Treasury Minutes on the Fifty-fifth, Fifty-seventh, Sixtieth and the Sixty-third Reports from the Committee of Public Accounts 2005-2006

55th Report:	Progress in improving Government efficiency
57th Report:	The closure of MG Rover
60th Report:	Home Office Resource Accounts 2004-05 and follow up on returning failed asylum applicants
63rd Report:	Delivering high quality public services for all

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TREASURY MINUTES DATED 6 NOVEMBER 2006 ON THE TREASURY MINUTES ON THE FIFTY-FIFTH, FIFTY-SEVENTH, SIXTIETH AND THE SIXTY-THIRD REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 2005-2006

Fifty-fifth Report

Office of Government Commerce

Progress in improving Government efficiency

1. In 2003 Sir Peter Gershon conducted a cross cutting review of efficiency in the public sector. The Gershon Review was published in July 2004 to coincide with the 2004 Spending Review in which the Government accepted Sir Peter's findings, and announced an Efficiency Programme designed to achieve ongoing efficiency gains across the public sector which would release £21.5 billion a year by 2007-08 to improve front line services. The Programme also aims to reduce Civil Service posts by a net number of more than 70,000 and to reallocate a further 13,500 posts to front line services, and to relocate 20,000 public sector posts from London and the South East by 2010.

2. Departments are responsible for delivering and quantifying the efficiencies achieved while the Office of Government Commerce (OGC) monitors and reports on progress, and provides challenge and support to help departments deliver their gains. When the Committee took evidence on 6 March 2006, departments had reported efficiencies up to 30 September 2005 of £4.7 billion, of which just under a half were cashable. Two weeks after the Committee took evidence, the Government announced in the Budget that, by 31 December 2005, £6.4 billion of efficiency gains had been achieved. In July 2006, the Government announced more progress in "Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review". This explained that by the end of March 2006, departments and local authorities had reported provisional annual efficiency gains totalling £9.8 billion.

PAC conclusion (i): The Programme has been effective at raising the profile of efficiency within the public sector. It is broader in scope than previous efficiency initiatives and the process of reporting progress to the Prime Minister and the Chancellor has made efficiency a priority for senior management in departments. Personal commitment and ownership by senior managers will also need to be sustained throughout the Programme and beyond if the targets are to be met and efficiency embedded in the public sector culture.

3. The Government accepts the Committee's conclusion. Ministers, and senior managers up to and including Permanent Secretaries are involved and taking responsibility for the delivery of their respective efficiency programmes. The OGC Chief Executive reports on progress twice a year to the Prime Minister and Chancellor. In preparation for these progress reports, meetings are held between OGC and departments involving Permanent Secretaries or members of departmental Boards.

4. Permanent Secretaries from most of the major departments making the largest contribution to the efficiency gains sit on the OGC's Supervisory Board, which is chaired by the Chief Secretary to the Treasury. The Government agrees that the personal commitment and ownership at a senior level, which has been built up, will need to be sustained.

PAC conclusion (ii): The great majority of projects carry a high or medium risk of reported gains not representing real efficiencies. Only two of the 20 projects examined in detail by the National Audit Office were assessed as having a low risk of reporting gains that do not represent real efficiencies. While progress has been made, reported efficiency gains should continue to be considered as provisional and subject to further verification. Reported claims should be supported by full audit trails and declared only when the relevant data has been collected and verified by the OGC.

5. The Government accepts that at the stage of the programme when the NAO's report took place, which was before the end of the first full financial year of delivery of the programme, the efficiency gains which had been reported were subject to further verification.

6. Since the NAO report and the Committee's hearing, OGC has developed, piloted and issued further guidance on the measurement and reporting of efficiency gains, to assist with further verification. This additional guidance has been developed in consultation with the NAO and Audit Commission and is available on OGC's website. Departments are required to assess the robustness of their efficiency gains according to criteria detailed in the guidance. They make returns to the OGC on progress each quarter, which are signed off by a member of the department's Board, or the Permanent Secretary or Minister. An audit trail is maintained for reported gains. OGC has a close dialogue with the major departments as they prepare their quarterly returns.

PAC conclusion (iii): At the start of the Efficiency Programme around 180 of the 300 major projects lacked baselines. The number without baselines has now reduced to just over 100, and the OGC expects it to decrease further. Robust baselines need to be established which accurately show the level of performance at the start of each project. Until baselines for an efficiency project have been agreed with the OGC, a department should not be able to record efficiency savings against it.

7. The Government agrees that robust baselines should be established for projects within the efficiency programme. The number of projects where baselines are still being developed is now down from just over 100 to around 15, and this number is still reducing. In addition, departments are developing a further 10 initiatives for which they will need to confirm baselines before they can count any gains realised in these areas.

8. Around 20 programmes (forecast to deliver a total of £2.2 billion in gains by March 2008) aggregate efficiencies being delivered by local authorities. In these cases, OGC is not informed of the individual baselines for these programmes, which have been set in each of the 388 local authorities in England, as this would impose a disproportionate burden on local authorities and storing this information at the centre would not be practical.

PAC conclusion (iv): Claimed efficiencies do not take into account the costs incurred in achieving them, on the grounds that most projects pre-date the Gershon Review, and therefore commitments to incur the costs had already been made. But for savings to be counted to the Programme, so should the relevant costs. Most of the efficiency projects require up-front investment in order to achieve the benefits in the longer term and many will entail on-going running costs. To reflect the true increase in efficiency all additional costs, whether one-off or recurring, should be deducted before gains are reported.

9. The Government has said that in the value for money programme envisaged under CSR07, departments are being asked to 'take account of the up front costs of making savings to arrive at a clear understanding of both the gross and net savings attached to a particular reform proposal' (from 'Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review', paragraph 4.19, page 42). OGC is also encouraging departments to measure any new efficiency measures in the SR04 efficiency programme on a net basis.

