



House of Commons
Committee of Public Accounts

**Increased resources to
improve public
services: a progress
report on departments'
preparations**

**Forty-second Report of
Session 2003–04**

*Report, together with formal minutes,
oral and written evidence*

*Ordered by The House of Commons
to be printed 21 July 2004*

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The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Allan MP (*Liberal Democrat, Sheffield Hallam*)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Mrs Angela Browning MP (*Conservative, Tiverton and Honiton*)
Jon Cruddas MP (*Labour, Dagenham*)
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Mr Gerry Steinberg MP (*Labour, City of Durham*)
Jon Trickett MP (*Labour, Hemsworth*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)

The following was also a member of the Committee during the period of this inquiry.

Mr George Osborne MP (*Conservative, Tatton*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Leslie Young (Committee Assistant), and Ronnie Jefferson (Secretary).

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Summary

Introduction

In July 2002, the Chancellor announced an increase in public spending of some £61 billion over three years, targeted at improving key public services. If such large increases in funding are not properly managed there is a risk that resources will be wasted on misdirected effort, uncoordinated activity or an expansion in unnecessary bureaucracy. Opportunities for better public services will also be lost if additional funding weakens financial discipline and control. Departments need to target their extra resources at increasing the number of front line staff and improving the infrastructure and equipment needed to deliver more and better services for the citizen, while curbing wasteful expenditure on overheads and unnecessary bureaucracy.

There are a number of key issues that departments need to manage if they are to convert successfully their increased resources into better public services. If departments minimise the complexities of their service delivery chains then fewer resources will be wasted on unnecessary bureaucracy. By securing more equitable access to improvements departments should be better placed to manage the risk of unacceptable differences in the quality of public services locally. Through better planning and investment there are more likely to be sufficient numbers of skilled front line staff so that improvements in public services are sustainable in the longer term. By having reliable information including benchmarking and productivity measures departments should be in a stronger position to identify and tackle poor quality services quickly and also to demonstrate where performance is improving.

The three largest recipients of the extra funding are the Department for Education and Skills, the Department of Health and the Department for Transport. Based on a Report by the Comptroller and Auditor General,¹ we took evidence from these departments on three main issues relating to how they are using their extra resources: the complexity of their service delivery chains, how they can secure further improvements in service quality, and how they measure their progress in improving service quality.

1 C&AG's Report, *Increased resources to improve public services: a progress report on departments' preparations* (HC 234, Session 2003–04)

Conclusions and recommendations

- 1. The three departments need to gain assurance that their delivery partners have sufficient capability and capacity to deliver services effectively.** All three deliver services indirectly through a network of agents and partners and, if they are to identify and manage the risks of delivering through such partners, each department needs to undertake regular appraisal of their partners' strengths and resilience, and to secure a clear view of the constraints and opportunities they face. The Department for Transport, for example, relied on Railtrack to deliver upgrades to the West Coast Mainline but mismanagement led to serious cost and time overruns.
- 2. The departments should work to simplify complex delivery chains and financing mechanisms, and establish a direct link between funding and the specific improvements in service quality they expect the resources to deliver.** Schools for example, are funded through many channels including the Department, local authorities and the Learning and Skills Council. By aligning more closely increased funding to specific objectives and targets for improved service quality the departments will be in a stronger position to gauge whether resources are being used effectively.
- 3. Departments need to be satisfied that expenditure on higher salary levels is genuinely needed to attract more skilled or highly qualified staff.** Otherwise additional resources for service improvement can tend to leak away into higher pay without matching productivity improvements.
- 4. The Departments of Health and Education need to balance devolving responsibility for service delivery to the local level with not letting wider service improvement be jeopardised by pockets of poor or failing performance.** In devolving responsibility departments seek to respond to the demands and expectations of service users at the local level. They need, however, to retain sufficient leverage, including contingency plans, so that they can take prompt action to deal with unacceptable variations in service quality.
- 5. The Department of Health needs to engage with those delivering services directly to the public to identify and tackle the reasons for any unacceptable disparities in service quality.** They need to understand the reasons why the quality of services provided by some delivery agents is better than that provided by others, for example the variability in the quality of services delivered by GP practices. Where disparities are unacceptable departments need to incentivise, provide support and, where necessary, penalise delivery agents to bring up their level of performance to that of the best performers.
- 6. In addition to international comparisons the three departments should make use of the information on the performance achieved by their equivalent organisations in Scotland, Wales and Northern Ireland.** Devolved arrangements have now been in place for several years providing an opportunity to examine whether new approaches are proving to be effective in delivering better quality services.

7. **The three departments need to simplify the complex web of performance targets and develop productivity measures which provide an accurate and meaningful picture of service delivery performance.** For example the Department for Education and Skills measures productivity in a way that does not reflect the extent of improvement in educational quality. For instance, productivity can be increased by making class sizes larger regardless of any impact on pupil attainment.
8. **Departments should share information on their plans to increase delivery capacity more widely among key suppliers.** Departments can find themselves competing for suppliers particularly in the construction industry when both the Department of Health and the Department for Education and Skills have significant building programmes. The Department of Health, for example, has a capital investment programme in modern buildings and equipment totalling some £15 billion over the next three years. Without careful management there can be an inflationary impact on the cost of construction for all departments.

1 Complexities in service delivery

Complex delivery chains

1. The three departments deliver services indirectly, working through complex networks of agents and delivery partners who have day-to-day contact with the public. These include non-departmental public bodies, health trusts and local authorities. Departments have to balance the objectives of devolving responsibility for service delivery to the local level with maintaining sufficient control over the quality of services that are delivered.² Where departments operate complex delivery chains they face the risk of failing to maximise improvements in service quality or taking longer to achieve them because there is more scope for funds to be diverted into less important activities and unproductive layers of bureaucracy and administration.³ **Figure 1** illustrates this complexity by showing the significant flows of funding between the organisations involved in the education sector.

2. A complex set of arrangements also exists, for example, in the delivery of rail services where the Department for Transport, the Strategic Rail Authority, the Office of the Rail Regulator, Network Rail and the train operating companies all have a role in improving service quality.⁴ There are, however, too many organisations with overlapping responsibilities involved in the provision of rail services and the Department is currently reviewing the existing set of arrangements, and will report in July 2004 on how the structures in the rail industry could be significantly simplified.⁵

3. Where departments rely heavily on other organisations to deliver services they face the risk of those organisations failing to deliver. Should departments fail to manage effectively their relationship with their service delivery partners the quality of public services will be put at risk. The Department for Transport, for example, relied heavily on Railtrack to deliver upgrades to the West Coast Mainline but the project has suffered serious cost and time overruns due to the mismanagement of the project by Railtrack.⁶

Complex funding and accountability arrangements

4. Departments' service delivery networks often also involve complex funding and accountability arrangements which have to be carefully managed so that policies designed to deliver improved services are not adversely affected. The Department for Education and Skills operates within a complicated system of funding allocation where schools for example, are funded through a number of routes including directly through the Department, through local education authorities and from the Learning and Skills Council.⁷ The Department has little control over the spending decisions taken by many of

2 Qq 5–6; C&AG's Report, para 9

3 C&AG's Report, para 12

4 Q 5; C&AG's Report, para 10

5 Q 6

6 Q 141

7 C&AG's Report, para 9

its partners, for example the wide range of funding allocations made by local education authorities to schools.⁸

5. The Department for Education and Skills recognised that its original assessment that there would be enough money for every school to receive an increase in funding had been wrong.⁹ Complexities in education funding had militated against value for money in the sector and by simplifying the mechanisms the Department would be in a stronger position to know that funding had been spent as intended.¹⁰ The Department has now put in place arrangements that it considers will, in the next two years, provide schools with minimum guarantees of money and maximum discretion as to how they can spend it whilst still providing assurance that it is being used to improve the quality of education.¹¹

Targeting resources

6. Departments need to target their resources to maximise the potential to improve services and ensure that funds are used efficiently. The Department of Health uses information produced by the National Health Service to plan its resources and allocates the specific levels of funding it considers are required to deliver defined improvements in healthcare. The Department measures the level of performance delivered by the National Health Service against a range of targets and uses benchmarking to identify how effectively the different parts of the National Health Service are performing when compared with each other. The Department also uses different levels of inspection to reveal whether or not money is being spent on the priorities for which it was intended.¹²

7. The Department for Education and Skills targets its funding through planning with local authorities and schools, setting outcomes, and intervening where performance is unacceptable. Asked about the burden of regulation placed on schools through, for example, the number of guidance circulars that it has issued, the Department accepted the importance of slimming down its systems of funding, target setting and accountability.¹³ In terms of efficiency at the local level the Audit Commission uses Comprehensive Performance Assessments to examine the quality and efficiency of services delivered by local authorities.¹⁴

8 Q 79

9 Q 9

10 Qq 118–120

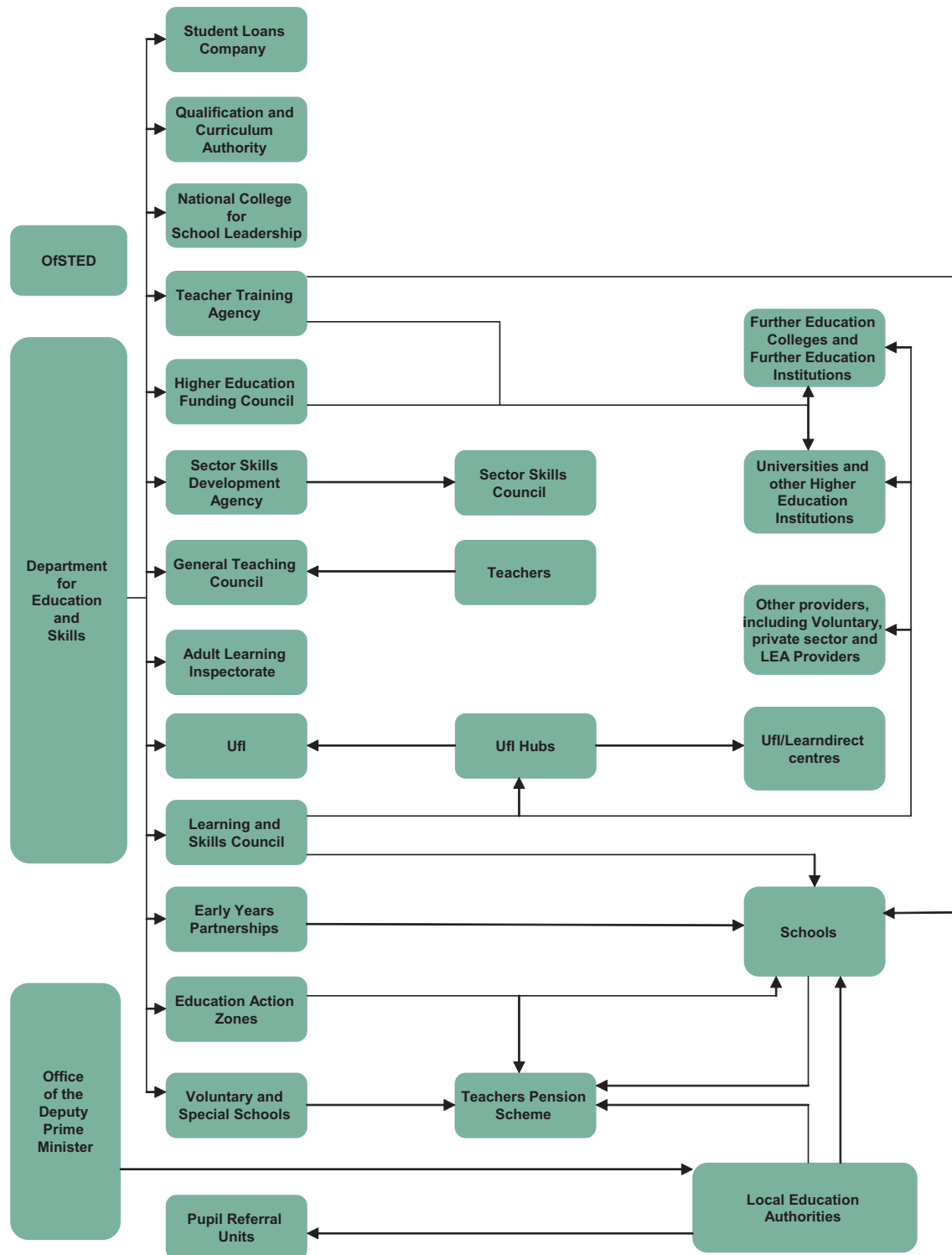
11 Qq 72, 80

12 Q 87

13 Q 83

14 Q 96

Figure 1: Significant flows of funding between organisations involved in the education sector



Source: C&AG’s Report, *Increased resources to improve public services: a progress report on departments’ preparations (HC 234, Session 2003–04)*

2 Improving service delivery

Improvements in service quality

8. The three departments provided a number of specific examples where they had improved the quality of services. The National Health Service has reduced the number of people suffering heart attacks and improved mortality rates from cancer and heart attacks, the latter in part through investment of over £1 billion annually on drugs designed to treat the condition. There have also been significant reductions in waiting times for treatment whilst NHS Direct is now used by some seven million people a year and receives very high customer satisfaction ratings. The Department for Education and Skills pointed to GCSE examination results which have improved by 1–2% every year and a 12% improvement in the proportion of children with acceptable literacy and numeracy skills at the age of eleven. In the transport sector a new rail timetable will be introduced in September 2004 that will reduce journey times from London to Manchester and Glasgow by up to half an hour and 700 new rail carriages have been introduced in those parts of the network serving areas to the south of London.¹⁵

9. While certain aspects of the performance of the National Health Service were world-class, there were other parts that had some way to go to improve performance to acceptable levels.¹⁶ Variability in the quality of services that are provided at the local level also remained. While around 90% of GP practices patients were able to see a primary care professional within 24 hours and a GP with 48 hours, the Department recognised that the remaining 10% of GP practices needed to match this level of performance and was confident that they would do so by December 2004.¹⁷

Allocating funding

10. Departments identify and bid for the resources they need to deliver improved services during Spending Reviews. Their bids are based on a range of analyses identifying what current resources are delivering and how key areas such as pay and demography are likely to influence delivery capacity in the future.¹⁸ The Department of Health allocates around 75% of funds each year to Primary Care Trusts based on the health needs of the local population and introduces adjustments to take account of how far funding levels vary from past under- or over-funding.

