check and challenge of contractor’s target costs, identify best practice to drive down unit costs of routine maintenance activities and carry out financial audits to ensure costs reclaimed by contractors are properly charged.

16. The Agency is involved in a study of best practice with other European road operators, through the Conference of European Directors of Roads (CEDR), to be completed by spring 2010. This provides an excellent forum for the Agency to benchmark with other highways authorities, share best practice and undertake market comparisons.

17. From summer 2010, 11 of the Agency’s 12 MAC areas will be required to produce annual plans, six weeks prior to commencement of each financial year, which reviews the previous year performance and costs and looks forward to the next year. The annual plan agreed with the Agency’s area manager, requires the contractor to forecast how they would achieve improvements in quality and cost effectiveness. Continuous improvement is incentivised through the contract where any savings identified and agreed are equally split between the contractor and the client.

18. The Agency agrees with the Committee’s conclusion that the Agency should identify how much is spent on individual activities and establish trends over time. From April 2010, the Agency will monitor costs of schemes from inception to completion of final account by recording costs of preparation, design, supervision and construction.

19. The Agency will develop and maintain a formal database of unit costs of key items by the end of June 2010. The database will enable the Agency to improve its understanding of costs and cost variances between contractors, and to carry out trend analysis of unit cost changes over time, allowing for construction inflation.

PAC Conclusion (5): It is disturbing that the Agency has an incomplete understanding of its overall costs and lacks basic facts, such as how much the costs of road resurfacing have increased. The Agency should use its improved access to cost information to better understand its costs so that it can identify how much is spent on individual activities and establish trends over time.

18. The Agency agrees with the Committee’s conclusion that the Agency should identify how much is spent on individual activities and establish trends over time. From April 2010, the Agency will monitor costs of schemes from inception to completion of final account by recording costs of preparation, design, supervision and construction.

19. The Agency will develop and maintain a formal database of unit costs of key items by the end of June 2010. The database will enable the Agency to improve its understanding of costs and cost variances between contractors, and to carry out trend analysis of unit cost changes over time, allowing for construction inflation.

PAC Conclusion (6): The Agency’s Directorate responsible for highways maintenance lost over 50 qualified engineering staff since 2004 and until recently had only four quantity surveyors. The Agency now has 12 quantity surveyors and should seek to deploy as many in the field as it needs to make the best possible use of their commercial skills. The Agency should also make a clear assessment of the level of skills it needs and should put in place a strategy to maintain its skill base at this level in future.
20. The Agency agrees with the Committee’s conclusion. The Agency welcomes the acknowledgement of the work already done to increase the number of quantity surveyors from four to twelve. This increase has enabled at least one quantity surveyor to be deployed to each of the seven regions supported by a central team to provide advice to the regions and deal with specialist and commercial development work.

21. The Agency will continue to enhance its capability through the development and delivery of its training programme ‘Foundation in Network Operations’. This programme began in November 2007, and includes modules on contract management (which are being updated), financial awareness and network management. It is focussed largely on new or recently recruited staff. From September 2010, following training needs analysis, the Agency intends to extend the programme to existing staff to increase their commercial capability. In addition, four of the Agency’s new quantity surveyors are following a Masters course in commercial management.

22. In the longer term, the Agency will sustain and improve these skill levels through more effective succession planning and improved training. A graduate recruitment and development scheme will see seven graduate engineers joining the Agency over the next few months, with a further intake planned for September 2010. As part of this scheme, the Agency will seek to include at least one graduate placement within the quantity surveyors team to maintain this skill base for the future.

23. The Agency has restructured its management of the strategic road network. From 1 February 2010, a new Network Delivery and Development Directorate is focussing on asset planning and management, including better commercial contract delivery and supply chain management.

PAC Conclusion (7): Whole life costing is applied to some of the Agency’s schemes, but we remain concerned that whole life costings are not driving the Agency’s planned maintenance programme as strongly as they should. The Agency should refine and extend the use of whole life costing in assessing proposals for planned maintenance, and should use the results to determine the content of its maintenance programme.

24. The Agency agrees with the Committee’s conclusion. The Agency has a well established whole life cost tool for assessing individual road pavement planned maintenance schemes. However, it is recognised there is a need to develop equivalent tools for other core assets, such as structures and drainage. In order to improve programme prioritisation with the application of whole life cost principles, the Agency has introduced a multi stage improvements plan.