10. However, the Gershon Review scored gross efficiencies and the Government endorsed this view, recognising that at that time, many large and complex projects had committed plans for investment, which pre-dated the Gershon Review. Unpicking this historical investment to determine which particular costs related to the efficiency initiatives would have been of limited benefit given this position.

11. In fact a mixture of gross and net efficiency gains are reported across the current, SR04, efficiency programme. Costs transferring to other service providers as a result of efficiency actions must be netted off any claimed gains. Additional running costs should be taken into consideration when an efficiency gain is claimed, and costs such as that of capital and depreciation are taken into account for many of the large capital programmes.

12. Local authorities report all their efficiencies in net terms.

PAC conclusion (v): It is difficult to have confidence in what is being achieved when the Treasury and the OGC display a lack of openness about progress. This lack of transparency is shown by the OGC's refusal to provide the Committee with basic factual information about the likelihood of departments achieving their efficiency targets. Announcements of efficiency gains have lacked analysis to support the claims being made. They should be accompanied by full breakdowns between workstreams, departments, and cashable/non-cashable which so far have only become available through the Comptroller and Auditor General's Report. The Treasury should also provide a reconciliation of claimed headcount reductions with data from the Office for National Statistics on changes in the overall size of the Civil Service.

13. While OGC has not published its advice to ministers about the likelihood of delivery by individual departments, both it and HM treasury are being open about what progress has been made, and how efficiency gains are being measured. Departments have published the methods they use to measure efficiency in their 'Efficiency Technical Notes'. Guidance on measuring and reporting efficiency gains has been published on the OGC website: http://www.ogc.gov.uk/efficiency_measurement_including_efficiency_technical_notes.asp

14. Departments report individual progress in their Departmental Reports and in their Autumn Performance Reports.

15. Breakdowns by workstream are released alongside the Chancellor's regular reports on progress of the Efficiency Programme in both the Budget and the Pre Budget Reports, and most recently in "Releasing the resources to meet the challenges ahead: value for money in the 2007 Comprehensive Spending Review".

16. HMT has published a technical note setting out the methodological issues relating to reconciling ONS and Gershon workforce reduction numbers.

17. There is a substantial amount of information in the public domain about the methodology used to measure efficiency gains, progress of the programme as a whole and specific examples of progress.

PAC conclusion (vi): Most of the projects already existed before the Programme was launched. Although all efficiency projects have become a higher priority for departments as a result of being in the Programme, the OGC and departments should make clear what proportion of efficiencies is derived from projects, which were launched as a direct result of the Gershon Review.

18. Inevitably the Efficiency Programme includes much that was already planned in 2004. The Government's commitment to efficiency is not new, and it is perfectly understandable that in some cases departments already had plans in existence for creating greater efficiencies. However, the important point is that over £20 billion is being freed up annually for public services. Gains are real and in order to count as efficiency, initiatives have to demonstrate that they have saved resources or increased outputs.

19. The added value of the Efficiency Programme is its focus and coverage. The Programme includes the wider public sector. It has introduced a focus on efficiency, which was not there before by agreeing challenging and achievable targets with departments, and through the extra visibility provided by programme management. The extra focus in turn increases the likelihood of delivery.

PAC conclusion (vii): Greater assurance is needed that the quality of public services is not being adversely affected. Service quality needs to be measured robustly to ensure the Programme achieves true efficiencies rather than just cuts in public services. Efficiencies relating to administering benefit payments, for example, should be accompanied by data demonstrating that the speed, accuracy and security of transactions have not been impaired. Savings should not be classified as efficiency gains unless the relevant department can show that service quality has not suffered as a result.

20. Since this is a programme of efficiency gains, not cuts, the Government agrees that maintaining or better still improving service quality is crucial. Every efficiency measure is required to have a quality measure associated with it.

21. Since the NAO report, OGC has worked with departments to refine service quality measures. Assessments of service quality are part of the measurement and reporting framework for efficiency gains.

22. For example, in HMRC, the quality measures consist of a robust set of indicators of service quality on the accuracy of processing of tax returns, the size of tax gaps, tax returns submitted electronically, and how effectively the public has been dealt with. These indicators also underpin HMRC's Public Service Agreement measures. There are also some additional direct service quality measures that are already being collected by HMRC as normal management information.

PAC conclusion (viii): Less than half of reported efficiencies will release cash. The OGC expects cashable savings to account for two-thirds of the realised gains by March 2008. By September 2005, only 48% of reported gains represented cashable savings. Given the greater certainty over these gains relative to non-cashable gains, and their more direct impact in giving departments flexibility over the use of their resources, the OGC and departments need to prioritise projects delivering cashable efficiencies.

23. Whilst there will be inevitable quarter to quarter variations OGC expects that by the end of the programme, more than half of the savings will release cash. This is on the basis of departmental forecasts and progress to date.

PAC conclusion (ix): The Programme has received two red Gateway Reviews and remains at high risk. Fifty of the 300 projects are intended to deliver 80% of the £21.5 billion efficiency gains. At December 2005 more than a third of the Programme was assessed as having problems, which put at risk the delivery of efficiency gains. The OGC needs to work with departments to reduce risks by, for example, developing early warning indicators of developments, which may prevent delivery so that remedial action can be taken quickly.

24. Given the scale and complexity of the Efficiency Programme, red Gateway review ratings are not a surprise. A red rating does not mean that the programme must stop but that urgent actions need to be taken on some aspects of the work. In fact the Efficiency Programme underwent a further Gateway Review in September 2006, and received amber rating on that occasion.

25. By July 2006, the proportion of the Programme assessed as being at medium to high risk was 27.5%. Moreover, since July 2005 considerable progress has been made in the management of risks and issues, and in the development of early warning indicators. Departments have identified and begun delivering contingency in areas at higher risk. OGC has worked with departments to quantify the real risk to delivery and has also sponsored quarterly cross-departmental risk forums to share best practice.