11. Changes in factors such as demography have a crucial bearing on the level of under- or over-funding. For example, the significant fall in the numbers of people living in Westminster will result in its funding being over-target by an estimated £75 million by 2005–06. Other areas, such as Barking and Dagenham and Ashington, are estimated to

15 Qq 53–54

16 Q 48

17 Qq 56–57

18 C&AG's Report, para 24

have funding that is significantly under-target. Where this is the case the Department of Health has increased funding to those areas by between 25 and 35%.¹⁹

12. The Department of Health and the Department for Education and Skills have taken steps to identify the impact of population growth in the Thames Gateway on the future demand for health and education services. Much of education is funded on the basis of current numbers of pupils and students but effective capital investment in the sector relies heavily on accurate projections of the growth in population.²⁰

Increasing delivery capacity

13. Departments and their partner organisations need to have sufficient capacity so that skills, equipment and infrastructure are in place quickly enough to deliver better public services. There also needs to be a strong emphasis on developing programme and project management skills, improving expertise in partnership working and increasing the ability to assess the capacity of strategic suppliers to deliver goods and services.²¹

14. The Department for Education and Skills has increased capacity by recruiting an additional 24,000 teachers and 60,000 teaching assistants since 1997 and increased capital spending sevenfold. The Department of Health has recruited 10,000 more doctors and 50,000 nurses in the past six years.²²

15. Departments have also sought to increase the capacity available to them through other means. The Department of Health, for example, has sent patients to France for treatment and used the private sector to provide services, in part to reduce the risk of inflationary pressure that would otherwise result from injecting extra resources into a system which already had constrained capacity.²³

The capacity of suppliers to deliver

16. Departments are heavily dependent on procuring a range of goods and services from private sector suppliers, for example IT systems. The capacity of suppliers to meet departments' requirements can be influenced by changing market conditions. A buoyant economy may mean that departments are in competition with other purchasers and, if they have not made effective preparations, they are more likely to be price takers with less opportunity to negotiate favourable conditions.²⁴

17. The Department of Health has structured its IT procurement in such a way so that it is not dependent on one supplier. For its integrated IT system, which covers the whole of the National Health Service, it has divided the country into five sections to see how different lead suppliers, which use different sub-contractors, compare with each other and to create a degree of competition. Where the Department of Health invites bids for providing IT

19 Qq 20–25

20 Q 27

21 C&AG's Report, para 3

22 Qq 3, 53

23 Q 8

24 C&AG's Report, paras 21–22

systems it is content to have competition between just two organisations and will award the contract to the organisation which offers the best deal.²⁵

18. The Department for Education and Skills acknowledged the work of the Office of Government Commerce in encouraging departments to work together in the marketplace to use purchasing strength to secure better value. The Department was also concerned about the risk of driving up construction costs as a result of its school building programme. It was seeking to maintain and develop the market so that the investment it makes is not swallowed up by increased costs and inflation.²⁶ The Department for Transport outlined the long term relationship between the Driver and Vehicle Licensing Agency and IBM/Fujitsu, which underpins the delivery of a variety of online services, but does not have any concerns about the general capacity of the market place to deliver.²⁷

25 Qq 32–33

26 Q 35

27 Q 37

3 Measuring progress in improving service quality

Demonstrating improvements in the quality of public services

19. Departments need to evaluate their performance using reliable and transparent information so that they can identify and tackle poor quality service, and apply good practice more widely. Balance is needed to ensure that targets, inspection regimes and data collection processes, which underpin effective performance evaluation, do not impose an unnecessary level of bureaucracy and act as a disincentive.²⁸

20. There is also a risk that some targets may have a perverse impact because they deliver some unintended outcomes. The Department for Education and Skills, for example, has a target for reducing truancy which should help prevent children and young people from being disruptive in their communities by keeping more of them in school. If a school, however, is successful in reducing its rates of truancy it may then face the problem of having less manageable classes because there are now more disruptive pupils in schools. The Department is now looking to encourage support units in schools where difficult pupils can be moved immediately to receive one-to-one supervision, so that issues relating to poor behaviour can be addressed outside the classroom.²⁹

21. Departments need to demonstrate clearly the relationship between meeting targets and improving service delivery. The Department of Health has, for example, met its target to set up NHS Direct but this does not necessarily mean that there will be a consequent improvement in health care. The Department is now looking, therefore, to see how it can most effectively develop NHS Direct so that a member of the public making a single telephone call can be directed to the most appropriate service within the NHS.³⁰ Departments also require targets that encourage them to take action to improve specific aspects of service quality. At present, for example, the Department for Transport has a target to reduce general traffic congestion to below 2000 levels by 2010, which it considers to be meaningless and wishes to abandon in favour of a set of targets to reduce congestion on specific roads.³¹

Productivity measures

22. Departments need to target their increased resources on improving the quality of public services and increasing productivity and ensure that funds are not misdirected into unnecessary overheads. Increasing pay so that departments are better placed to recruit and retain well qualified staff provides them with an opportunity to improve the quality of the services and increase their productivity. Given the scale of the increased resources that have been provided to the three departments there is, however, a heightened risk of their relaxing financial discipline. As a result the increased resources may not be used as a

28 C&AG's Report, para 42

29 Qq 14–16, 19

30 Qq 38–39

31 Q 41

means to expand staffing capacity and improve its quality but instead go to fund pay settlements for existing staff with no consequent improvement in the quality of services that are delivered or the level of productivity achieved.³²

23. There are significant weaknesses in the existing measures of productivity used by departments. In the education sector the current productivity measure views teachers and other resources going into the delivery of lessons as inputs and the number of pupils being taught as outputs. This method gives rise to a number of problems as, for example, it takes no proper account of how the quality of educational outputs is improving. Consequently the rate of productivity could be increased by making class sizes larger regardless of the impact on pupil attainment.

24. The Department for Education and Skills is examining the most effective ways of measuring the volume of school outputs whilst ensuring that quality has not fallen by using information generated annually on qualification outcomes. The Department has to overcome a number of technical difficulties such as identifying that proportion of expenditure which relates to the particular groups of children under consideration and finding an appropriate method to capture the full range of outputs from the education system.

25. The most common measure of efficiency currently used in the NHS is the Cost Weighted Efficiency Index which calculates the ratio of the growth in NHS activity to the growth in NHS expenditure. The activity measure is derived by calculating the change in activity, such as the number of inpatients and outpatients treated, weighted by their share of expenditure. Its main drawbacks are that it fails to count a large amount of NHS activity such as primary care consultations and procedures and takes no account of quality, such as better health outcomes and shorter waiting times.³³

26. As the Office of National Statistics public sector productivity measures look at the services provided directly by Government, no such measures are produced for transport. Instead the Department for Transport uses benefit/cost ratios and its Public Service Agreement targets, including its efficiency target, which requires the Department to achieve a 2.5% year on year efficiency saving.

27. The Department for Education and Skills and the Department of Health are currently supporting the Atkinson review of productivity measurement that is being led by HM Treasury and the Office of National Statistics. The Departments hope that the review will lead to the development of more meaningful measures of improvements in service quality.³⁴

Benchmarking performance between countries in the United Kingdom

28. Within the United Kingdom the four administrations use a variety of approaches to structure their networks and to deliver services. The administrations produce broadly

32 Qq 58–59

33 Qq 1–2

34 Ev 33

comparable information on the resources they have used to deliver services and the performance they have achieved and this provides departments with an opportunity to use easily accessible information to identify best practice and learn from each other.³⁵

29. The Department of Health does not generally make comparisons of performance with Scotland, Wales and Northern Ireland. It has chosen to focus on internal benchmarking of performance within England so that it can compare, for example, the performances of teaching hospitals. The Department also makes international comparisons with countries of similar sizes and similar health care systems, for example it compares performance with other countries belonging to the Organisation for Economic Co-operation and Development (OECD).³⁶ Primary Care Trusts and other NHS organisations can use the Online System for Comparative Analysis and Reporting to benchmark performance and make strategic planning decisions. The service offers information on a quarterly basis on all admissions to every provider in England which illustrates national and local admitted patient care.

30. Similarly the Department for Education and Skills benchmarks performance across England, both in terms of performance and spending and looks at the performance achieved by other countries as shown in the international league tables published by the OECD. The Department does not benchmark educational performance in any great detail with that achieved in Scotland, Wales and Northern Ireland.³⁷

31. The most recent data the Department for Education and Skills has available for making comparisons between the educational performance achieved in England compared to that in Scotland are from the April 2003 Progress in International Reading Literacy Study. This was a comparative study of reading achievement amongst 10 year olds carried out in 2001 and co-ordinated by the International Association for the Evaluation of Educational Achievement. Over 140,000 pupils in 35 countries participated, of which 17 were OECD member countries. The average performance of children in England (average score 553) was ranked third out of the 35 countries involved, with only Sweden (average score 561) ranked significantly higher. Scotland was ranked 14th out of the 35 countries with an average score of 528, significantly lower than that of England.

32. The OECD Programme for International Student Assessment of December 2001 assessed the performance of 15 year olds primarily in reading literacy but in addition included coverage of mathematical and scientific literacy. Although Wales did not participate in the study the programme showed that the average performance of England, Scotland and Northern Ireland was very similar. The only significant differences showed that England performed better than Scotland and Northern Ireland in scientific literacy and Scotland's performance in one component of reading literacy was higher than that of England and Northern Ireland.³⁸

35 Q 102

36 Qq 91–94

37 Qq 98–99

38 Qq 99–100; Ev 37

Formal minutes

Wednesday 21 July 2004

Members present:

Mr Edward Leigh, in the Chair

| | |
|---------------------|------------------|
| Mr Richard Allan | Mr Frank Field |
| Mr Richard Bacon | Mr Brian Jenkins |
| Mrs Angela Browning | Jim Sheridan |
| Jon Cruddas | Jon Trickett |
| Mr Ian Davidson | Mr Alan Williams |

The Committee deliberated.

Draft Report (Increased resources to improve public services: a progress report on departments' preparations), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 32 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Forty-second Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 8 September at 3.30pm]

Witnesses

Monday 26 April 2004

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Mr David Normington CB, Department for Education and Skills, **Sir Nigel Crisp KCB**, Department of Health, and **Mr David Rowlands CB**, Department for Transport

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Department for Education and Skills

Ev 32

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| Second Report | The new electricity trading arrangements in England and Wales | HC 63 (<i>Cm 6130</i>) |
| Third Report | The Sheep Annual Premium Scheme | HC 64 (<i>Cm 6136</i>) |
| Fourth Report | Improving service delivery: the Forensic Science Service | HC 137 (<i>Cm 6155</i>) |
| Fifth Report | Warm Front: helping to combat fuel poverty | HC 206 (<i>Cm 6175</i>) |
| Sixth Report | Department of Trade and Industry: Regional Grants in England | HC 207 (<i>Cm 6155</i>) |
| Seventh Report | Progress on 15 major capital projects funded by Arts Council England | HC 253 (<i>Cm 6155</i>) |
| Eighth Report | The English national stadium project at Wembley | HC 254 (<i>Cm 6155</i>) |
| Ninth Report | Review of grants made to the National Coalition of Anti-Deportation Campaigns | HC 305 (<i>Cm 6175</i>) |
| Tenth Report | Purchasing and managing software licences | HC 306 (<i>Cm 6175</i>) |
| Eleventh Report | Helping consumers benefit from competition in telecommunications | HC 405 (<i>Cm 6191</i>) |
| Twelfth Report | Getting it right, putting it right: Improving decision-making and appeals in social security benefits | HC 406 (<i>Cm 6191</i>) |
| Thirteenth Report | Excess Votes 2002–03 | HC 407 (<i>N/A</i>) |
| Fourteenth Report | Inland Revenue: Tax Credits | HC 89 (<i>Cm 6244</i>) |
| Fifteenth Report | Procurement of vaccines by the Department of Health | HC 429 (<i>Cm 6244</i>) |
| Sixteenth Report | Progress in improving the medical assessment of incapacity and disability benefits | HC 120 (<i>Cm 6191</i>) |
| Seventeenth Report | Hip replacements: an update | HC 40 (<i>Cm 6271</i>) |
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| Nineteenth Report | Making a difference: Performance of maintained secondary schools in England | HC 104 (<i>Cm 6244</i>) |
| Twentieth Report | Improving service delivery: the Veterans Agency | HC 551 (<i>Cm 6271</i>) |
| Twenty-first Report | Housing the homeless | HC 559 (<i>Cm 6283</i>) |
| Twenty-second Report | Excess Votes (Northern Ireland) 2002–03 | HC 560 (<i>N/A</i>) |
| Twenty-third Report | Government Communications Headquarters (GCHQ): New Accommodation Programme | HC 65 (<i>Cm 6302</i>) |
| Twenty-fourth Report | Transforming the performance of HM Customs and Excise through electronic service delivery | HC 138 (<i>Cm 6302</i>) |
| Twenty-fifth Report | Managing resources to deliver better public services | HC 181 |
| Twenty-sixth Report | Difficult forms: how government departments interact with citizens | HC 255 (<i>Cm 6302</i>) |
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| Twenty-eighth Report | Driver and Vehicle Licensing Agency: Trust Statement Report 2002–03 | HC 336 (<i>Cm 6302</i>) |
| Twenty-ninth Report | Improving public services for older people | HC 626 (<i>Cm 6303</i>) |

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| Thirty-first Report | Cambridge-MIT Institute | HC 502 (<i>Cm 6302</i>) |
| Thirty-second Report | HM Customs and Excise Standard Report | HC 284 (<i>Cm 6304</i>) |
| Thirty-third Report | Income generated by the museums and galleries | HC 430 (<i>Cm 6304</i>) |
| Thirty-fourth Report | Strategic Rail Authority: improving passenger rail services through new trains | HC 408 (<i>Cm 6304</i>) |
| Thirty-fifth Report | Early years: progress in developing high quality childcare and early education accessible to all | HC 444 |
| Thirty-sixth Report | Tackling VAT fraud | HC 512 (<i>Cm 6304</i>) |
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| Forty-first Report | Improving departments' capability to procure cost-effectively | HC 541 |
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The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Monday 26 April 2004

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Allan
Mr Richard Bacon
Mr Ian Davidson
Mr Frank Field

Jim Sheridan
Mr Gerry Steinberg
Jon Trickett
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office further examined.