25. The first key element of the plan is to introduce significant changes and improvements to the process for assessing, prioritising and allocating funds. A national maintenance programming capability is being introduced to drive consistency and value across the network. This capability will be in place for the financial year, starting in April 2010.

26. The second key element of the plan is developing and implementing a scheme level whole life cost analysis tools for assessing structures and drainage maintenance. These new tools will be used for the maintenance programme from early 2011 onwards.

27. The third key element of the plan is the Integrated Asset Management (IAM) programme, which will introduce network level whole life cost analysis for the Agency’s core asset types. These tools will identify future national level spending needs based on existing and projected asset conditions in order to achieve the best whole life cost outcomes. The national model will become operational from March 2010, with additional regional and area level modelling tools being rolled out incrementally over the life of the programme. This work is based on the collated best practice evidence, working with many of the European and International highway authorities.
PAC Conclusion (8): We are concerned that statistics on road worker casualties are not available beyond 2006. The Agency should demonstrate that it is taking the issue of road worker safety seriously by updating and routinely collecting road worker casualty data to inform its road safety strategy.

28. The Agency agrees with the Committee's conclusion on the importance of road worker safety, and does update and routinely collect road worker casualty data to inform its road safety strategy. The Agency does have statistics on road worker casualties beyond 2006, and provided the information for 2007 and 2008 to the Committee in the Supplementary Memorandum, submitted on 17 November 2009.

29. The Agency routinely collects road worker casualty data, with reports being submitted by contractors to a central web based system. The Agency issued new instructions reinforcing mandatory reporting of supply chain road worker casualties in October 2008. These instructions are being reinforced through a workshop involving representatives from the supply chain due to take place in February 2010.

30. The Agency has illustrated its commitment to road worker safety with the publication of the *Road Worker Safety Action Plan 2009-2011*, on 18 November 2009. The Agency has adopted a vision *Aiming for Zero* which will be delivered by reducing the need for road workers to be on foot on a live carriageway where they are most at risk. The Agency has therefore decided to set itself and industry a goal of Exposure Zero. It is the Agency's intention to lead a process, working with its consultants and contractors, with the goal of delivering this new way of working by 2016.
Fifth Report

Department for Culture, Media and Sport (DCMS)

Promoting Participation with the Historic Environment

1. Many people care deeply about and value the nation’s heritage. Widening opportunities for people to interact with the historic environment has been a policy objective of the Department for Culture, Media and Sport (the Department) for a number of years. In 2005, the Department agreed targets to increase the numbers of people who visit historic sites from three priority groups: those with a limiting disability, those from lower socio-economic groups and those from black and minority ethnic groups.

2. English Heritage is the Government’s statutory adviser on the historic environment and has a critical role to play in increasing public support and interest in heritage. However, in recent years it has been faced with a decline in public funding, coupled with an increase in its responsibilities, and has therefore prioritised increasing the money it makes from visitors to its sites. The Department reached agreement with the English Heritage on what it would do to support the Department’s objectives for participation in the future.

3. The Department did not convince the Committee that having a target, focussed on increasing visits from those in underrepresented groups to historic sites, served a useful purpose. Building stronger public support will depend on taking an inclusive approach to what constitutes our heritage and in particular on developing an interest in heritage in children of all backgrounds. English Heritage has assured the Committee that it will reverse the concerning downwards trend in educational visits to its own sites.

4. The Committee of Public Accounts (PAC) examined the Department on the actions taken to achieve the Department’s objective to get more people interested in heritage.

PAC Conclusion (1): The Department’s targets for broadening the audience for heritage were unrealistic and set without clear evidence of how they would be achieved. The proportion of the population visiting historic sites is already high and the most reported reasons why people don’t visit these sites is because they are not interested in the historic environment. Before setting targets in future, the Department should:

(a) use existing knowledge of what works to make a clear action plan that shows how its objectives will be delivered. It should involve key parties, such as English Heritage, in assessing the realism of targets to which they will contribute, and

(b) undertake a full examination of the costs and benefits of achieving the targets and balance this against other spending priorities.

5. The Department partially accepts this recommendation. Targets were achieved in one category, and nearly reached with a significant increase in another. The Department believes the targets were pitched appropriately at a level that was measurable, deliverable and stretching. The targets represented a clear ministerial priority and were set on this basis as part of a dialogue between the Department and the Treasury. The discussions were informed by the Department’s understanding of what was deliverable by its NDPBs and within its sectors, building on work such as People and Places (2002), the Government’s Social Inclusion Policy for the Historic Environment. The Department and its bodies are driving forward work to enhance its understanding of how the cultural and sporting sectors operate and this information will be utilised in future target-setting discussions.