PAC conclusion (x): Experience in the private sector and in the public sector overseas suggests that there is potential to go further than the targets set for the current Efficiency Programme. This is demonstrated by the NAO's analysis of good practice across the public, private and voluntary sectors and it is also the view held by staff delivering efficiency projects within government. In seeking to embed efficiency, departments need to:

(a) Undertake fundamental reviews of their operations and processes, using approaches such as the NAO's Efficiency Toolkit to find opportunities for efficiency savings;

(b) Routinely benchmark their performance against other public sector organisations and against best practice in the private sector; and

(c) Recruit the right people to key finance and commercial posts. All main departments should have a professionally qualified finance director and a commercial director on their management board.

26. The Government accepted Sir Peter Gershon's statement that "to go further or faster than the savings set out in [my] Review during the period 2005-06 to 2007-08 (SR04 period) would put at risk the delivery of public services". However the Government has identified at this stage scope to deliver savings of at least 2.5 per cent per year over the CSR07 period, which begins in April 2008.

27. OGC supports the use of tools such as the NAO's efficiency toolkit, which can be used to identify areas in which to achieve further efficiencies.

28. Currently there are a number of government wide and public sector wide benchmark services as well as a range of benchmarking initiatives being developed for property, procurement and corporate services. OGC has played an active role in a benchmarking initiative to develop public sector value for money indicators for corporate services, which is led by the audit agencies.

29. There have been substantial advances in promoting professional financial skills in government. The Professional Skills for Government framework, rolled out this year, includes financial management as one of its core skills for civil servants. Rigorous standards have been set for financial management skills, and a comprehensive suite of financial management training has been made available. There has also been strong progress in the work to ensure main departments have a professionally qualified finance director at Board level. OGC is providing support in relation to commercial posts. For example, the head of the Efficiency Programme procurement workstream, Richard Abbott, supported DWP and HMRC in their appointments of senior procurement professionals.

30. The NAO's report acknowledges that there are currently 'adequate resources' in departmental teams working on the SR04 efficiency programme and has said that "many of the managers in [our] sample projects had impressive backgrounds in the private sector". This is a good foundation on which to build further on the need for professional skills at the highest levels of the civil service.

Fifty-seventh Report

Department of Trade and Industry

The closure of MG Rover

1. MG Rover closed on 15 April 2005 following the failure of negotiations with Shanghai Automotive Industry Corporation (SAIC). *The closure of MG Rover* led to the direct loss of almost 6,000 jobs with further jobs lost amongst suppliers and former dealers over subsequent months and resulted in substantial costs for the Company's creditors and for the taxpayer. On the basis of a report by the Comptroller and Auditor General, *The closure of MG Rover* (HC 1003, Session 2005-06), the Committee examined the DTI's relationship with MG Rover between 2000 and 2005, its efforts to support the conclusion of the deal with SAIC, and the effectiveness of the planning co-ordinated by the Department for the contingency of the company's collapse and the subsequent implementation of those plans by Advantage West Midlands (AWM), Job Centre Plus and other agencies, overseen by the MG Rover Task Force.

PAC Conclusion (i): MG Rover's decline between 2000 and 2004, and its ultimate collapse, cost the taxpayer around £270 million, including £90 million to modernise and diversify the West Midlands economy following BMW's decision to dispose of MG Rover in 2000. Without the efforts made by local agencies to help the local economy diversify in the years prior to the Company's collapse, the final impact of the collapse on the local economy would have been worse.

PAC Conclusion (ii): the cost to the private sector and former employees of MG Rover's collapse may nevertheless exceed £600 million. This figure comprises an estimated deficit in the Company's pension scheme of £500m, which may have to be met by the business-financed Pension Protection Fund, and £109 million owed to UK-based trade creditors.

PAC Conclusion (vi): the local agencies did well to respond quickly and effectively in the immediate aftermath of the Company collapse. The agencies paid statutory redundancy money and benefits well within the normal target times and increased their capacity to provide advice and services to the 5,300 people made redundant immediately in April 2005. They showed how local agencies can respond effectively to an impending crisis by drawing up plans well in advance.

2. DTI accepts the Committee's findings and welcomes the positive conclusions regarding effectiveness of the response to mitigate the impact of the collapse of MG Rover. The Department agrees that work instigated by the 2000 Task Force to reduce the reliance of the supply chain on MG Rover was a considerable success – the number of firms dependent on MG Rover for more than 20% of their business had declined by more than 50% by 2005. The Department also agrees that the response to MG Rover's collapse overseen by the 2005 Task Force has considerably mitigated the impact on former employees, suppliers and the local economy. By July 2006 over 4400 former MG Rover and supply chain employees making claims to benefit at the point of redundancy were in new employment and the supplier support package had provided advice to some 550 companies and helped save

over 2500 jobs. This is testimony not just to the work of Advantage West Midlands, Job Centre Plus and other partners since the company's collapse, but also to the effectiveness of the prior contingency planning co-ordinated by the Department. The Department would also note that the introduction of the Pension Protection Fund will ensure that former employees are significantly better placed as regards pension payments than would previously have been the case.

PAC Conclusion (iii): the Directors of Phoenix Venture Holdings received £40 million from the Company between 2000 and 2005. The Department has appointed company inspectors to investigate MG Rover's affairs.

3. Conclusion (iii) is a statement of the factual position.

PAC Conclusion (iv): the Department responded effectively where it had contingency plans, for example arranging the immediate support for former employees following the collapse, but not on some other aspects. There were serious gaps in the Department's detailed planning, for example how it might assist a going concern sale if MG Rover went into administration. Where a major company is at risk, the Department should develop a planned response in good time, which is included in the Department's top-level risk register and revisited regularly as events unfold. In this case, the Department was too distant from the company.