Mr Rob Molan, Second Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

Increased resources to improve public services: a progress report on departments' preparations (HC 234)

Witnesses: **Mr David Normington CB**, Permanent Secretary, Department for Education and Skills, **Sir Nigel Crisp KCB**, Permanent Secretary, Department of Health and Chief Executive, National Health Service and **Mr David Rowlands CB**, Permanent Secretary, Department for Transport, examined.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts, where today we are looking at the Comptroller and Auditor General's Report on increased resources to improve public services. This is a progress Report on three departments' preparations to spend their share of the £61 billion increase in public spending announced by the Chancellor in 2002. We welcome back to our Committee David Normington, who is Permanent Secretary of the Department for Education and Skills, Sir Nigel Crisp, who is Permanent Secretary of the Department of Health and the NHS Chief Executive, and Mr David Rowlands, in what I think is his first appearance, who is Permanent Secretary of the Department for Transport. You are all very welcome. May I start with you, please, Sir Nigel and Mr Normington? I do not know whether you happened to read the *Sunday Times* yesterday, if you did not, I am sure those who brief you will have told you all about it. It argued that £20 billion worth of taxpayers' money had been wasted on wage claims and bureaucracy and that in your two departments it said that productivity has declined by some 15% to 20% in recent years. What is your comment? How are you going to reverse this slump? Is this pure speculation? Should we take this article seriously?

Sir Nigel Crisp: This is actually an issue about how we have traditionally measured productivity. We have measured productivity in terms of waiting list activity in hospitals, which is about 5% of our activity and we have put all our costs against that activity. This figure only looks at what is happening in terms of elective activity and I can show you the statistics about where else we spend money. It ignores, for example, mental health, on which

about 10% of our money goes; it ignores everything which happens in primary care, which is where about 90% of activity in the NHS takes place and so on. The issue here is that we need to move on to a new method of measuring productivity which genuinely captures what is happening within the National Health Service. This is why I understand that the Office for National Statistics had set up this review in order to make sure we could look at how we could measure productivity sensibly within the Health Service and elsewhere. A further point is that no country has the answer to this; no country has a method of measuring productivity which takes account of all those missing areas and takes account of quality as well.

Mr Normington: From the education point of view it is an exceptionally unsatisfactory measure of productivity. All it measures is the amount which is being spent on education, alongside the numbers of children being taught. If you have a policy to reduce class size, it follows that productivity falls. The only message it gives me is that on this measure, if I wanted to improve productivity, I would maybe double class sizes. It takes no account of any improvement in the outputs we are achieving in exam results, which is how I think the school system ought to be substantially measured. That is again why I am a great supporter of looking for a more sophisticated measure, one which actually measures what we are getting out for what we are putting in.

Q2 Chairman: Your answer seems to be that you are not arguing that the article is actually wrong on the face of it, you are simply arguing that the present way of measuring productivity is not

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satisfactory. That is a perfectly fair answer from your point of view. The article also said that 60% of the public believe they have not seen an improvement in public services. You may argue with that figure: I do not know. What is your comment on that point and why do you think so many members of the public remain sceptical despite your best efforts?

Sir Nigel Crisp: This will obviously take time apart from anything else. What we do is look—as we have probably seen in this Committee before—at the statistics of patient satisfaction with the service. You will have seen some quite impressive figures about the people who use the service, how impressed they are indeed with the service. We have that measure, which is showing that the people we are actually treating are generally satisfied and in many cases very pleased with the service they are providing. Those are the people we are dealing with. I agree that there is a wider issue of how that translates through into public confidence. If we do have measures of productivity which suggest we are wasting the money, that does not help us and it would be much more sensible if we did have a productivity measure which, for example, said that if an old lady was ill over winter and we kept her at home, that was a good thing to do, whereas my equivalent of Mr Normington's example of schools, is that if she is admitted to hospital three times over winter, that is a productivity improvement.

Q3 Chairman: I suppose you might argue that you have recruited 10,000 more doctors, 50,000 more nurses, for instance.

Sir Nigel Crisp: We have indeed.

Q4 Chairman: As a matter of interest, how many have left during the period since 1997?

Sir Nigel Crisp: The figures we publish are the net figures. I do not actually have an account of the number of joiners and the number of leavers. The additional numbers you talked about were a net increase, so it is a very, very substantial increase in people joining the Health Service.

Q5 Chairman: I accept that you can always respond to these sorts of questions by pointing out the good things you have done with the money, but if you were to look at page 4 of the Comptroller and Auditor General's Report, this provides an important framework for our hearing this afternoon. Page 4, Figure 1, shows the key issues requiring careful attention if increased resources are to deliver better public services. I should like all three of you to comment briefly on this, because it is really very much germane to this Committee's work: "Complexity of the delivery chain". If we are looking at transport, you have the Strategic Rail Authority, the Rail Regulator, the Health and Safety Executive and we have seen the problem with money for schools being bogged down in local authorities. If we look at the second one: "Capacity of delivery organisations" so that they can use this money, we have seen problems with the recruitment

of agency nurses. The third one is "Targeting of resources to maximise their potential" and we saw problems with the Individual Learning Accounts. "Risk management"; we have seen problems with IT. "Monitoring and evaluating performance"; we have seen the problems with the manipulation of waiting lists. This is very much germane to our Committee's work. Would it be fair comment that if you had addressed all these five issues better, you could have spent this money a lot more effectively?

Sir Nigel Crisp: That is a completely open-ended question, is it not? We have very specific plans for dealing with all of these things, not just for dealing with in future but for having dealt with, and in every case we have had considerable success in dealing with these problems. That does not mean to say we could not have done them better and that there will not be occasions when risks, which is what we are talking about here, do go wrong. We are very aware of all of these issues. We think they are the right group of issues to have been picked out and we have actions being taken on each of these five.

Mr Normington: I agree that those are the right ones. If I think back to appearances here, they have all been about those issues. I suppose that the biggest issue for us is about the capacity of the delivery chain to deliver. We, the Department for Education and Skills, deliver nothing to other people. It is all done through others. The quality and capacity of that system and its simplicity is the key here and the first two there are absolutely key to whether you get the outcomes you want and whether the money is spent effectively. I would say those are the things I and my colleagues spend a huge amount of time on.

Mr Rowlands: May I just pick up the railway since it is mentioned in this Report?

Q6 Chairman: May I just interrupt a moment? If you look at page 107, Figure 17, you will see the huge complexity of your delivery systems. There are other figures dealing with Health and Education, which can be found on pages 25 and 67. If we look at page 107, we see that there.

Mr Rowlands: Indeed and it certainly captures the complexity on the railways side. My Secretary of State has announced a review of the railway. He has acknowledged that there are too many organisations with overlapping responsibilities. We can look forward to an outcome from that review in the early part of July with some radical simplification of the structures in the railway industry.

Q7 Chairman: Sir Nigel, you have all this extra money. How can you be sure this has not just led to more bureaucrats?

Sir Nigel Crisp: We can check that by looking at the figures straightforwardly in terms of where the money has gone generally. I report on this every six months in terms of where the money has gone and the biggest amount of additional money has gone into extra activity or extra staff; some has gone into additional payments to existing staff and some to

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capital and training, things for the future. We have that breakdown. If I look at the staff, which I think is the point of your question, in this last year we have increased staffing by something like 59,000, of that number 84% are direct hands-on staff, people who have a direct role in looking after patients. I am including there not just doctors and nurses. Some people will only talk about doctors and nurses, the hands-on staff, but physiotherapists, nursing assistants, all the people who do direct care. The other 16% are the people who run the institutions, they do the cleaning, they maintain the buildings and so on and also run the organisations. Of that total 16%, only 3% are managers. That is the sort of breakdown you can see in terms of staff.

Q8 Chairman: Do you have any measure, either in terms of resources or of staff, of how much is spent on short-term solutions such as sending patients to France, because they cannot be dealt with adequately here?

Sir Nigel Crisp: One of the things we have done in terms of deciding to send some patients to France and to the private sector was, partly in response to questions from this Committee, to make sure we were not using extra money to drive up inflation. If you put extra money into a system whose capacity is constrained, people said you would drive up inflation. We have increased capacity by increasing the staffing, but also increasing the capacity we can draw on, which is one of the reasons why we are using the private sector more in this country and one of the reasons why we are using facilities abroad in order to increase capacity and make sure that we got best value out of the money.

Q9 Chairman: Mr Normington, we have had you in front of us a few times with a few disasters: the Individual Learning Accounts and school funding. Can you say you manage risks well in your department?

Mr Normington: The Individual Learning Accounts and school funding problems were serious problems. They are on different timescales and for different reasons, but I cannot say that everything has gone right; no, of course not. I can say that we have learned the lessons and we are trying to improve, trying to improve risk management particularly. Even when we manage the risk . . . School funding is an interesting example, where we did a very, very careful assessment of the school funding position, but we still got it wrong. It was not that we did not have all the factors assessed; we still made the wrong assessment that there was enough money in the system for every school to get an increase. That is what we believed would happen and it did not.

Q10 Chairman: Mr Rowlands, if you look at paragraph 30 on page 11, you will see there that you are not using gateway reviews. Why is that?

Mr Rowlands: This accurately reported the position at the time the Report was prepared. The SRA had agreed with the OGC to use an analogue

procedure, but in the end we and the OGC concluded that it was not sufficient in gateway terms because it did not include an independent element and as a result the SRA have now accepted that they should and indeed are now implementing it.

Q11 Chairman: They have been around since 2001, have they not?

Mr Rowlands: Yes, but originally the OGC had accepted that they could use their own procedure, but on examination it turned out not to be satisfactory.

Q12 Mr Field: May I just follow up one of the Chairman's points? I could not quite understand why you were on such a back foot when he was alleging that some of this extra taxpayers' money had gone on increased staff wages. As one of the big employers of the low paid, is it not good that quite a lot of this money has gone in raising the wages of the lowest paid?

Sir Nigel Crisp: Yes, it is. I am sorry if I gave the impression that it was not. I was saying the biggest amount had gone on new activity and new staff. A significant amount had gone on increases to existing staff, partly lowly paid people, but also partly in return for productivity agreements.

Q13 Mr Field: Would it be possible for us to have a note which looked at that in more detail and particularly the extent to which you have been able to raise the relative pay of your lowest paid workers as a result of the increase in taxpayers' money? Some of us might like to brag about that.

Sir Nigel Crisp: Yes, I shall come back on that.¹

Q14 Mr Field: Mr Normington, may I ask you about your truancy figures, where you failed to reduce the level of truancy? This raises the whole question about behaviour of people and particularly people in schools. In the time that I have been in Parliament, the issues which my constituents raise with me have changed from overwhelmingly "Can you please help me get something?" to "Could you please stop somebody behaving in an appalling way to me?". Might it not be a success that you have failed to achieve that truancy reduction, because the simple assumption behind this is that somehow if you reduce truancy, these children and young people would somehow be quiet and well-behaved in school, whereas in Birkenhead, when the truancy officers are really successful in rounding them up and getting them into school for a week, the schools find themselves nearly unmanageable.

Mr Normington: It is true that this group of pupils are the disruptive pupils; not always. Of course 50% of unauthorised absences, which is how we count truancy, is condoned by parents. When we go out into the shopping centres, we see that 50% of them

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are with their parents, shopping or doing something like that. They are not all troublemakers in the conventional sense.

Q15 Mr Field: Some of those parents are troublemakers, are they not?

Mr Normington: Yes, some of them are very difficult parents. It sounds a truism, but it depends what you do with the children when they are back in school. We have been putting a lot of effort into providing alternatives to difficult pupils being in classrooms, but not them being dumped right outside the schools. We are looking for support units in schools where you can move difficult pupils immediately to have one-to-one or one-to-two supervision, so you can address the behaviour issue outside the classroom. Otherwise, it is disruptive for all the 20 or 30 children in the class. That is where a lot of the extra resource on behaviour has been going, as well as addressing family issues. The very small number of people who truant—and it is a small number—is the very, very difficult group indeed and there are often family problems and other barriers to them being at school or to them behaving at school.

Q16 Mr Field: What work have you done in the department which looks at the risks of reducing the truancy rate? By that I mean the effects on behaviour generally in schools and the numbers of exclusions which might go up against pupils in schools because you have forced people into school who do not intend to be there.

Mr Normington: In the first spending review period we had a target for reducing exclusions and this undoubtedly did cause tremendous upset to head teachers who needed to use exclusions to move out the most disruptive pupils. We did actually hit that target but at a lot of cost to what head teachers thought about their ability to run the school. We have relaxed on that issue; we do not have a target on that issue any more. In that sense, we did take that into account, but this is a very, very difficult issue. If they are not in school, they are often a big cost to somebody else in society. They may be truanting and causing problems on the street for neighbours in the community and so on. Actually we think that it is better to have them in school and to put the resources in the school to ensure that they can be dealt with, without it disrupting the rest of the class.

Q17 Mr Field: We now have 20 permanent exclusions amongst primary schoolchildren in Birkenhead and the fastest increase in permanent exclusions amongst the very youngest children. What work are you doing to try to explain why the bottom of our society is falling away in this manner?

Mr Normington: I do not know whether we are doing any specific study of that. We are using quite a lot of our targeted resource through Excellence in Cities to support primary schools in addressing those issues. We may be doing further research to analyse the problems there; I do not know. I could

find out for you.² We are very, very aware that the problems of bad behaviour and truancy are getting younger and younger. One of the things which I think will help is that we have now become responsible for children's issues in government and that actually means that we can put a lot of effort into bringing together our joint services, Health, Education, the Home Office services and so on, to bear on these problems. A lot of these problems are not about what happens in the school; they are happening outside in the family.

Q18 Mr Field: My observation in Birkenhead is that an increasing number of families now do not function in the way they traditionally have done so, in teaching their children a whole set of common decencies. They arrive in school thinking that anything goes. If this is going to be broken, then not only have schools got to manage children who are unmanageable, they also have to pass on the arts of parenting in a way which happened automatically in families prior to that. To what extent is the curriculum looking at that?

Mr Normington: I do not know that the curriculum is looking at it specifically. I have two responses to what you say: one is that at a previous hearing here we discussed SureStart, which is very focused on getting at children and families very young and dealing with those issues. Secondly, we know from primary schools that as soon as there is bad or disruptive behaviour from a very small child it has to be dealt with immediately. If it is dealt with immediately, including taking that child out of the class and dealing with it, one-to-one tuition and support for a period, it gets better very quickly. You can draw from that that investing in very early interventions is going to save us a lot of costs and trouble later and a lot of what we are spending at the moment is dealing with older children and that is failure to deal with problems earlier.