6. The Department accepts the value of involving key parties in this process as much as possible and continues to draw up and agree action plans with its partners to map the delivery of such key objectives. As part of the Treasury’s Public Value Programme review of Arms Length Bodies, the Department is examining the ways in which it interacts with NDPBs and its Agencies and will keep the manner in which targets are set under consideration as part of this.
PAC Conclusion (2): The Department has not developed any effective means to measure the contribution it or its sponsored bodies make towards its objectives. It did not meet two of its three targets for increasing visits to historic sites, but could not explain why. The Taking Part survey measures progress against the Department’s targets but cannot show a causal link between actions taken and what is achieved. The Department should identify more direct and cost-effective ways of measuring its impact, and that of its sponsored bodies.

7. The Department disagrees with the Committee’s conclusion. The Department notes that the Committee only considered measurement of participation in the historic environment and did not seek evidence to support any wider conclusions about other objectives. The Taking Part survey was developed as an effective measure of participation trends across the cultural and sporting sectors, and for the population as a whole. It also provides a robust measure to help evaluate progress against wider Public Service Agreements (PSA). The Taking Part survey was never intended to provide for the in-depth performance monitoring of individual programmes or to be used to measure the overall impact of NDPBs.

8. Performance is reported in a variety of ways, including through Key Performance Indicators enshrined in the Funding Agreements, day to day interaction with the Department, regular Funding Agreement negotiations and individual project and programme Boards. Additionally, the Department has established an Opportunity and Excellence Programme Board with a membership that includes senior representatives from the relevant NDPBs. Whilst the Board is not accountable for the delivery of the strategic objectives relating to participation and excellence, the Board provides an opportunity to consider progress, best practice and new approaches to improve outcomes.

9. The Department accepts that there is more to learn about the entire web of complex levers and barriers impacting participation. The Department is continuing to research this in a cost effective manner, both through Taking Part, and its new CASE programme, which will consider what leads people into or away from engaging in culture and sports, and how communities and individuals benefit from these sectors. The continuity of data provided by Taking Part data forms a crucial component of this research through the cross-sector data it gathers.

PAC Conclusion (3): The Department funded English Heritage for 19 months without setting clear expectations about what it would deliver for the money. Agreeing measures to monitor performance on key policy areas provides essential accountability for taxpayers’ money. In future, the Department should agree what its sponsored bodies will deliver before it releases the related funding.

10. The Department partially agrees with the Committee's conclusion. The Department agrees it should set clear expectations of what will be delivered before it releases funding to a sponsored body. Such expectations were set out in English Heritage's allocation letter, from the then Secretary of State in December 2007, four months before the funding period began. Work on drawing up English Heritage’s Funding Agreement for 2008-11, began in Spring 2008. English Heritage commissioners formally accepted the agreement in September 2008. The Funding Agreement and its performance measures were reported on as an agreed document, and English Heritage has now reported on this three times; in Autumn 2008, Summer 2009 and Autumn 2009.

11. The Department accepts that it took too long to achieve formal ratification through Ministerial sign-off. However, this was in part the result of changes to the Machinery of Government, including the division of a co-signatory – Department for Environment, Food and Rural Affairs – into two separate Departments.
12. The Department partially agrees with the Committee’s conclusion. The Department accepts that there is a risk of duplication in the cultural and sporting sectors, and consequently seeks to share information around best practice widely to avoid this. Programme boards for the Department’s strategic objectives bring together senior figures from all Departmental bodies to assess progress against key departmental objectives and understand how others work together. Experts from other parts of the cultural sector are also invited to share their experience with members of English Heritage’s Broadening Access Group.

13. The Department’s contribution to PSA21 specifically recognises these synergies by committing to deliver participation increases across a combination of its activities, a process made possible by the Taking Part survey. This supplies the data to understand what other activities those engaging with heritage are likely to participate in, the characteristics of those who do and do not participate, and the drivers for some of this behaviour. The Department has established the CASE programme in collaboration with its NDPBs, including English Heritage, to evaluate the drivers for participation in all its sectors and learn lessons across the piece.