4. The Department welcomes the Committee's recognition of the effectiveness of the contingency plans it prepared. It considers that these properly addressed the principal risks that MG Rover's position presented for the Department, and that this was born out by events, in particular the effectiveness, acknowledged by the Committee, of its handling of MG Rover's request for a bridging loan and the roll-out of the support package for suppliers and employees. It does not, therefore, agree with the Committee's conclusion that there were 'serious gaps' in its plans.

5. As far as the post-administration situation is concerned, the Department considers that its actions were entirely appropriate: its loan to the administrators to meet MG Rover's operating costs for a week was justified in order to enable options to be pursued quickly for the sale of the company as a going concern and to enable the position of the workforce to be resolved in an orderly manner; and it took care to position itself entirely properly vis-‡-vis the administrators, passing to them all relevant information (including indications of interest it received) and addressing queries put to it by prospective bidders, but without at any point seeking to interfere with the administrators' decision-making process. The Department did consider the post-administration scenario in advance and finds it difficult to see how additional prior work would have made a material difference – it would, for instance, have been impossible to do any active exploration of potential going concern purchasers without compromising both the commercial confidentiality of the SAIC negotiations and the subsequent independence of the administrators. Whilst the Department believes that it identified and was able to take appropriate action in time against the main risks, it does accept, however, that better use could have been made of its formal risk management processes as a mechanism for escalating corporate awareness of the position as it developed over time.

6. The Department accepts that its relationship with the Company between 2000 and 2004 was not as close as it would have liked. The Department did make efforts actively to manage a relationship with MG Rover, with some success at working level, and, as acknowledged in the NAO report, had always offered support in pursuit of possible deals. But MG Rover Directors were reluctant to engage in meaningful discussion of issues of strategic importance, such as financial performance and high-level business planning, and only occasionally took up offers of help with the pursuit of possible partnerships. As the negotiations with SAIC neared a critical point, the Directors' attitude towards assistance became more positive, and the Department responded.

PAC Conclusion (v): the Department does not normally advise HM Revenue and Customs on the ability of a company to meet its tax obligations. If exceptionally it does so, it should be careful not to risk any appearance of compromising the impartial administration of tax by HM Revenue and Custom. The advice and any discussion should be formally recorded.

7. The Department agrees with the Committee. It should be emphasised that HM Customs and Excise and the Inland Revenue dealt with MG Rover on the same basis as they would any other corporate taxpayer, pursuing and managing debts in accordance with the relevant departmental guidance at the time, and DTI did not at any time seek to compromise the independence of their decision-making processes. The Department agrees that is important that this should be made clear should exceptional circumstances justify similar representations being made in future, and that such representations should be formally recorded.

PAC Conclusion (vii): a year on from the collapse over 4,300 people who lost their job were back in work, but around 2,000 former MG Rover and supply chain employees still have to find work. Although the MG Rover Task Force has been wound up, Advantage West Midlands, and Job Centre Plus should continue to report the number of former employees still unemployed. Advantage West Midlands should also report on the nature of the work obtained by former employees and the success of initiatives to re-train people for other occupations.

8. The Department continues to receive up to date employment statistics for former MG Rover and supply chain employees from Jobcentre Plus who are in receipt of training information from the Learning and Skills Council. The latest statistics show the number of former MG Rover and supply chain employees who have found new employment, number who are receiving jobseekers allowance and the number who are in training. The latest available employment statistics for July 2006 shows that 4438 former MG Rover and supply chain employees have found new employment, 980 are registered for Jobseekers Allowance and 294 are in training.

9. Provision has been made for the evaluation of the support package.

PAC Conclusion (viii): in 2000, 161 companies in the UK had been dependent on MG Rover for over 20% of their sales. By 2005, the figure had dropped to 74 companies, of which 57 were in the West Midlands. The Department should disseminate the lessons learned from diversifying the West Midlands economy to other regions or public bodies with a responsibility for supporting the development of local economies.

10. DTI agrees that the lessons learnt from diversifying the West Midlands economy should be disseminated more widely. As part of the response to the MG Rover Task Force the DTI will be working with other Government Departments to develop a framework for responding to major company failures and the diversification of a supply chain will be an element of the framework.

Sixtieth Report

Home Office

Resource Accounts 2004-05 and follow-up on Returning failed asylum applicants

1. On the basis of the *Report of the Comptroller and Auditor General on the Home Office Resource Accounts 2004-05* the Committee examined the Home Office on the factors leading to the National Audit Office's (NAO) disclaimer of opinion on the Department's accounts. This was because the Department was unable to submit its accounts in time for the audit to be completed to the statutory timetable. The Comptroller and Auditor General also reported that his examination was limited because proper books and records had not been maintained by the Department.

2. On the day before the Committee hearing, the Home Office sent a letter of apology to the Committee, correcting information, which it had previously provided to the Committee on the number of foreign national prisoners released from custody, without consideration for deportation. Consequently the Committee questioned the Department on the action taken following issue of the NAO's report *Returning failed asylum applicants* in July 2005 and subsequent PAC hearing in November 2005.

On Home Resource Accounts 2004-05

PAC conclusion (i): The Department failed to reconcile its in-house cash records with its bank statements and wrote off a difference of £3 million as administration costs without further investigation. To safeguard against fraud and financial mismanagement, the Home Office needs to reconcile cash at least monthly, investigate large or unusual entries, and not write-off unexplained differences.

3. The Home Office accepts the need to reconcile cash at least monthly and to investigate thoroughly large or unusual entries.

4. The Department experienced some technical problems in relation to cash management when our new accounting system was first installed in May 2004 and this hampered the cash reconciliation process.

5. When first attempting to reconcile the Paymaster General bank account for 2004-05, a difference was identified between cash at the bank and Home Office records. To assist internal investigations into the reason for the difference, the Department employed a technical specialist. Following his analysis of the reason for the disparity, a £3 million difference remained. In the first draft of our resource accounts this was shown as a write-off. However, following discussions with the NAO, further work was done by an Oracle consultant to identify the reason for the difference. Errors were identified and adjustments were made to a subsequent draft of the accounts in order to account correctly for all of the £3 million.