Q19 Mr Field: If I put your answers in another way, you are saying that picking targets like reducing truancy might be too simple for words in that behind the truancy may well lie a whole range of issues which previously schools never had to deal with and which we are now asking them to deal with. I do not get from you that in a sense your department is up to speed on that.

Mr Normington: We are not hitting the truancy targets, that is for sure. With all the big headline public service agreement targets there needs to be behind them a set of solutions not one. I think we have put a lot of effort in a lot of ways into dealing with truancy, through dealing with parents, through the way in which we deal with children when they are disruptive, through actually dealing with children in the community. If you want to criticise the truancy target, it would be fair to say that it is very focused on stopping children and young people being disruptive in their communities and creating damage to the wider community and

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bringing them back into school. It is very focused on that, but the policies focus then on what you do with them when they are in school.

Q20 Jon Cruddas: May I raise a couple of questions about PCT funding first? On page 9, paragraph 24 of the Report simply states “The Department of Health for example, allocates around 75% of resources directly to Primary Care Trusts on the basis of an allocation formula developed to reflect the relative health care needs of different local populations”. There are some quite serious issues about how far certain PCTs are under or over the formula. I have some figures from Andy Burnham, who put down a written question in the House of Commons. Can you give us an estimate about what sort of scale of under-funding we are talking about as a proportion of the total extra health expenditure over the next few years will be taken up by dealing with some of these issues?

Sir Nigel Crisp: May I just explain that the allocations to PCTs have been made for three years; 2003–04, 2004–05 and 2005–06, and we set a target for every PCT based on health need. That is not necessarily where they start, because that target shifts from year to year; so approximately an equal number will be below and an equal number will be above. We then add to that formula a modification which says “How far can we move the people up towards target and how far can we move the people down towards target without giving them an actual cut in real terms?”. At the moment I cannot remember the exact figures but in our last allocation, which was two years ago, we shifted the very far below target people up about 5% to 10% and the very high above target we shifted down by about the same amount. You will always get that spread. There is never a perfect way of doing that. Year on year we want to try to squeeze it down so we are nearer and nearer to target.

Q21 Jon Cruddas: Do you have an end point in mind?

Sir Nigel Crisp: Perfection would be everyone on target, but I have to say we look at the target, we look at the calculation—we do not do it, it is done externally to the department—at what is a fair way of doing the calculation. It depends on things like the demography. The big case which happened this year was Westminster. Apparently they lost an awful lot of population; this was not just down to health care. They were therefore clearly very high over target. How do you handle that? You always get things like that. The intention is to get as near to target as we can do.

Q22 Jon Cruddas: Just take Westminster. I have here that by 2005–06 its over-target estimate rises from where it is today to about £75 million over target. Take another London borough, Barking and Dagenham, the smallest borough in London, its structural under-funding continues to be some £24 million by 2005–06. My point is in terms of delivering services at local level that people’s perceptions have changed. If you have such a

discrepancy in terms of structural under-funding it is very difficult to get to a baseline from which you can then progress.

Sir Nigel Crisp: May I give you another example which is Easington PCT, which was the unit which was the most under target? That area over the three years from that allocation will get an increase of just over 40%. Those people who are way under target are getting very big increases and Barking and Dagenham—I do not have the figure to hand—I guess over those three years will have somewhere in the 25% to 30% and you can do an awful lot with 25% or 30%.

Q23 Jon Cruddas: I do not dispute that.

Sir Nigel Crisp: They are doing an enormous amount in Barking and Dagenham. I happen to know the area there. I am sure you will also know the arguments about Westminster saying that a lot of our population are not recorded. In Barking and Dagenham I know you will say the same. This is a constant and continuing debate. We have to make decisions on the best evidence we can get and that is why we do review it every time and we do get it reviewed externally.

Q24 Jon Cruddas: That is what I wanted to come onto. When do you review the formulas? Did you say annually?

Sir Nigel Crisp: We are going to do our next allocations at the end of this year and there is a continuing process whereby—I may live to regret this—Barking and Dagenham or other people can actually put their evidence as to why they uniquely are being treated unfairly in the rest of the world.

Q25 Jon Cruddas: This is transportable to other departments. I do not just raise the issue of my own borough, but that is to get to an agreed formula in terms of the revenue needed for the PCT given this current understanding of the local population. However, take Barking and Dagenham as an example, it is in the middle of a massive regeneration area where it is estimated that some 30,000 new dwellings will be built over the next ten years. So we are talking about a dynamic here and if we do not pretty early reach some baseline on the current population, there is no way we are even going to be able to match the social infrastructure needed on health, education, whatever, assuming that there is a similar structural problem in terms of education and I do not know whether there is or not, to get anywhere near the public services needs of the growing population.

Sir Nigel Crisp: What you will know is that you have a woman called Caroline Reagan, who is the chief executive of the North-East London Strategic Health Authority who is taking the lead not only for health authorities but for the department in looking at the effect of the Thames Gateway and looking at what we realistically think are going to be the health needs of the population there and the opportunities. Actually with some of the housing coming in there, we may be able to provide more affordable housing for people working within the

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health service and the public sector more widely. We are very alive to that and I think I am right in saying that is the only case around the country where we are specifically looking at the impact of major change which we can see coming from our formula. It is just on those sorts of occasions that we would need to think whether there is any room for adjustment.

Q26 Jon Cruddas: There is also a new Cabinet sub-committee, Miscellaneous 22, to deal with some of the joined-up issues around public service delivery alongside spatial economic development and the like. What have your experiences been of those sort of committees in terms of their relative successes in joining up public service investment with future population projections?

Sir Nigel Crisp: I do not know that I have particular experience to draw on for that. What I am satisfied of on this occasion, which I am familiar with, is that we have the right links into that, we are thinking about those issues, we have had meetings at senior levels of government to discuss these sorts of issues so there is a process which will allow us to do that.

Q27 Jon Cruddas: May I ask your colleagues the same sort of question? How do you plug in, in a pan-governmental way, to public services needs of future populations and not just the ones we are presiding over at the moment?

Mr Normington: I do know about the Thames Gateway one where we have been very, very involved in what is cross-government work in thinking about the future implications of expansion in the Thames Gateway. Education has been very much involved in that. We fund a lot of education on the basis of pupil numbers, but if you are investing in capital, for instance, you would have to be looking at projections and that is effectively what we are doing in the work on the Thames Gateway. We are very plugged into that and not just about schools, but about further education and so on. In fact I have been involved in some of those discussions as well.

Q28 Jon Cruddas: Presumably quite a bit of the new expenditure on public services will be taken with let us call it the broader sustainable communities' agenda of the government. Do you have estimates about how much the new money will be hypothecated towards the new population growth rather than simply distributing it amongst the current spread?

Mr Normington: Personally I do not think I do have that, I am afraid. We may have it in the department; we may be doing that work. The work I know about is in relation to the Thames Gateway, which is over a very long period. Most of the investment's going well beyond the period for which I have resource.

Q29 Jon Cruddas: Precisely; that is partly the reason I raised the question. Obviously we are on three-year spending cycles and some of this is much bigger.

Mr Normington: That is why there is this cross-government work going on, led by the Deputy Prime Minister, looking at this issue.

Q30 Mr Allan: May I start with you, Sir Nigel, and the NHS IT programme? On page 102 of the Report there are some nice concrete targets in respect of the information technology programme and this is in a sense quite a key programme. If we can get this right, perhaps we can show that things are moving on. If we continue to get it wrong, then we seem to be in the same rut we have been in for years with IT programmes. Can you take us through the four targets here and say how confident you are that we are on track? There is delivering broadband access for NHS clinicians and support staff by April 2004. That is now, is it not? Have you got there yet?

Sir Nigel Crisp: I need to check that one. I do not know the answer to that one, I am afraid. I can answer on the three below it as to whether or not that is actually in place or not. What we have done on that one, but also on the other three, is that we have now let the procurement. We have done so through the gateway process, which I know this Committee has discussed a number of times from OGC. On implementing electronic booking by December 2005, we should be able to do that; we are already starting to do that in some places later on this year, so we should be on target to do that. That will have a big impact because people will be able to go into the hospital and at the point of the decision being made that they need to be admitted you can actually identify a slot within the system. That will be really significant and patients will notice that difference. On the prescriptions service being 50% implemented by December 2005, I believe we will be on target to hit that revised target. On the electronic records, we will have key elements of that in place and these should be on target.

Q31 Mr Allan: Could you give us a note on the one which is due now?

Sir Nigel Crisp: I shall give you a note on the broadband, yes.³

Q32 Mr Allan: Can I take us from those specific programmes to one of the general concerns which has been raised and look at page 7, paragraph 17, which tells us "Departments across government currently have underway collectively over 100 critical IT projects with a combined value of some £10 billion". Then on pages 21 and 22 it talks about suppliers' capacity. Can each of you tell me whether you feel this is a serious concern and whether, particularly in the IT sector, we are not

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going to end up having problems simply because there are not enough people to deliver all the work you are putting out to contract?

Sir Nigel Crisp: Let me make one point which is that we very deliberately structured our IT procurement so we were not dependent on one supplier. Indeed, for the biggest bit of it, which is the integrated system across the Health Service, we have actually divided the country into five. This not only allows us to see how different lead suppliers, because they will use different sub-contractors, will compare with each other, it also allows for a degree of competition and we have managed to let those tenders.

Q33 Mr Allan: Are you confident there is enough capacity in the market? My understanding was that was characterised by a series of withdrawals, people like Lockheed Martin pulled out and you ended up with very few people in the end bidding for most of your work.

Sir Nigel Crisp: We ended up with a competition in every case. People like Lockheed Martin pulled out and they will obviously have given an account of why they pulled out. On the contract they pulled out on we nevertheless still had two suppliers, we still had a very strong competition. I believe we have a very good price for our deals and we also have very powerful penalty clauses around them as well. There is also another interesting bit in it which is that there has to be a proof of solution. I suspect you know all this, but there has to be a proof of solution and until the thing works we do not pay.

Q34 Mr Allan: So it was the penalty clause which was scaring people off.

Sir Nigel Crisp: If they were not up for it, then they should have been scared off. I am perfectly happy to have a competition between two thoroughly good organisations, as we did in those cases, both of them offering us a deal and the person who offered us the best deal has got the contract.

Q35 Mr Allan: Mr Normington, do you have a concern about suppliers, particularly in respect of IT, when you are letting projects, say, for the educational maintenance allowances and things? Are you finding there is plenty of competition out there?

Mr Normington: A fair amount. We do not have any of the big IT critical projects in government. We have some of them which are IT critical, but they are not in the top 50 really and therefore our expenditure is smaller; sometimes we are able to go to smaller providers. There is an issue that if you are a smaller contractor you are in a weaker position. One of the things which has been done through the OGC is for us to look at who the big suppliers to government are right across government and government working together, both to ensure that we are getting best value from them, but also to try to develop the market; we cannot do that by ourselves. On the general issue, I would say that there are some other areas where I am more concerned such as construction. We

have this huge school building programme under way and if we are not very, very careful about that we will just drive up the cost. One of our big objectives, and we have been taking a lot of advice on this, is actually to maintain and develop the market, so the investment we are making is not all swallowed up in increased costs and inflation. It is the same in the area of educational services. I appeared before this Committee with Capita. Capita have a big slug of the education service market and all the time we are conscious of the need to develop the market; of course it is in the interests of suppliers to corner the market. That is going on all the time, so we are very conscious of that issue.

Q36 Mr Allan: The concern there would be something like, say, the PFI schools projects, that by letting too many PFI schools projects at once you get fewer people coming in.

Mr Normington: Yes and a lot of the contracting is done locally, so it may be that 100 contracts are let by 100 local authorities and they are all let it to the same person if you are not careful.

Q37 Mr Allan: Mr Rowlands, on the supply question?

Mr Rowlands: I am on a slightly smaller scale than the NHS, but in terms of the department's own service delivery to drivers and vehicle operators DVLA is in a long-term supply relationship with IBM/Fujitsu, which underpins the delivery of a variety of online services, some of which are already available, with more to come this year and next year. I perhaps do not share concerns about the capacity of the marketplace to deliver for us.

Q38 Mr Allan: Sir Nigel, may I just pick up on another issue with you, NHS Direct? This is pictured in Figure 13 on page 67 existing in splendid isolation and I know that is the way it is described diagrammatically, but I am interested that one of the targets the department had was to establish NHS Direct. Does NHS Direct in its existence relate back to the other targets now? What work is being done to demonstrate whether NHS Direct is impacting on all these other targets? In and of itself a telephone line where calls are answered does not achieve a target and does not achieve a health gain.

Sir Nigel Crisp: I agree with that. There has been a hearing of this PAC on NHS Direct which actually looked at the specific point of the impact it was having. I think it was the only occasion on which the Chairman ever congratulated us for a report.

Q39 Mr Allan: He is a very fair man.

Sir Nigel Crisp: I think it was a good Report. The interesting point for us now is how we move NHS Direct on. Let me give you the example of providing emergency care out of hours. There are many providers: there are ambulance services, there are GPs, there are hospitals, there is the voluntary sector and social care. What we are working to do is to make sure that a single phone call into that

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system to a single number means that you get talked to by somebody competent at the centre who can then direct you to the right service. We want to use NHS Direct to do that. It is a real joining up.

Q40 Mr Allan: In the last couple of minutes, I just want to pick on a couple of targets, one for DFES. In Figure 11 on page 27 we look at the targets and we see that for literacy and numeracy your targets are 85% meeting a certain level by 2004. If you look at the graphs, there it looks entirely unrealistic. Where are you with that? Is it right to think that you are going to be miles off?

Mr Normington: Yes, we are going to be significantly short. What happened with the literacy and numeracy targets was that there was very significant improvement up to 2001 and then it has flattened. We are having the greatest difficulty moving it up. When the 85% target was set it took account of what had been a steadily increasing line and the moment that target was set it flattened out. That is therefore also now the target for 2006–07 and it is going to be very hard to achieve for then. This year's results, which we shall get in the summer, are absolutely critical, because we have been focusing very, very hard on those schools and those local authorities which are well below the norm for that type of local authority or school. It ought to be possible, if those schools improve, for us to get the target moving again. Yes, after very, very good improvement, the performance is flat.