14. The Department partially accepts the Committee’s recommendation. English Heritage has invested significantly in its online resources (4.2 million visitors to English Heritage’s website and over 88,000 education resources downloaded in 2008-09) and is frequently involved in TV programmes, most recently with Channel Four’s Time Team at Dover Castle. The Taking Part survey gathers a wide range of data on engagement and its causes, including digital engagement. This allows the Department to consider the television viewing and digital engagement patterns of those who do, and those who do not, participate in the historic environment sector.

15. However, given that PSA 21 aims to ‘Build more cohesive, empowered and active communities’ the Department considered that in reporting on such a target, it was most appropriate to select as active a definition of heritage as possible. This nonetheless included many different types of interaction with the historic environment and a broad range of qualifying sites. Further evaluation of digital participation has recently been undertaken by Arts Council England and Museums, Libraries and Archives Council and such data will be used, in association with CASE and other programmes, to inform future approaches to the Department’s sectors.

16. PAC Conclusion (5): The Department’s definition of ‘participation’ with heritage is obsolete. As well as by visiting historic sites, there are many more opportunities to enjoy our heritage such as by getting involved in local conservation projects, by learning on the internet, and by watching historically-based television programmes. The Department and English Heritage should research how people interact with the historic environment, and use this knowledge to inform their strategies and performance measures for getting more people interested in heritage.

17. PAC Conclusion (6): In the last five years free educational visits to English Heritage’s sites have fallen by 20%. This concerns us, as positive childhood experiences are crucially important to instilling a long-term interest in heritage. English Heritage should develop an action plan that addresses the obstacles to visiting heritage sites and identifies ways to encourage school visits by children from different backgrounds. It should aim to reverse the decline in educational visits to its own sites, set milestones to measure progress, and report back to this Committee in April 2010 setting out the actions being taken and the progress made.
16. English Heritage partially agrees with the Committee’s conclusion. Free educational visits to its sites fell by 11% over the six years 2003-04 to 2008-09, not by 20%. It is inaccurate to add English Heritage’s Discovery Visits to the total of free educational visits when they are a sub-set of them. English Heritage is committed to reversing the decline in visits and is preparing an education strategy for 2010-15, which will include targeted support to encourage visits by schools in deprived areas. English Heritage will provide a further report to the Committee in April 2010.

PAC Conclusion (7): English Heritage’s workforce is less diverse than other government departments, and does not reflect the general population. This is, in part, because of the specialised nature of some professional roles, but also suggests English Heritage has not placed sufficient importance on achieving a more diverse workforce. English Heritage should develop an action plan to increase the diversity of its workforce, and set milestones for measuring progress and achieving outcomes.

17. English Heritage agrees with the Committee’s conclusion. Work with the Mayor of London’s Heritage Diversity Taskforce from 2006-2009 has shown that this is an issue for the cultural and heritage sector as a whole. English Heritage will address this issue in three ways:

- Promote actively to staff the value of allowing English Heritage to record anonymous profile data on disability and ethnicity to demonstrate the full diversity of staff already in post and plans to support diversity in the future.
- Develop a Workforce Diversity Strategy with a realistic action plan focused on timed and measurable outcomes.
- Work within the newly established Cultural and Heritage Sector Workforce Diversity Network, which will bring together bodies from across the sector to share knowledge, skills and resources to deliver effective action on workforce diversity.

PAC Conclusion (8): English cathedrals represent some of our most important architectural heritage yet many of them charge the public for entry. These buildings are expensive to look after and the Department and English Heritage should work together to find ways to fund their conservation so that they can be less reliant on charging for entry, which could deter people from visiting.

18. The Department partially agrees with the Committee’s conclusion. A Fabric Survey undertaken in 1991 showed a backlog of high level repairs at cathedrals, and resulted in the introduction of the Grants for Cathedrals scheme. Over 19 years, the scheme has made grants totalling almost £52 million, supported in the last three years by funding from the Wolfson Foundation. The Fabric Survey was repeated in 2009, and showed that cathedrals were in the best condition for a century.

19. While the targeted grant scheme has ended, cathedrals will continue to be able to access English Heritage support where needed, through regional funding schemes. The Department’s Listed Places of Worship scheme continues to support repairs at cathedrals and other places of worship. It has made over £100 million of grants available to places of worship equivalent to the VAT incurred in making repairs, since it began in 2001. The Department does not believe that there is necessarily a direct link between maintenance costs and a decision to charge for entry, and any decision to charge those who wish to visit cathedrals as a heritage attraction, is rightly one for the Dean and Chapter to make.