6. The Department has now addressed the cash reconciliation problems:

- cash reconciliation, in respect of the Departments main bank account (the Paymaster General account) for 2004-05 and 2005-06 has been completed, to the satisfaction of the NAO;

- the Home Office enlisted a firm of accountants (Ernst and Young) to reconcile its Commercial bank accounts. They completed the reconciliation up to the end of March 2006 and the accounts team have now taken over responsibility for this monthly exercise. The reconciliation is currently being reviewed by the NAO;

- the accounts function has been restructured and relocated. Responsibility for cash management has been re-assigned;

- the cash reconciliation process has been reviewed and improved;

- the Department is now performing monthly reconciliations on a timely basis and is systematically addressing a small un-reconciled difference on the Paymaster Account. These reconciliations will be reviewed by the NAO.

PAC conclusion (ii): The Home Office's financial records did not provide an audit trail of original documentation, which could be clearly and easily linked to entries appearing in the accounting system. The Department cannot expect to meet even elementary standards of financial control unless it maintains all the necessary supporting documentation in readily accessible form.

7. The Home Office accepts that keeping a proper audit trail of documentation is essential.

8. The Department commissioned Ernst and Young (E&Y) to complete a review of the 2004-05 Resource Accounts process. E&Y presented their findings to senior management in April 2006. A significant amount of work has already been done to implement the recommendations made by the NAO and by E&Y in areas such as debtors and creditors and fixed assets.

9. A Financial Improvement Programme is now in place to consolidate this work and continue the drive to strengthen our controls and processes to underpin a robust audit trail. Filing systems related to the accounting system are being reviewed and procedures are being revised to ensure that documents can be readily referred to when required. Vigorous transaction testing is being undertaken by the NAO as part of the audit of our Resource Accounts for 2005-06 and we are learning further from this exercise.

10. We are determined to build on this progress and intend to make further significant enhancements to the efficiency and effectiveness of the accounting system during 2007-08.

PAC conclusion (iii): The Home Office did not fully understand how to use the functions of its new finance system and failed to mitigate the risks inherent in its implementation. Instead of reaping the promised benefits, including greater efficiency and control, and improved timeliness and quality of information, the Home Office lost even the tenuous grip on its finances, which previous outmoded systems had provided. It needs to produce a formal action plan in response to the Ernst and Young review, giving priority to the redesign of the financial management system and the simplification of business processes, and proper training of staff to understand the finance system they are expected to use.

11. The Home Office agrees that steps need to be taken to strengthen financial management, as part of our financial improvement strategy, which is now being implemented. Even during the problems we faced with the new financial system, we nevertheless maintained tight budget discipline, living within the spending limits set by Parliament and HM Treasury.

12. The Home Office welcomes the acknowledgement that it significantly reduced the risks associated with implementation of its new (Oracle) accounting system by limiting the amount of technical customisation.

13. The Department accepts however – and regrets – that there were some serious transitional problems in introducing the new system. As a result the full potential of the accounting system has yet to be realised. A significant amount of work is now being undertaken in response to both the NAO and E&Y reports. The Department's Financial Improvement Programme comprises four phases. These are: consolidate, stabilise, sustain and building excellence. The consolidation phase is well underway. Well-trained, qualified staff are documenting, assessing and redesigning the processes around the financial management system. As the system and processes are becoming better understood, it is enabling improvements in processes and data quality to be made, thereby laying the foundations for long-term sustainable improvement. We anticipate that we will move into the 'sustain' phase in April 2007 and the 'building excellence' phase by September 2007.

14. Additional guidance and training is being provided to Finance staff. In particular, finance and procurement instructions are currently being reviewed and updated and a new Finance Manual will be formally launched in December 2006.

PAC conclusion (iv): Failure [to produce auditable financial statements for 2004-05] reflects a lack of high-level attention to accounting requirements and a poor sense of their corporate importance. Achieving a clear audit opinion will depend not only on having enough qualified accounting staff, but will also require a strong corporate emphasis on the importance of accurate financial information, both to account for public funds and to manage resources effectively. Staff now need to be trained to understand the new [accounting] system, convinced that senior management are committed to making it work, and given the confidence to use the enhanced capability it provides.

15. The Home Office fully accepts this recommendation. The Department's Reform Plan was launched in July 2006. It makes it clear that the Home Secretary, Permanent Secretary and the Home Office Board place the highest importance on effective finance systems.

16. Our Financial Improvement Plan includes a range of measures to strengthen our financial control framework and processes. A project management approach has been introduced to secure accurate and timely accounts. Our aim is to reduce the qualification for the 2006-07 Resource Accounts and if possible, to have unqualified accounts, laid in accordance with the early closing timetable for 2007-08.

17. The following action has already been taken:

- the financial accounting function has been relocated and there has been significant restructuring within the Accounting and Finance Unit;
- the number of professionally qualified staff involved in accounts production has more than doubled, more are being recruited and a training programme is in place so that all staff are appropriately skilled;

- the accounts production process has been strengthened. It now includes a documented management review process prior to transmission to the NAO for formal audit scrutiny. As part of this process, analytical reviews are undertaken to test the robustness of the figures, to identify and test anomalies and to bring forward solutions;
- a strong leadership team is in place and an Assurance Board has been set up to provide regular and systematic oversight of the improvement programme. The Board includes representatives from the National Audit Office, HM Treasury and Audit Committee. The Audit Committee and Permanent Secretary oversee progress of the programme;
- a senior advisor on financial management has been recruited from HM Treasury to help drive forward the wider Financial Management reform programme.