Q41 Mr Allan: Mr Rowlands, on page 135 we see that the Department for Transport's Target 1 is about reducing congestion to below year 2000 levels by 2010. Is that not just a silly target? You do not want your performance related pay based on that, do you?

Mr Rowlands: It is both a deeply unsatisfactory target and one we shall not achieve. It was put together at a time when the information base was limited. Two or three years later we have GPS based information which can now tell us what congestion looks like on a particular road or a particular link of a road and I would suspect out of the current spending review we shall in due course have a set of targets which relate specifically to roads one by one rather than this glob target which frankly means nothing to anyone.

Q42 Mr Allan: Abandon Target 1.

Mr Rowlands: Yes.

Q43 Jim Sheridan: At the beginning of the hearing the Chairman raised the question of the article in the *Sunday Times*. Sir Nigel, has anyone from the *Sunday Times* been in touch with you or anyone else in your department prior to that article?

Sir Nigel Crisp: They certainly were not in touch with me, but it was something which was across government in the *Sunday Times*, was it not, rather than directly related to Health?

Q44 Jim Sheridan: Do you have anything to say to these people who write these articles? I notice there are some scribblers in the audience.

Sir Nigel Crisp: Many things and some of them in public. Let me give an example which is relevant to middle-aged men in sedentary occupations. One of the great triumphs in the NHS over the last few years has been the reduction in heart attacks and the improvement in mortality from heart attacks. A significant part of that has been brought about by investment in a class of drugs called statins; more than £1 billion a year being spent on that. A lot of it has been achieved by primary care and when you look at productivity in the way this looks at productivity, that is all cost and no benefit. So the benefit of fewer deaths from coronary heart disease is completely left out of the equation. I think that journalists in this room or others need to understand that that is what we are about and what we are doing and why we need to have a better way than we have at the moment of explaining improvement in productivity.

Q45 Jim Sheridan: Would it be helpful if journalists or A N Other contacted people at the sharp end of these industries or services before they print these kinds of articles in order to give a truer reflection in what they are writing?

Sir Nigel Crisp: It is slightly difficult to comment how journalists do their business, but certainly we in the Department of Health have a very good media centre who are very able to talk people through the issues and explain what is going on and to use examples like that heart attack one.

Q46 Jim Sheridan: The wider perception of the general public is that these services are not being delivered. If news sheets or tabloids or whatever they might be are printing these stories how best do we rebut them? You are responsible for spending the taxpayers' money.

Sir Nigel Crisp: We are and we have a responsibility to make sure that we report on what is going on and indeed in the very near future I shall be putting out my report on the end of the last financial year, setting out what has been achieved in the last financial year. We certainly have a responsibility to put the facts into the public domain.

Jim Sheridan: Mr Rowlands, we talk about suppliers, particularly to the rail industry, and certainly as someone who uses the rail industry on a regular basis I am somewhat distraught, particularly at the prices they charge for food and beverages on trains. I had one example when travelling where the price of the beverage I bought was more than the wage of the person serving me. He was on minimum wage and the beverage cost me more than his hourly wage. I sometimes wonder whether the cost of buying such products on these trains is a deterrent for people using transport such as railways. Could you justify for me and everyone else the reason why we charge such extraordinary prices on trains?

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Chairman: This is pretty wide of our hearing, but if you want to answer it you can do.

Q47 Jim Sheridan: It is the matter of what suppliers we take in.

Mr Rowlands: I shall attempt an answer. It is not a regulated set of prices and therefore it is outside the department's or the SRA's control. All I would say is that in the long run any train operator who was milking their passengers by overcharging is certainly going to get dissatisfied passengers and that may ultimately be a small but significant contribution to losing the franchise. I cannot offer you any immediate satisfaction on the point.

Q48 Mr Steinberg: I just want to put on record that I prepared these questions before this article appeared in the *Sunday Times* newspaper. In fact I prepared these questions watching Sunderland play Wigan on Sky on Saturday afternoon. If any of these questions look as though they have come from the *Sunday Times*, they have not. I tell you what; if they had come to me they would have got a better report than the one they put in the paper, that is certain. What does baffle me is that for the last few years we have been told that the government have been increasing resources, considerably increasing resources, particularly in Health and in Education, yet continuously, when I go round my constituency and in my postbag, I am told by the professionals and by the users, the customers, that there is no difference. They do not see any changes in the service at all; they do not see any improvements. Why is that? I know that millions have gone in since 1997, so why do they not see any changes?

Sir Nigel Crisp: It is a very hard question to answer. There are undoubtedly improvements which anyone could point to, including just the simple things like NHS Direct. This is a new service used by approaching seven million people a year with very high customer satisfaction rates. I suspect that if I take that simple example, people do not take that as something on which the money has gone. I also from time to time stand in hospitals with people telling me they do not know where the money has gone to, whilst I am standing next to a large building site and it is fairly obvious but people cannot see it. People are not connecting up the improvements which are being made. Let me also make the other big point here which is that it is not yet good enough. The reason I and others feel passionate in the way Mr Sheridan wanted me to be about this is that these are real improvements, they are happening, they are happening because people are working very hard, a lot of people are very passionate about getting this right, but we still have a long way to go. We are now up to the world standard in some things, but there are others where we have further to go. People are still looking at those and not at the others.

Q49 Mr Steinberg: I suspect that the vast majority of MPs participated on Friday in MPs Back to School. I went into two primary schools and was

shown around. I was shown around by this head teacher who showed me a room which was a porch in 1997 where he hung coats for kids. That is what it was. Now it is a room, a quarter the size of this one, with about 25 to 30 computers in it. Yet they have the audacity to say that there have been no improvements in the education service. Jim Sheridan is absolutely right: it the press who cause the problems and there is no doubt about that at all. It is about time somebody told them, because they only produce stories for their own political gain and their own political philosophies. That article in the *Sunday Times* was partly true, that is all, partly true. The newspapers set the agenda. They talk about the parties spinning but they are the biggest spinners. Jim Sheridan is absolutely right. They told people that things are bad, but things are not bad. You mentioned the people's perceptions. MORI did a survey which asked "How do you perceive the Health Service". 80% said it was rubbish; 80% said the Health Service was rubbish. The same groups of people were then asked and from those who had actually had service from the Health Service 80% said it was fantastic. Why is that? Why did the 80% who have not experienced the Health Service say it is rubbish and the 80% who have experienced it say it is excellent? I tell you why it is: it is because of them over there.

Mr Normington: May I say something about education? To say something positive about the press, the local press often write the positive stories about what is happening locally. If you look at what parents think about schools, they often overwhelmingly think well of improvements in their local school; they do not think the whole education system is improving. There are very, very positive results about primary schools, less so about secondary, but still positive. If you talk to head teachers and teachers, I too have that experience because lots of schools have exactly that experience of the school being flooded with computers or in the middle of a big new building project and people saying they have seen no improvement. I have that all the time. Nevertheless, it is the case in all the public services that the ambitions of those professionals . . . They always have great plans for the next phase so they sort of take for granted where they have got to and they are looking to the next stage. I do not really blame them for that because that means they have ambition.

Q50 Mr Steinberg: I could be completely wrong. You could be spinning me a load of bull to be quite honest. The situation could in fact be that the government are putting billions of pounds of resources in, but are those resources actually getting to the chalk face? Give us examples of where the resources are getting to the chalk face? Paragraph 8, page 5 of the Report tells us that in 2003–04 the government's lack of resources caused a huge furore throughout the country, did it not? But in the Report it actually says that a lot of the schools are now saying that it was not government's fault, it was the fault of local education authorities because they had not

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allocated the resources correctly. How can you be sure that all these billions of pounds you are getting, £60 billion over the next three years, are actually going to go to the chalk face, are actually going to be used to improve services? Are you confident? Do you have faith in the local delivery of services?

Mr Normington: I have reasonable confidence.

Q51 Mr Steinberg: It is out of your hands, is it not, once you have given them the money?

Mr Normington: In fact over the next two years we are placing quite a lot of requirements on local authorities about the minimum levels they should spend on education and how they should pass that on to schools. We are actually requiring most of the money to be passed on to schools. Then we are looking at the outcomes. In the end it is whether the results are going up, whether the improvements are being seen in terms of the achievements of the children? That is what it is all about. They are, but there is still quite a lot more to be done. I am confident that in this next phase particularly we shall see almost all the money going into the front line.

Q52 Mr Steinberg: Can the three of you give us some examples of where there have been obvious improvements in the service because of the money which has actually gone in? Give us some examples.

Sir Nigel Crisp: Big increases in staff, big reductions—

Q53 Mr Steinberg: I could argue that is bureaucracy.

Sir Nigel Crisp: Nurses, big increases in the use of statins, big falls in waiting times, big improvements in mortality from cancer and coronary heart disease. These are all big issues and real improvements.

Mr Normington: For me 24,000 extra teachers, 60,000 extra teaching assistants over the lifetime of the government, seven times more spending on capital and at last getting to grips with the refurbishment of schools; exam results going up every year at GCSE, which is a very critical phase, by between 1% and 2% every year; although we have had this plateauing at Key Stage 2, 12% improvement in the proportion of children who can now read, write and add up at 11. That is a fantastic achievement.

Q54 Mr Steinberg: Railways?

Mr Rowlands: Those who have suffered the agonies of the West Coast Main Line—

Q55 Mr Steinberg: After being an hour late this afternoon, I would not fancy your luck on that one.

Mr Rowlands: From September a new timetable cutting the best part of half an hour off the journey to Manchester and Glasgow, Pendolinos replacing all the existing stock, south of the river 1,700 40-year-old life-expired carriages all going, 700 new

ones in there already. It is happening. The problem with railways is the timeframes for some of these projects. You cannot change it overnight.

Mr Steinberg: The local delivery of services is what we are talking about. I notice the Report says that everybody should see a doctor within two days of wanting to see one. This is what really aggravates me, because it is all to do with local delivery of services. In my constituency there is a doctors' practice where you can see a doctor within 24 hours because of the system they use. In another practice you cannot see a doctor for six weeks because of the system they use; that is probably a bit of an exaggeration. Again it is down to local delivery of services. It is not in your hands.

The Committee suspended from 5.28pm to 5.38pm for a division in the House.

Q56 Mr Steinberg: Why is it that in the same constituency within a radius of six or seven miles you can have one doctors' surgery where you can see a doctor within 24 hours and in another one it takes over a week? That means that it is nothing to do with resources, it is to do with organisation in a local delivery situation and it is about time we centralised rather than all this decentralisation.

Sir Nigel Crisp: The answer to your question is that we are not there yet. Around the country at the moment—and we shall publish the figure for the end of March shortly—in well over 90% of the country, in well over 90% of the practices, you can see a primary care professional within 24 hours and a GP within 48 hours. So the one you are talking about is one of the 10% which still needs to change. We have a very big programme called the primary care collaborative which is rolling out—

Q57 Mr Steinberg: Yes, but why should I have to receive a letter saying my government is rubbish because they cannot see a doctor for a week, yet a mile down the road a person can see a doctor within 24 hours. That is not the government's fault; it is the total incompetence of the people who are delivering the services locally. How can government be held responsible for that and why do you not do something about it?

Sir Nigel Crisp: We are, if I may put it like that. We have a management responsibility for what is happening within the NHS and we have identified this, as you have, as one of the big issues for the public. We have therefore put in a programme which took off about two and a half years ago, where the position was that in a lot of primary care places you could not get to see a doctor within two days. We are now up to 90%; the target is 100% by December everywhere. So in your reply to the letter you can no doubt explain that to your constituent. I am pretty confident that we will get there.

Q58 Mr Bacon: May I start with you, Sir Nigel, but perhaps you would all like to contribute to something I am going to ask you to do. You mentioned productivity and how the perverse kind of measurement leads to perverse results and we all understand that. In my constituency if a pig is born,

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which happens quite frequently, it adds to the GDP per head. If a human being is born, it subtracts from the GDP per head. Nonetheless, when I hear any talk of changing the measurement it automatically sets hares running. Could you do us a fairly extensive note setting out some of the problems in this area, some of the measures you use currently of productivity, what is right with them, what is wrong with them and the changes you propose?⁴ In relation to the *Sunday Times* thing, could you say something, Mr Normington and Mr Rowlands too, although it particularly applies to the NHS because you are such a large employer, about how much of the extra spending you have had, total and extra, has gone on higher wages for existing people and how much has gone for new people and, once again, the changes in the measures you are proposing to make and the effect on productivity?⁵ If you could do us a note to that effect and perhaps club together between departments, that would be tremendously helpful as a detailed appendix. Is that possible?

Q59 Chairman: It is a very important question. Can you do that?⁶

Sir Nigel Crisp: If I have understood it properly, what you are asking is why our current method is not satisfactory, what things need to be taken account of in a new method of assessing productivity globally across a service which ranges from mental health to maternity, which is quite complex. In saying that, I shall of course say that the Atkinson review is due to report in July, so we shall not have a new measure.

Q60 Mr Bacon: You can say what is right with the current measures and what is wrong with them and where you see the need for changes and presumably this review will point that up in further detail.

Sir Nigel Crisp: Yes.⁷

Q61 Mr Bacon: That would be great. In the *Wiltshire Times* two weeks ago there was an article from a primary school teacher which said that this £55,000 extra was a myth, “Extra cash is a myth says head”. I do not know whether this is true or not, but when I was doing the MPs Back to School day last Friday, which was a week after the *Wiltshire Times* article, I met a head in my constituency who said exactly the same. What I should like to know is: if I am a small primary school with a reasonably static roll of high 70s, low 80s and my budget is £240,000 a year, shall we say, which is of the order for a typical small primary school, assuming my roll had been pretty much static from year to year, does it mean that this coming year I should be getting an extra £55,000 and therefore have £295,000 during that year, whereas previously during the last three or four years I had had roughly £240,000, or not?

Mr Normington: You would be getting a minimum of 3.4% increase; you might be getting more but you would be getting at least 3.4%.

Q62 Mr Bacon: But the Chancellor stood up at the Budget and said every primary school would get £55,000 extra and I remember I happened to see Charles Clarke later that day at a reception for the new Bishop of Norwich who had just been put into the House of Lords and Charles was extremely chuffed by the fact that he was getting all this extra money, and it seemed pretty clear and certainly it was reported in the newspapers as pretty clear, that, never mind any small percentage rise, there would be this one-off payment—and this is what the Chancellor said in the Budget—for secondary schools I think it was £130,000, but I definitely remember that for primary schools it was £55,000. Are they going to get an extra £55,000 or not?

Mr Normington: Two things. The Chancellor’s announcement relates to 2005–06 to 2007–08, so it relates to the spending review period.

Q63 Mr Bacon: Are they in those years?

Mr Normington: Secondly, I think he was talking about the schools standards grant, which is the money which goes directly to primary or secondary schools; it is £55,000 but it depends on the size of the school.

Q64 Mr Bacon: Is it £55,000 extra?

Mr Normington: They are already getting a certain sum.

Q65 Mr Bacon: Quite. Is it £55,000 extra on top of what they were expecting?

Mr Normington: I do not think so; I think it goes up to £55,000.

Q66 Mr Bacon: But is it £55,000 extra?

Mr Normington: It will not be a sum of £55,000 extra on top—

Q67 Mr Bacon: It will not be.

Mr Normington: I do not think so.

Q68 Mr Bacon: That is what I wanted to be clear about.

Mr Normington: I do not think so, but I need to say that we have not allocated the money for 2005–06 onwards.

Q69 Mr Bacon: The impression most people got, listening to the Chancellor’s Budget was that it was extra, but if it is not, it is helpful to know. Could you send us a note with a bit more detail about that both for primary and for secondary? That would be very helpful.

Mr Normington: Yes, I can do that.⁸

Mr Bacon: On page 4 it talks about the key issues requiring careful attention if increased resources are to deliver better services. There are five key points: complexity of the delivery chain; capacity

⁴ Ev 27

⁵ Ev 27, 33–34

⁶ Ev 20–23

⁷ Ev 20–23

⁸ Ev 34–35

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of delivery organisations; targeting of resources; risk management; monitoring and evaluating performance. Perhaps you would like to cogitate on those five points.

The Committee suspended from 5.45pm to 5.50pm for a division in the House.

Q70 Mr Bacon: On these key issues requiring careful attention, the first is the complexity of the delivery chain and last time or the time before that you came before us, you talked about the possibility, admittedly you were talking around the subject slightly—you know what I am going to say, do you not?

Mr Normington: Yes.

Q71 Mr Bacon: Pilot funding. You know perfectly well that the Secretary of State has talked about this as well, albeit in roundabout terms. Where are you on that, about giving money directly to schools? Plainly one of the ways of simplifying the delivery chain is to give the money direct to the school, is it not?

Mr Normington: Yes. We are no further forward on that.

Q72 Mr Bacon: Do you mean in what you are prepared to say publicly?

Mr Normington: I am prepared to say first of all that in the next two years the arrangements we have now firmly put in place do provide minimum guarantees of money to schools and do actually constrain what local authorities can do with the money they get before they pass it on to schools. The long-term position of local authorities is still in the air.

Q73 Mr Bacon: In terms of what they do or do not do vis-à-vis school funding, do you mean?

Mr Normington: Yes.

Q74 Mr Bacon: It is right, is it not, that when the last financial crisis happened and we were all being lobbied in our constituencies by schools the Audit Commission looked at it and found most local authorities, notwithstanding what Mr Steinberg was saying about some where the local authority was not passing it on—I am sure that was true in some cases—in most cases the local authority was passing on at least as much if not more than the government was recommending it to, yet still there was a problem. That is correct, is it not?

Mr Normington: That is correct. In the end about 11 authorities, something of that order, a very small number in relation to the 150, did not passport all the money on.

Q75 Mr Bacon: Yes, but basically most authorities were doing as much or more and yet you still had a problem. As you said yourself, you did a lot of work and you still got it wrong.

Mr Normington: Yes.

Q76 Mr Bacon: That does suggest the need to simplify it quite radically, does it not?

Mr Normington: What was complicating it of course was the system of allocation.

Q77 Mr Bacon: Yes, it was a systemic failure, was it not?

Mr Normington: There is a system of allocation—

Q78 Mr Bacon: Systemic failure.

Mr Normington: You can call it systemic failure.

Q79 Mr Bacon: I was talking to a man in the National Audit Office whose name I shall not reveal in order not to embarrass him. When I was asking him about this problem 18 months ago, talking about your department, he said “The truth is they are near meltdown”. That is what he said.

Mr Normington: No, we are not near meltdown; actually we are just about to end a year in which the arrangements we put in place for schools’ funding seem to be working and seem to be stabilising the position. What I was going to say to you was why I would not say the system is in meltdown—which I do not believe it is. The key issue here is how much discretion you allow to local authorities to draw up their own allocation systems for schools and how much you constrain that. What was happening locally was a very wide range of allocations to different schools on all sorts of bases.

Q80 Mr Bacon: I thought for one minute you were going to say how much discretion you allowed to schools and then you disappointed me by saying local authorities.

Mr Normington: No. We are very clear that our job is to allow the maximum discretion to schools; that is the central principle of the policy and everybody else has to be constrained in the extent to which they interfere with that, including us.

Q81 Mr Bacon: I was told by parents recently that the local education authority had offered them £34 a day, which is nearly £7,000 in an academic year, to transport their child to a different school, because they could not get their child into the school of their choice. Now £7,000 is more than you would need. I checked with a local headmaster. I asked if he were given £7,000 whether he would look rather differently upon an extra child. He said “Damn right I would”. Yet here you have a system where they are being offered more than the headmaster would require to take them.

Mr Normington: That does seem perverse. We are keen that where there is demand for schools, if it is possible those schools should expand and we are encouraging that and actually providing small amounts of capital to help that happen. If there is £7,000 to spend, then that money could be spent on a lot of things. It does not have to be spent on transport to a school some distance away.

Q82 Mr Bacon: On the subject of risk management, you said, in relation to money reaching the frontline services and the capacity of local organisations, that you were reasonably confident,

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which was not exactly a ringing endorsement. In the question of risk management of the resources you have and what might be done with them, when this Committee met Sir David Omand, he made it very clear that departments were going to have their spending reviews tied to risk management. Are you confident that your risk management processes are now strong enough that you will not be penalised in any way?

Mr Normington: I do not know whether we are going to be penalised, but I do not think we are. I am confident that we have made huge improvements in our risk management right up to the senior levels in the department, including my own management board which reviews risk every quarter. I am confident that is built into every project and confident that it is 200% better than when I talked to you about this on Individual Learning Accounts. It is a great deal better. I should be very, very disappointed if we were penalised, but in the end it is about what happens, is it not? It is not about whether we have good systems in place, it is about what happens.

Q83 Mr Bacon: One more question about the capacity of delivery organisations. It talks about having skills and equipment and the infrastructure in place. One headmaster I visited in my constituency a while ago, who was a good headmaster in a good school, said that if he did everything he had to do, none of them would ever go home. Is not the one thing which is missing off this list about the capacity of delivery organisations “government off our backs”?

Mr Normington: That is what I read in these five things. Whether it is there or not, removing the requirements of the department and its national NDPBs on schools and slimming down the systems of funding, target setting and accountability is the policy.

Q84 Mr Bacon: Could you send us a note just stating how many guidance circulars have been issued by your department to schools in each month for the last five years?

Mr Normington: I can certainly say that. It will show that it is 50% less than it was two or three years ago.⁹

Mr Bacon: That is very encouraging. I look forward to seeing it. Thank you.

Q85 Chairman: With regard to this note you are doing for Mr Bacon, this is a key point on productivity. I am anxious that we should shed light rather than heat on these issues. One of the allegations made in this article is that much of the cash has been swallowed up by an inefficient bureaucracy and inflation-busting pay rises for civil servants. I presume it is difficult to do any kind of note on the first allegation, but presumably you can deal with the second one in terms of pay rises for civil servants, can you not, and how that relates to inflation since 1997?

Mr Normington: Yes.¹⁰

Mr Rowlands: Yes.¹¹

Q86 Chairman: It also says here—and I should be grateful for your comments—that the change in productivity measures is significant, because the ONS said last December that the British method of measuring public sector productivity was best practise globally. I have no idea whether that is right or not, but I should have thought it was something which, certainly in the light of Sir Nigel’s initial answer to me, you could comment on. Clearly you seem to be implying that it was not.

Sir Nigel Crisp: I do not know whether it is best practice globally or not. I know that in my last report on the last six months of the NHS, I actually drew out this point and said that our current productivity measures do not reflect the changing NHS and where care is taking place and we need a new measure. I wrote that out in December.

Chairman: You are doing a note for Mr Bacon and for us and that is very helpful.¹²

Q87 Mr Davidson: Could I start by asking Sir Nigel about the funding and how you make sure that financial efficiencies and stringency do not slip when more money goes into the system? I am very much under the impression that some time ago the Health Service was eventually running on vapour, the tank was empty and all the rest of it. I can understand why, in those circumstances additional money just soaks it up like a sponge. What steps are being taken to make sure that the financial strictures and pressures are being maintained and that the whole thing is not simply going flabby?

Sir Nigel Crisp: There are probably about three things. The first thing is the planning. We are receiving additionally something of the order of £6 billion a year into the Health Service in England at the moment; that is a huge sum. At the planning stage we determine how far we believe it can go in terms of how much on cancer, how much on coronary heart disease, how much on mental health and so on. We do a planning exercise and as a result of that planning exercise in allocating the money, we allocate it alongside targets of what people need to do. There is a bit of the process there which is not just saying here is an extra £6 billion, get on with it. We are actually saying to them “We think you need about 4% of it to deliver the cancer plan and 6% to do this and so on”. There is a bit of a planning exercise there which is informed by what the NHS is telling us. That is the first point. The second point is that we do performance manage the NHS quite tightly still against a range of targets to see how successful people are being on that. The third point is that increasingly we have benchmarking coming in and a degree of patient choice coming in, so that what we are asking services to do is to demonstrate how effective they are compared with other services provided in other hospitals. So there is some

¹⁰ Ev 36–37

¹¹ Ev 25

¹² Ev 20–23

⁹ Ev 35–36

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challenge in that. The fourth thing is that we have audit and we have all the different levels of audit which reveal whether or not the money is being spent on the priorities which it should have been spent on.

Q88 Mr Davidson: A point was made about staff salary increases. In the table of information which you have undertaken to send us, it would be helpful if you could just clarify further whether the lowest paid, the cleaners and so on, were getting a higher percentage increase than those who were already best paid, the consultants. It would be helpful if you were able to identify the different salary groupings in order that we could have a clear indication of where the additional salaries have gone. On the question of purchase inflation, it is being suggested that the additional money that the NHS has available is just being dragged away by drug companies who are just jacking up prices. How can you guarantee to us that is not in fact the case?

Sir Nigel Crisp: On the first point may I say that what we shall have to say to you about staff pay is that in some cases payment agreements are linked to productivity deals. So we can spell that out for you.¹³

Q89 Mr Davidson: What I seek to clarify is whether or not the additional money has gone to help those who have been in greatest need or whether those who are already getting most are getting even more.

Sir Nigel Crisp: I understand the point you are making. If we then go to inflation and specifically drug prices, there is a big increase in expenditure on drugs, because there has been a massive increase in the use of drugs, partly to keep people out of hospital in the way I talked about earlier. Every four years we renegotiate the broad framework of drug prices in the country and we are renegotiating that at the moment. I do not want to take it very much further than that, but we expect that we shall be getting a good deal out of that negotiation.

Q90 Mr Davidson: Presumably because the Health Service is buying more drugs then prices should be coming down. Can we expect to see that?

Sir Nigel Crisp: I do not actually want to go into the negotiation we are talking about.

Q91 Mr Davidson: The final point on this side is that you mentioned benchmarking. With whom do you compare yourselves? Are you making assessments with the Health Service in Scotland? Presumably Northern Ireland is not under your remit. Are improvements in Scotland and Northern Ireland better than improvements in England across a whole range of measures?

Sir Nigel Crisp: The benchmarking I was talking about was internal benchmarking within England, so that we are comparing a teaching hospital with a teaching hospital.

Q92 Mr Davidson: So they could all be doing badly together.

Sir Nigel Crisp: We also make comparisons internationally. We do not tend specifically that I am aware of to make specific comparisons with Scotland and Northern Ireland or indeed Wales at this moment. I am not aware of any, but we do comparisons internationally.¹⁴

Q93 Mr Davidson: Why not? Scotland, Northern Ireland and Wales have also benefited from substantial increases in government funding over roughly the same period. It would be immensely helpful if we were able to identify that one of those regimes was producing far more with the existing money than another.

Sir Nigel Crisp: I agree with you, but how many do you want to do? If we go back to the issue of increasing bureaucracy, what we try to do is ask the questions that we judge are going to give us the immediate results and the most useful result for us at the moment is to compare one teaching hospital in England with another, to see why this hospital is so much more expensive than that. I can get a cataract done here for this and not for that. That is probably the most important level at this moment. I agree that there is a useful project we could have on comparisons with the other countries in the UK.

Q94 Mr Davidson: Presumably if all the teaching hospitals in England are operated under the same system and structure, then you are not getting the alternative view of how a slightly different structure or what might be a substantially different structure, with the same additional resources, might be affecting results. May I ask you to have a look at that? I think it would be immensely helpful to see whether or not the additional money had produced more or fewer gains in Scotland, Northern Ireland and Wales than it appears to have done in England.

Sir Nigel Crisp: May I just say that for management purposes we find it more useful to compare England with other countries of similar sizes and similar sorts of health systems. We have tended to do that, as indeed you have done in the compendium the NAO produced. That is why we have done it. I do agree with you that there is a natural experiment starting to happen, because there are differences and that it would be well worth while searching to see what the outcome would be.

Q95 Mr Davidson: Perhaps we could have some initial work on that. I appreciate that it could be immensely time consuming, but presumably there must be something. A teaching hospital in Scotland is likely to be of equivalent size to some teaching hospitals in England and Wales. I am conscious that Glasgow is a city like Leeds or Manchester or Birmingham.

¹³ Ev 27–28

¹⁴ Ev 28

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Sir Nigel Crisp: I am not casting any slight at all on the Scottish Health Service, but it is a very large rural country as well and some of the issues you are dealing with are—

Q96 Mr Davidson: I completely understand that. I recognise that there will be rural parts of Scotland which are comparable with rural bits of England and similarly with Wales and similarly with Northern Ireland. Without an enormous effort, I would have thought it was possible to have some comparisons. I worry that some of the explanations we have had smack to me more of alibis rather than explanations as to why targets have not been achieved and I want to see whether or not some other people have managed them. Could I pick up the same issues with you, Mr Normington? Firstly, financial discipline, making sure that the money has not simply been soaked up by the system, inflation in materials purchased, you have already mentioned property. Do you have the same structure or is it a different structure?