On returning failed asylum applicants and foreign criminals:

PAC conclusion (v): The Home Office should, in future, review all foreign national prisoner cases at the beginning of their custodial sentence to prepare for immediate removal of those offenders recommended for deportation on their release from custody. To meet these challenges, the Home Office needs to:

(a) direct staff in HM Prison Service and the Immigration and Nationality Directorate to review all cases of foreign national offenders at the beginning of their custodial sentence to prepare for immediate deportation on release from custody, resolving obstacles, such as travel documentation issues, at the earliest opportunity;

(b) increase through recruitment, training or redeployment of staff the resources allocated to the timely removal of foreign national offenders recommended for deportation, prioritising the removal of those convicted of the most serious crimes. At the same time it needs to maintain momentum on the asylum removals programme as a whole, using monthly progress against its 'target to remove within 28 days' to measure improvement.

18. The Home Office is taking forward comprehensive action to improve arrangements for the deportation of foreign national prisoners. As our first priority, procedures have been established to ensure that no foreign national prisoners (FNPs) eligible for deportation are released from custody without first being considered for deportation. Prison Service Order (PSO) 4630, outlining procedures and actions relating to foreign national prisoners, has been revised and reissued. The PSO emphasises mandatory requirements for prisons, including the notification upon first reception of a foreign national prisoner to IND.

19. The Department is taking steps to improve the early identification and documentation of foreign national prisoners as soon as feasible within the criminal justice process. A pilot of Immigration and Nationality Directorate (IND) teams in prisons with high volumes of FNPs has commenced at HMP Canterbury and HMP Bullwood Hall. The Criminal Casework Directorate (CCD) in IND has had a fivefold increase in staffing, from 95 in 2005 to around 550 currently, and is working on an end-to-end case ownership model to increase its productivity. From April next year the Department expects to see cases being considered progressively earlier in their sentence.

20. Other improvements to the system.

- the Department changed the Immigration Rules on deportation at midnight on 19 July to confirm that deportation should be the norm for FNPs, and that factors other than our international obligations would only rarely weigh against their removal;
- the Home Secretary has announced that the Department will change the law to make the link between criminality and deportation stronger and more straightforward. The legislative proposals will be included in the forthcoming immigration and asylum bill;
- multi agency agreements have been set up across the Scottish and Northern Irish Criminal Justice Systems for identifying and referring Foreign National Prisoners;
- the National Offender Management Service (NOMS) is interviewing foreign national prisoners who qualify to transfer to serve their sentence in their home country;
- Prisoner Transfer Agreements are being negotiated with more foreign governments;
- arrangements have been put in place to ensure that mentally disordered offenders who may have their restrictions lifted or be discharged from hospital should be considered for deportation when their formal restriction is due to end;
- the Department has commenced development of a comprehensive approach to identity management across all Home Office areas.

PAC conclusion (vi): The Department should record in a single, central electronic database accessible both by HM Prison Service and the Immigration and Nationality Directorate the identity and nationality of these prisoners, what crimes they have committed, where they are being detained, the length of their sentence and progress in considering them for deportation.

There were errors, omissions and inconsistencies in the Home Office's oral evidence, and in subsequent supplementary written evidence to this Committee during our hearing on *Returning failed asylum* applicants. The frequency with which the Department has revised its data in recent weeks on the number of foreign prisoners released without consideration for deportation is indicative of the Home Office's apparent inability to put accurate information into the public domain. Not only did it take the Department six months to supply some of the supplementary evidence requested by this Committee, but it has since revised and re-categorised the data several times to correct errors and inconsistencies, and still cannot be certain that the data is accurate.

21. The Department recognises the importance of sharing biometric and biographical data between the Immigration and Nationality Directorate and prison databases.

22. IND is working with the National Offender Management Service to identify longer-term data-sharing solutions. Work is currently being undertaken by NOMS to enable increased sharing and comparing of data with the IND database.

23. On 19 July 2006 the Minister for Immigration, Citizenship and Nationality (Mr Liam Byrne) updated the House on the Department's intention to develop a unique personal identifier to link individuals who come in contact with the asylum and immigration and criminal justice systems.

24. The Home Secretary has previously set out the difficulties IND faces in terms of data management. As part of the response to the Home Office Reform Action Plan and the IND Review, IND is working to improve data quality and the way management information is collected, analysed, shared and used across the organisation. Work is in hand to identify strengths and gaps in the current quality of data and quality control. Together this will underpin IND's overall information management strategy and inform the Home Office's future information system and technology needs.

On the management of Home Office business

PAC conclusion (vii): Deficiencies in the Home Office's migration to its new financial management system and in its management of foreign nationals on release from custody are the latest in a series of management shortcomings. The Department needs to address the factors, which impede delivery or undermine effective management of its business. In particular, it needs to co-ordinate the operations of the separate strands of the business and establish clear lines of accountability for delivery.

25. The Department's reform plan for "From Improvement to Transformation" was published on the 19 July. This set out proposals for transforming the Home Office's governance, structure, culture, systems, processes and capabilities.

26. Our stated aim is a Home Office:

- organised to support effective front line delivery and high performance;
- with resources matched to priorities;
- and systems which work and make delivery;
- where people are skilled, involved, take responsibility and are determined to make a difference.

27. The reform programme is being carried forward by 29 projects across the Home Office and into each business area. A high priority for the programme is to create a stronger capacity for coordinating policy and operations across the Home Office, while retaining clear accountabilities at all levels.

PAC conclusion (viii): The Home Office needs leadership, clear strategy and, above all, effective delivery if it is to restore public confidence in its ability to meet its objectives. The Home Secretary has announced that the Accounting Officer is to address poor performance, weak delivery, inadequate leadership and silo working as a matter of urgency. When we next take evidence, the Accounting Officer will need to demonstrate that his Department has made a convincing start on the fundamental changes in attitudes and methods required to deliver a business-wide transformation in the effectiveness of the organisation.

28. The Permanent Secretary is personally leading the implementation of the Home Office reform plan described in the answer to the previous conclusion. This is a long-term reform programme, which is designed to restore public confidence in the Home Office's ability to meet its objectives.