Mr Normington: It varies across our service, but if you just take schools, of course we do not manage the schools directly and in that sense it is different from the Health Service where there are local authorities in place and local authorities have quite a lot of freedom still to do what they want in terms of their priorities and so on. Nevertheless, some of the answers are the same in terms of setting clear outcomes, having clear plans, including from local authorities and schools, monitoring those plans and intervening when performance is not good enough. In terms of financial disciplines and efficiency, there are other mechanisms at local level like the Audit Commission for looking to see where the efficiency of local authorities is and whether local services are efficient enough. It is basically the same set of issues: outputs, planning, monitoring of performance, financial frameworks and audit.

Q97 Mr Davidson: The same thing about inflation in terms of purchasing services. Is that your experience? Is there any evidence that you have been able to control it?

Mr Normington: Some. I can give you a specific example of where we have been trying to tackle this, so it shows we do think there is an issue. We have just negotiated with Microsoft a national deal for software in schools. Schools do not have to buy their software there, but if they do, they will get it at a discount. That is the way we increasingly need to think. We are a big service, but there are 25,000 actual purchasers out there in schools. If we can negotiate national framework agreements and schools can then choose where to purchase, that is a good way of improving their efficiency.

Q98 Mr Davidson: May I come on also to the question of benchmarking? To what extent is education in England and examination results proving faster or slower than education in Northern Ireland or Scotland?

Mr Normington: At the high level results are broadly the same across the four countries, but there are some differences. We do not benchmark in detail. It is the same answer. We are closely in contact with our colleagues in Northern Ireland, Wales and Scotland, but we do not do detailed benchmarking. We do quite a lot of detailed benchmarking between schools in England, both in terms of their performance and their spending. We do not compare it across the—

Q99 Mr Davidson: Why do we not have competition? If we had a competition between schools and between hospitals, why do we not have competition between the different nations of the United Kingdom to see who can improve fastest?

Mr Normington: We have an informal competition. When the OECD international league tables come out, we do look to see where we are in those league tables and England has been moving up.

Q100 Mr Davidson: Is it moving up faster than Scotland, Wales and Northern Ireland?

Mr Normington: It is moving up faster than Scotland.

Q101 Mr Davidson: And Wales and Northern Ireland?

Mr Normington: I think it is not moving up all that much faster than Wales and Northern Ireland. I could provide a note on that.¹⁵

Mr Davidson: That is what I was getting round to. It would be very helpful if we could have a similar note benchmarking England with Wales, Scotland and Northern Ireland across a range of parameters in order that we can see examples of good practice and poor practice.

Q102 Mr Williams: May I underline the point just made by Mr Davidson? It seems to me ludicrous when you have four different managerial systems operating basically the same service in four countries, which are all within the United Kingdom therefore information is easily accessible, for us not to be learning best practice each from the other. Sir John will confirm, wearing another hat as Chairman of the Public Accounts Commission, that I have asked him in relation to the other three countries and his colleagues in Wales are undertaking a study in relation to orthopaedics and cataracts and so on. Really this is an area which maybe is more to be addressed to you, Sir John, than perhaps to the English NHS or the Welsh NHS, as someone who has an overall responsibility in relation to value for money.

Sir John Bourn: I am certainly doing the work you asked me to consider doing.

Q103 Mr Williams: I am grateful, that is very, very helpful. Last week we had an interesting discussion about the Gershon initiatives in relation to

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procurement.¹⁶ We dealt with three departments who were spending £15 billion on services and so on. Two big spenders were not included in Gershon: one was Defence and we understand the different systems in Defence. They could not answer, can you answer, why NHS, which spends as much as the others three departments put together, is not part of the Gershon disciplines?

Sir Nigel Crisp: It is, is it not?

Q104 Mr Williams: No, not on procurement. You were excluded from the inquiry.

Sir Nigel Crisp: We have very close relationships with OGC and therefore we have worked with them as part of his current review and we have come to agreements about what we should do. I thought that was the question you were asking. We are very substantially involved in that. There is a technical issue, which is that the NHS is public expenditure not national government expenditure and therefore when the OGC was first created, it was only dealing with what we spent nationally. Most of our spending is done in the NHS rather than through national government and that may be why he was not reporting on us. However, having said that, we have transferred the disciplines which we have worked with him on and learned in part from the OGC, to NHS expenditure as well. It may be that it is purely a technical thing. I certainly think I am part of it.

Q105 Mr Williams: Could you give me then a supplementary note on that?¹⁷ It may be relevant in relation to this inquiry, but more likely it may actually be relevant as a footnote to the inquiry we did last week. We got a very clear impression that you were completely separated from the exercise. Can I move now to education and Mr Normington? The Report says quite clearly in paragraph 9, and quite acceptably as far as we are concerned, that the department has no direct control over many of its partners such as the local education authority. You have actually said in answer to an earlier question that you now require that most of the money is passed on to schools. How do you reconcile the two?

Mr Normington: That is a description of the position, but if you ask most local authorities, they think that we have a very tight grip on them. In fact we have. It is still the case that at local level local authorities can decide how much to raise from local taxation and what proportion of their total spend they put into education and the other services. What we have been doing though is tightening up. We do have legal powers, some of which we have taken in recent legislation, to require local authorities to spend to a certain level or to passport their money on to schools. In the recent problems we have had over school funding, we have begun to use those powers in a way we have not before. We certainly think that we are

tightening up on them. Nevertheless, in the end there are local decisions to be taken by local democratic bodies and they still have that freedom.

Q106 Mr Williams: That is not necessarily compatible with the objective of delivery, is it? If we come back to the point Mr Bacon raised with you about the complexity of the change, it goes on to say that “It was the spending allocation decisions made by certain local education authorities that some schools considered contributed to the budget shortfalls during 2003–04”. He was referring to the five key issues of which complexity was one, but monitoring and evaluating performance is the fifth. What came over was a rather shambolic attempt to explain quite what had happened to the money last year. You were not able to prove conclusively, which one would have expected if you were pursuing this key objective, you were neither able to convince the public nor Parliament that you were not responsible, but equally nor were the education authorities. Why is it so blurred and if it is so blurred, what hope is there of us ever really finding out what is happening and who is responsible?

Mr Normington: Everybody in the chain played their part in this problem. There was quite a bit of passing the blame between us, but we all participated to some degree.

Q107 Mr Williams: The chain has its advantages, does it not? It can move in various directions.

Mr Normington: Only in the short term, because if you do that you are soon found out. There were all sorts of things going on last year: a change in the formula, a lot of extra demands on schools, particularly in relation to pensions, which put the costs up, quite a lot of other changes in funding and on top of that a very wide range of local distribution formulae. It was a combination of those which created the complexity. We at the centre are not able to model the impact of all the local formulae on all the schools in England; we are just not able to do that. At the core, this is an issue about how much you want the education system to be run centrally and how much you want it to be run locally. That is a policy issue which I think I might not get into.

Q108 Mr Williams: What comes over, not just looking at your department but looking at this problem of the complexity of the delivery chain, is that this really makes the water distribution system in Britain completely leak-proof, does it not? There are so many points at which money can be siphoned off from the key area it is intended for by different organisations. So do you think it helps if people are creating more organisations to put into the chain and make it more complicated?

Mr Normington: I do not think it helps to put more in and if you are, you need to be very clear what the responsibility of each player is and what their funding position is.

¹⁶ 41st Report from the Committee of Public Accounts, *Improving departments' capability to procure cost-effectively* (HC 541, Session 2003–04).

¹⁷ Ev 28

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Q109 Mr Williams: In that context—and I have to warn you I am an anti-devolutionist and unconvertible—does the interposing now of another level of management, that is a regional level, not make the delivery chain more complex? If it is done as it is done in Wales, and it is worked out according to the prescribed formula for what should go to Wales, then a sack containing it all aggregated is given to Wales, then Wales decides how it will spend it, but Wales then gives now according to its priorities to local authorities for example and they in turn decide what their priorities are with their sack of money and how they are going to spend it, is regional government not actually going to mean that central delivery targets are meaningless?

Mr Normington: I would not dream of making a comment on regionalism, except to say—

Q110 Mr Williams: Why not?

Mr Normington: It is a policy issue.

Q111 Mr Williams: No, I am talking about the managerial issue.

Mr Normington: In terms of schools, we are not expecting the regional level to be a player in England; that is not the proposition which is on the table.

Q112 Mr Williams: So you will not be following the Welsh.

Mr Normington: In that sense it is not going to add to the complexity, not in the schools area.

Q113 Mr Williams: In Wales they have Health, they have Transport, they have Education. Are you envisaging that Health will be in any way part of this devolved system?

Sir Nigel Crisp: My understanding is that the model is the same as for London and in London the Mayor rather than the GLA has responsibility for promoting health and wellbeing of the citizens of the capital. That has been helpful in our relationship. He and the GLA have no responsibility for the management, but they do have a duty to be partners with us in promoting all those things which affect health.

Q114 Mr Williams: Who makes the spending decisions and allocations?

Sir Nigel Crisp: We do.

Q115 Mr Williams: Will that be the same?

Sir Nigel Crisp: I understand it is the same model.

Q116 Mr Williams: Does that apply, as far as you know, as far as transport is concerned?

Mr Rowlands: Transport is a bit of a muddle.

Q117 Mr Williams: No, you did not say that.

Mr Rowlands: In terms of the regional dimension. Looking at England, down at local authority level they hold some of the money themselves and get it either directly from the department or through the revenue support grant, but in areas like railways the

monies are disbursed through the Strategic Rail Authority and we can at least see an argument which says in English regional terms there may be a case for looking at that again to allow people at a regional or sub-regional level to make some trade-offs as to whether this money is best spent on this form of transport or that form of transport. At the moment it is a muddle between decisions taken at national level and regional and local level. That is just work in progress. I cannot forecast where it will come out.

Chairman: A few supplementary questions, if you do not mind. I know it is late, but thank you for your patience.

Q118 Mr Bacon: Mr Normington, I should like to return to this question of complexity. We looked at this with housing benefit. The system was too complex, which militated against efficiency, effectiveness and economy. They then made it more complex, which of course made it still worse. Do you think that complexity in a system militates against efficiency, effectiveness and economy?

Mr Normington: It is likely to.

Q119 Mr Bacon: It therefore makes your job as accounting officer more difficult.

Mr Normington: Yes, it is likely to make it more difficult.

Q120 Mr Bacon: It makes it more difficult for you to come here and tell us how the money has been spent.

Mr Normington: Yes.

Q121 Mr Bacon: It is nearly impossible to follow your way through how the money has been spent.

Mr Normington: It is. In fact technically I do not account for the local authority expenditure of £26 billion. I account for the other half.

Q122 Mr Bacon: You have it, you give it to ODPM, who then give it to local authorities. Is that right?

Mr Normington: Sort of. The discussion is our share of that national allocation.

Q123 Mr Bacon: You do actually get it as part of the education budget, then it is handed on to Mr Prescott who hands it on to the local authorities. Is that not right?

Mr Normington: Sort of; yes.

Q124 Mr Bacon: I wrote to Sir John about this last year. In a system like that it is impossible for us. I remember at the time asking Sir John how we, as parliamentarians, could understand whether what ministers were telling us, or whether what local authorities were telling us was correct, whoever was correct, when it was so difficult to follow the trail of the money. As a result of that you, who are originally responsible for this education budget, cannot tell us, Parliament, how the money has been spent to your satisfaction.

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Mr Normington: I can tell you in retrospect what has been spent, because we do get those returns and I can also tell you the outcomes we are achieving at both local authority and at school level. So I have quite a lot of information about what—

Q125 Mr Bacon: Do you think much greater simplicity might help?

Mr Normington: It is a complicated system.

Q126 Mr Bacon: That was not my question.

Mr Normington: I know that, but in a sense—

Q127 Mr Bacon: That is exactly what Sir Richard Mottram said. He said “I know that”. What I want to know is whether more simplicity would help.

Mr Normington: In principle we need more simplicity.

Q128 Mr Bacon: Excellent.

Mr Normington: But I need to say to you whether you have a locally delivered system or a nationally delivered system is a matter of policy on which I am not commenting.

Q129 Mr Bacon: Of course; I would not expect you to. Sir Nigel, you said that the IT contracts were competed. I recently met the gentlemen from O2, the mobile company, and they were quite confident they were going to win the Ambulance Service contract. When I asked why they were so confident, they said they were the only bidders. I take it that is outside the scope of the MPFIT, is it?

Sir Nigel Crisp: It is not one of the seven big contracts which I was being asked about and I am not quite sure what the contract is.

Q130 Mr Bacon: It was like the airwave contract for the police; it was a mobile communications contract and they are a mobile telephony operator.

Sir Nigel Crisp: It was not one of the seven which I was being asked about. I certainly would agree that there must be some cases where individual contracts may end up going to only one person. I shall follow that one up.

Q131 Mr Bacon: I remember in the case of the Lord Chancellor’s Department and the Libra project, the fact that there was only one bidder was in itself something which rang alarm bells for the National Audit Office and with this Committee it will always raise alarm bells if there is only one bidder. Why would you get so far along the bidding process that before you concluded you only had one bidder?

Sir Nigel Crisp: Let me check the particular story, because I am not familiar with it. It is not one I personally dealt with.¹⁸

Q132 Mr Bacon: They were nice people and they were very pleased, but I just think there maybe should have been a bit of competition.

Sir Nigel Crisp: I am sure they were. They may not be quite so pleased to have met you after this.

Q133 Mr Bacon: They gave me a very nice dinner actually, so I am being very ungrateful. Perhaps you could let us have a note on it.¹⁹

Sir Nigel Crisp: It is not one I dealt with personally.

Q134 Mr Allan: Following Mr Davidson’s questions on purchasing, the headline figures are that public expenditure increases by 22% over the three years 2002–03 to 2005–06. There are two ways for the market to respond to that: one is to say “Yippee, make hay while the sun shines, let’s jack our prices up”. The other is that because you are now purchasing in greater volume you can force prices down. This is whether it is building new schools or buying drugs or railway maintenance, it is across the piece. Will you be collecting the figures to try to demonstrate that the latter has happened, that your increased volume has kept prices down rather than the former unfair inflation or inappropriate inflation? Would it be fair of us to judge you as having failed if the figures show that you have not managed to use your increased buying power to keep prices down?