29. The Action Plan set out a number of milestones for the end of September and a further set for the end of December. An early priority was the creation of a stronger leadership team at Board and Director level.

30. The Home Office plan is underpinned by a detailed plan for improving the performance of IND, which was also published at the end of July. This contains seven programmes for change designed to simplify INDs legislative framework, improve accountability and delivery, develop strong leadership, establish excellence in the basics, become a leading implementer of new technology, demonstrate excellence in partnering, and inspire a culture of public service passion and pride in IND. Implementation of this change programme is well underway.

Sixty-third Report

HM Treasury

Delivering high quality public services for all

1. The Government welcomes this report, which draws on the experience of the Committee of Public Accounts over the last five Parliamentary sessions. The Government values the Committee's considered advice, reflecting evidence gathered at hearings on a wide variety of subjects of public interest and encompassing both good and less good examples of public service delivery.

2. The government believes that the 63rd report is a positive contribution towards the delivery of high quality public services. The Government takes the recommendations of the Committee very seriously, and accepts their thrust. The government takes equally seriously the overarching lessons that can be learned from a compendium view of the Committee's work over a period of time. This report helpfully draws out 10 steps to successful and high quality services that fit well with the agenda the Government is pursuing with the 2007 Comprehensive Spending Review (CSR). This clarity of the Committee's expectations will help public bodies to test for themselves the design and delivery of their services against the Committee's expectations.

3. In the foreword to *Releasing the resources to meet the challenges ahead: value for money in the 2007 CSR* the Prime Minister and the Chancellor of the Exchequer noted that "Modern and efficient public services driven by the needs and choices of the public themselves are at the heart of our commitment to a country in which economic prosperity and social justice go forward, hand in hand." The 63rd report has a similar theme about the needs of the public as a key driver in delivering public services.

4. Recognising that increased resources alone are not enough to transform the performance of public services, the Government has established an ambitious programme of reform designed to raise standards of service, reduce inequalities and increase user satisfaction. The Government will take the opportunity of the CSR to build on progress to date and look to do more to embed user engagement, incentivise responsive public services, and strengthen accountability and improve delivery using public service agreements (PSAs).

5. This Treasury Minute discusses in more detail the ten steps identified in the 63rd report and their implications for the delivery of high quality public services. Examples are used to illustrate how the Government is already seeking to apply each of them. However, delivering public services sometimes requires careful balancing of different aspects of the public interest. So the Minute also considers some of these tensions that can arise, and the ways in which an appropriate balance has to be secured.

Involving the service user in designing public services.

Step 1: understands the needs of its customers

Step 2: designs its services in the light of this understanding.

Step 3: consults with users regularly.

6. The Government agrees that understanding user needs is important for increasing the quality of public services – including the effectiveness of outcomes, efficiency, user satisfaction and service diversity. Government makes significant investment in understanding the needs of public service users. User engagement already features across public services. In local services, engagement at the community level takes place using a diverse range of mechanisms, for example through Neighbourhood Panels, Parish Councils, Tenant Management Organisations. The Local Government White Paper, published in October, builds on these mechanisms, in particular extending the community call to action to all public services, and introducing a duty on local authorities to secure citizen participation. User engagement at the level of the individual user also takes place, for example in some health and education services. Building on this progress, in the CSR, the Government will take further steps to foster greater user engagement including by further developing Government's performance management framework.

7. Boxes 1 and 2 set out examples of understanding user need and significantly reducing burdens on the user in the first case and radically improving service provision in the second.

8. A particular tension that the Government has to grapple with in understanding the needs of users is that there is often not a direct relationship between consuming the service and paying for it, for example, demand may well outstrip what government can afford to supply. Providing value for money in public services means that government has to take some decisions on behalf of both the service user and the taxpayer, both of whom are in different ways users of public services.

Box 1: understanding customer need: the Small Business Service.

Evidence indicated that businesses wanted a simplification in the implementation of regulations affecting them. In 2004 the SBS consulted on the extension of common commencement dates to all areas of regulation affecting business, so that businesses would be aware of when regulations are introduced and be able to familiarise themselves with regulatory changes on only two dates a year. The Chancellor of the Exchequer announced in the Pre Budget Report 2004 that this would be extended to apply to all Departments. The Regulatory Impact Assessment estimated that this would save business between £10 million and £20 million each year.

Box 2: designing a service to better meet customer demand: the National Archives.

The National Archives is driven by its customers' increasing appetite for historical research material and their expectation of fast, efficient delivery, to make the nation's history accessible to the widest audience possible, including schoolchildren, academics and family historians.

On 1 August 2006 The National Archives launched Digital Express – a rapid, online scan-on-demand service for copies of original records. No comparable service exists anywhere in the UK archival sector. Traditionally, providing copies of records to remote customers involved a complex process of requests, estimates, deposits, and balance payments. Digital Express took inexpensive, off-the-shelf consumer electronics, reused an existing online file delivery sub-system and bolted on a very simple customer front end to provide a simple, cheap, easy-to-use service. Rather than days and weeks, orders are now completed within four working hours, and for a fee considerably smaller than that charged for traditional delivery methods.

9. The Government is committed to user engagement as part of the process of designing and delivering public services. Only by engaging users and understanding what they want can the government deliver diverse services that are appropriate to, and designed around the needs and preferences of individuals, communities and businesses. User engagement can help make public services into a mature partnership between government and citizen, improving the achievement of service outcomes.

10. Box 3 sets out an example of community engagement impacting on delivery of public services. On occasion public opinion and the evidence from relevant experts may diverge, perhaps because of differences in perception of risk and the government must manage this diversion of opinion. This may arise for example when considering health threats to the well being of the general population where the government has to beware of the risk of a disproportionate reaction to threats.

Box 3: consultation informing delivery of public services: Community Justice Centre, North Liverpool .

Since October 2005, the criminal justice system in North Liverpool has operated a multi-jurisdictional courtroom, which brings together the Police, CPS, Probation and Youth Offending Teams in one building. There are also on-site advice and support services to tackle the underlying causes of offending.

The (one) Judge at the Criminal Justice Centre in North Liverpool leads regular community adult and youth advisory groups. The adult group includes residents and representatives of local businesses from across North Liverpool. Each group is able to talk about local problems with crime and anti-social behavior (ASB), discuss the types of services and activities run by the Centre to make sure they fit local need, and to suggest types of unpaid work to be carried out by offenders. The youth group gives an insight into what is going on with local teenagers; what would help them to stay out of trouble, what effect the criminal justice system is having and how the work of the Centre could be improved.

Steps taken to tackle the problems raised by the groups are fed back during meetings. One example of how the work of the Centre has changed following local discussion is the addition of domestic violence cases to the court list.

Delivering services.

Step 4: introduces robust and well-developed arrangements for delivering services.

Step 9: balances not over-burdening service users with rules and demands for information with the need to safeguard public money.

Step10: does what it says it will – over and over again.

11. The Government agrees that arrangements for delivering services should be robust, suited to user needs, and deliver consistently without overburdening users with rules and demands. Increasingly delivery arrangements are relying on Information and Communication Technology (ICT). The Office of Government Commerce is critical to helping government achieve greater success with IT projects. Box 4 illustrates a case of developing delivery arrangements whilst maintaining robustness and Box 5 illustrates an example of a service repeatedly meeting user needs under pressure.

Box 4: developing delivery arrangements: National institute for Health and Clinical Excellence.

In response to concerns that NICE took too long to produce guidance on newly licensed drugs it introduced in November 2005 a new single technology appraisal process, which while faster still has all the robustness and weight of full NICE guidance. As a result, patients will be able to benefit more quickly from newly licensed drugs.

This fast-track process has the potential to significantly reduce the amount of time between a drug being licensed and NICE guidance being available to the NHS.

12. Again the Government has to manage trade-offs here, notably between innovation and reliability. When introducing innovative means of delivery, especially using ICT, it is important to test sufficiently before going live. But even with adequate testing, new systems can take time to bed in. Nevertheless the Government must strive constantly to improve service delivery.

Box 5: delivering as promised, over and over again: HM Revenue and Customs.

HMRC saw record levels of online filing of Self Assessment tax returns during the peak filing period of January 2006. It encountered no major system performance issues and customers were able to file online successfully throughout the peak.

The infrastructure handled very high hourly peak volumes: on the morning of Monday 30 January, it processed 8,700 returns an hour, or almost 150 per minute.

Step 5: employs and motivates capable staff, especially on the frontline.

13. The government agrees that having motivated and capable staff is essential. Since the autumn of last year, the new Public Sector Pay Committee has been ensuring that pay deals across the public sector strike the right balance between rewarding and motivating staff, and being affordable. In addition to setting pay, there have been a number of initiatives to develop staff and equip them with the right skills for the job. For example the government's *Professional Skills for Government* programme is a skills strategy for the whole of the Civil Service, where all staff will be expected to have the professional skills and experience needed to do their jobs well.

Monitoring services.

Step 6: monitors service performance and learns lessons so it can innovate.

Step 7: provides redress when things go wrong.

14. The government agrees with the importance of these steps. They will be brought out more clearly than ever in the revised *Government Accounting* for release in 2007.

15. Monitoring of service performance is important, as is openness about performance. But care is needed to avoid establishing perverse incentives lest achievement of a particular performance target should take priority over quality of service. This is particularly a risk when individual or corporate financial incentives are attached to performance targets. As part of the CSR and the evolution of the PSA framework, the Government will seek to incentivise responsive public services by ensuring that central bureaucracy does not crowd out local ability to deliver in a responsive and innovative way by continuing to rationalise the number of indicators that underpin PSAs and attaching national-level targets only where this is the most effective way to drive delivery.

16. The Government also agrees that when things go wrong, corrective action should be taken promptly and effectively. Services should therefore evolve and respond to user feedback and user satisfaction, improving and learning both from users' experience and from other service deliverers. There should be appropriate arrangements for redress whilst avoiding the dangers of a compensation culture, which would not be in the overall best interests of the public purse or society generally. Box 6 illustrates a complaints process being used to meet customer needs and to inform improvement in service delivery.

Box 6: monitoring and responding to complaints: Disability and Carers Helpline.

The Disability Service has a well-defined and publicised complaints policy, understood by all staff. Complaints are regarded as a valuable source of customer feedback. All are recorded and responded to within clearly defined timescales and where appropriate referred for consideration of financial re-dress. A monthly summary of the complaints received is circulated throughout the organisation to allow relevant parties to consider changes to their processes to prevent a recurrence of the actions generating complaints.

Step 8: publicises services and performance levels to all users.

17. The Government agrees that publishing service performance is important. Making services accessible to those who need to make use of them is a key element in maximising the benefit that can be obtained from public expenditure. One example is illustrated in Box 7.

18. Through the CSR, we will look to do more to shift accountability so that service deliverers are more directly answerable to the public they serve. We will give citizens the information they need to know how local public services are performing, by ensuring that timely data is published regularly on key indicators and can be easily accessed by all.

Box 7: improving service access: Ufi UK online centres programme.

The UK online centres programme was started in 2001 to provide computer access to people in the community and to help them learn new skills. Centres are located in libraries, community centres and schools. There are now over 6000 UK online centres in a single network giving large numbers of people access to the internet and e-government services. The centres have made significant contributions to helping people access education and develop new skills, and consequently to join the workforce as well as having a major impact on social exclusion by making ICT available to people who could not afford it for themselves.

19. Taking all the recommendations in the 63rd report together, the Government shares the Committee's view that consumers of public services should be able to expect sound standards. It will never be possible to provide everything that every user could want within the funds available. But the Government is determined that what can be provided is of good quality and responsive to users' needs.

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