Mr Normington: We shall certainly be seeking to get better value out of the investment, which means not letting it all be swallowed up by inflation. You must judge whether we have succeeded or failed at that point, but that is what we shall be seeking.

Q135 Mr Allan: It is a fair measure for us to look at.

Mr Normington: Yes, it is an important measure.

Sir Nigel Crisp: Two points. The first one is going alongside that, on IT we have re-shaped the market. It was pretty important that we were coming along with a very large sum of money and there were not that many people out there who could do what we wanted. There were lots of small niche players and there were people with big reach but who did not know the health bit. As a result of what we have done, we have actually got the three major GP systems to talk to each other, issues like that. So I hope you will judge us by how much we have got value out of the system in those sorts of ways. I actually think it would be quite difficult for you to judge us in terms of the benchmark. Who else has bought an integrated care record system, what was the going rate?

Mr Allan: The Canadians.

Q136 Mr Bacon: Could you repeat that? Did you say it would be difficult to judge you by that?

Sir Nigel Crisp: Yes. It will be difficult to judge whether we have got it more cheaply or more expensively because nobody else has bought it.

Mr Bacon: What about in southern California?

Q137 Mr Allan: The VA hospitals, the Canadians.

Sir Nigel Crisp: They are not quite the same thing, are they? We are not buying a product which is out there on the shelf to go and buy and force the price down. We are buying something which is rather different from that. That is why I think we need to

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be looking at what we have done to secure value for money, which includes re-shaping the market. Let us benchmark against VA and other people like that.

Q138 Mr Allan: Other people do buy trains and maintain train lines.

Mr Rowlands: There is clear evidence that the cost of rolling stock has come down, given the volumes and long production runs. It is more difficult in terms of maintenance, partly because it has now been taken back in house by Network Rail and partly because their inheritance from Railtrack was a business which had no worthwhile management information systems and no unit costs. Where you can benchmark it externally, like rolling stock, you can see the prices coming down.

Q139 Mr Steinberg: I am sorry to bore you and go back onto the topic I was on, but what I have heard this afternoon gives me no great confidence. Do not get me wrong, I think the public service has improved and I think it has improved greatly, there is no doubt about that at all. You only have to walk into a hospital, you only have to walk into a school to see that. What worries me is that it is not £60 billion worth of improvements. For £60 billion it should smack you in the face as you walk round your constituencies and I am not sure that it is doing that or will do that. Of course there is plenty of time to go. We are also told by the National Audit Office in the Report that progress by departments has been very mixed in terms of achieving their targets, which has to be very, very worrying. If you cannot deliver your targets, then clearly the services are not going to be improved to that extent. The point I am making is that what worries me even more is that it is basically out of your hands; it is with the local delivery of services and with Mr Rowlands it is perhaps even worse—I do not mean this to be derogatory to the private sector—because you are in the hands of the private sector as well, are you not, in fact I would suspect almost all your work is in the private sector? How can the three of you be certain that these organisations at local level are going to deliver and how are you going to ensure that they actually deliver?

Sir Nigel Crisp: There is a track record in part. We have had the same mechanisms for the last four years and when I produce this report next week it will show four years of continuous progress against our targets and against what is being measured. That is a very good way of concluding whether or not we are getting it right or not. That does not mean to say that it is not complicated.

Mr Normington: We know the performance of every school in the country. We know which are the strong, which are the medium, which are the weak. There is no difference between us and the local authorities here in focusing on those who need

to improve their performance quite hard, including tackling their leadership and the quality of the staff. In the end in the education system, the quality of the leadership and the quality of the staff are everything, but we know an awful lot more than we have ever done about where the weaknesses are and that can give you confidence. What will smack you in the face in the next 10 to 15 years is that you will see the refurbishment of the secondary school estate, you will see modern, well equipped secondary schools everywhere. That is the commitment the government has made and that will smack a lot of people in the face.

Mr Rowlands: On roads, the Highways Agency now thoroughly assesses the capability of its contractors and consultants and factors that into the tender lists which they draw up. On railways, the old style franchises were not right. The new style franchises will deliver the type of performance you are looking for. The first of those got under way on the Greater Anglia franchise this month.

Q140 Chairman: You may want to do a note on this because it is getting late in the day. I should like to know, either orally now or in a note if it is more convenient to you, what proportion of your extra resources has been spent on frontline services? Would you like to do a note on that?²⁰ I should like to know from you how you are going to deliver Sir Peter Gershon's proposed efficiency savings? Would you like to do a note on that?²¹

Sir Nigel Crisp: I suspect on the second one you may need to give us longer time than you are anticipating because we have not agreed.

Mr Normington: We are still working on it.

Mr Rowlands: It is still in negotiation.

Mr Normington: We can talk about the areas we are looking at.

Q141 Chairman: Mr Rowlands, could you just tell me why so many of your major projects such as the West Coast Main Line fall so much behind schedule?

Mr Rowlands: In the case of the West Coast I think I would attribute it largely to the incompetent management of Railtrack. It is almost a business school case study in how not to manage a project.

Chairman: That probably deals with all the questions we wish to ask you this afternoon. You have been very patient, especially with the divisions, and in our report we shall particularly want to focus on what is detailed on page 4 of Sir John's Report. Nobody denies that there have been improvements, and I am sure you would not deny it either, gentlemen. If you had dealt with these five points, complexity of the delivery chain, capacity of delivery organisations, targeting of resources, risk management and monitoring and evaluating performance, I think you could have done even better than you have done. Thank you very much.

²⁰ Ev 25, 30, 38

²¹ Ev 38

Supplementary memorandum submitted by the Department for Transport

Questions 58-60 (Mr Bacon) and Question 86 (Chairman): Productivity—what are the current measures, what is wrong with them and where is the need for changes?

1. The ONS public sector productivity measures look at services provided directly by the Government. Much of transport policy is delivered through the private sector and the productivity of (for example) car manufacturing, vehicle technology, bus operators and the train operating companies will already be captured in the National Accounts. The ONS therefore produces no productivity measures for transport and transport is excluded from the scope of the Atkinson Review.

2. The Department uses three kinds of measure to assess the productivity of its interventions:

- Benefit/Cost Ratios: these measure outcomes per unit cost input and therefore actually solve the main problems encountered by the ONS measures of health and education productivity. They demonstrate high productivity of investment in transport.
- PSA targets: these are strictly a measure of outcomes only and not productivity *per se*, but the targets reflect Government's key productivity objectives.
- Efficiency—the main measure of efficiency within the Department is the PSA Value for Money target, agreed as part of the Spending Review 2002. This requires the Department to achieve a 2.5% year-on-year efficiency saving on the Department's Total Net Administration Cost Limit (see separate note below).

3. Ideally, productivity measures should focus on outcomes (such as lives saved or reduction in journey times) directly attributable to the cost inputs, rather than outputs (such as the number of lane kilometres). The Department for Transport's productivity measure—the Benefit/Cost Ratio (BCR)—does precisely that. The BCR is used in resource allocation decisions and compares the measured expected benefits of a transport scheme, with the expected cost to the public accounts.

4. The BCR is a measure of a transport scheme's productivity. It is the result of a very detailed and rigorous appraisal process. BCRs are produced for all major transport investments across a wide range of spending.

5. Funding decisions are made on the full range of impacts, which goes wider than those included in the BCR. The New Approach to Appraisal (NATA) process also includes factors that can't be presented in money terms and hence are not in the BCR. These include, for example, the impacts of a scheme on environmental emissions, landscape, journey reliability and community severance. NATA requires these to be identified in qualitative and quantitative terms.

6. The BCR shows that transport spending generally leads to high returns, and that the increased investment in transport will lead to significantly improved outcomes. The NATA appraisal process is used to generate BCRs and other appraisal information, which includes benefits of various forms. For example:

- Local safety schemes are typically a very highly productive use of our resources, often paying for themselves within one year. Safer roads lead to fewer casualties, which are valued in the appraisal using long established methods. Of the schemes invested in outside London in 2002-03, for every £1 spent, the benefits in the first year alone of reduced casualties were worth £1.70. These schemes also have benefits in future years. On average, over the life of the scheme, each £1 of spending had benefits worth over £7 (in net present value terms).
- Highways Agency strategic road programmes typically offer at least £2 worth of benefits for every £1 invested. Some offer even more. The primary focus of many of these schemes is to reduce congestion, thereby making journeys faster and more reliable, and to improve safety by reducing road casualties. The BCR is therefore a very effective way of directly reflecting the majority of such schemes' benefits.
- On public transport, the BCRs and appraisal process also account for impacts that are specific to these modes. For example, the BCR includes the time saved by passengers arising from a more frequent bus or rail service. It also accounts for changes in overcrowding on rail as a result of an investment. The nature of local transport schemes means that local impacts on, for example, integration, accessibility and the environment are often key objectives: these are assessed in the appraisal process and are taken into account in decisions about resource allocation. Rail appraisals cover a range of spending such as enhancements to franchises and major routes. The BCR and other appraisal information (accounting for the impacts on the environment or regeneration for example) reflect productivity of spending in terms of benefits per £1 spent.

7. The appraisal process undergoes continuous improvement. For example, there is a programme of work underway to value environmental impacts. The Department is also developing modelling and forecasting methods. Developments and improvements to the appraisal process do however mean we do not have a time series of BCRs on a consistent basis.

8. Many transport investments are irreversible: for example, we can't easily dig up a road once we have built it. The Department therefore places a very high importance on ensuring appraisals provide as robust and accurate assessments as possible of the expected costs and benefits of transport schemes.

9. Post implementation evaluations are carried out to monitor the extent to which the benefits we expect do materialise. For example, all Highways Agency road schemes in the Targeted Programme of Improvement (TPI) undergo Post Opening Project Evaluation (POPE) which compares what we expected with what actually happened. Evaluations have also been carried out on the Jubilee Line Extension and various light rail schemes such as the Croydon Tramlink, Manchester Metrolink and Sheffield Supertram.

FURTHER INFORMATION ON THE BCR

10. Benefits are estimated by comparing the expected state of the world with the proposed transport scheme in place, with what is assumed to have happened anyway.

11. The appraisal is conducted by the scheme sponsor (Local Authorities, the Highways Agency, SRA) in line with the Department's guidance, NATA, which sets out in detail the process of appraisal, and is consistent with the Treasury's Green Book appraisal guidance.

12. Costs include the initial capital investment costs, operating costs such as maintenance and renewal over the lifetime of the scheme, along with the costs to users during construction and maintenance such as delays from road works. Risk assessments are carried out and the costs adjusted accordingly and an appropriate optimism bias factor is also applied; both adjustment factors are in line with Green Book guidance.

13. The analysis takes into account future costs and benefits and compares these in present value terms, using the discount rate in the Treasury's Green Book appraisal guidance.

PSA TARGETS

14. To supplement the use of BCRs as an estimate of the productivity of single transport schemes, we can also look at measuring the outcomes of tranches of expenditure. The 10-Year Plan was underpinned by these techniques. And it identified key targets for our policies, of which many relate directly to productivity and efficiency. The Plan exemplified the effects of a set of policy assumptions and other interventions on a range of our targets and indicators. More detail of the method used is given in a paper "*Modelling and Forecasting Using the National Transport Model*" published on the DfT website

15. Our most recent published forecasts, which appeared in the Progress Report, projected that congestion on all roads would be 12–16% lower in 2010 than if the 10-Year Plan had not been introduced. This amounts to a time saving up to 280 million hours. These figures—which appeared in paragraph 7.11 of the Progress Report—are a measure of outcomes. They cannot be simply turned into a productivity measure as they refer to 2010 only, rather than being a Net Present Value, and they reflect the increase in the resources, rather than the whole 10-Year Plan (for example, the congestion reduction excludes the benefit of schemes already in the Targeted Programme of Improvement before 2000).

16. Similarly, the 10-Year Plan is expected to increase public transport patronage. Bus boardings in 2010 are expected to be 18 to 21% higher than if there were no Plan, and rail passenger kilometres are forecast to be 16 to 19% higher than in the absence of the Plan.

17. The Transport Strategy that we will publish in the summer will take the opportunity to review and improve our targets to ensure they better reflect Government's objectives, including productivity and efficiency.

DfT ADMINISTRATION EFFICIENCY

Background

1. The main measure of efficiency within the Department is the PSA Value for Money target, agreed as part of the Spending Review 2002. This requires the Department to achieve a 2.5% year-on-year efficiency saving on the Department's Total Net Administration Cost Limit. In 2003–04 this covered the Central Department (DfT (C)), Maritime and Coastguard Agency (MCA), Highways Agency (HA) and Driver and Vehicle Licensing Agency (DVLA).

2. The Department takes, as a measure of efficiency improvements, savings against its Total Net Administration Cost Limit. Efficiency improvements are defined as:

- Increased outputs/outcomes for the same inputs.
- Constant outputs/outcomes for reduced inputs.
- Reduced inputs from sun-setting unnecessary activities.

3. Having become a Trading Fund on 1 April 2004, the DVLA is no longer covered by the PSA Target. However, the DVLA and other Agencies in the Driver Vehicle and Operator (DVO) Group—Driving Standards Agency (DSA), Vehicle Certification Agency (VCA) and Vehicle and Operators Services Agency (VOSA)—all maintain their own efficiency plans and targets. A measure of efficiency for the Trading Funds (DVLA, DSA and VOSA) is a Return on Capital Employed (ROCE) target of 3.5% each year, whilst taking into account the application of accumulated reserves. However, there are some external requirements which limit the level of efficiency improvements which can be made. For example, EU Directives set out the requirements for driving tests which determine the length of time taken to complete them. Therefore it would be difficult to take five minutes off the test to improve productivity.

4. VCA operates on a cost-recovery basis in a competitive market-place with a number of other EU regulatory agencies able and willing to compete for business. In this context, the main indication of the Agency's efficiency is whether it attracts customers, while still being able to cover its operating costs.

PSA TARGET ACHIEVEMENT IN 2003–04

5. Assessed against a net Administration Cost Limit for 2003–04 of £356 million, the 2.5% efficiency saving target equates to £8.9 million. The Department's Efficiency Delivery Plan originally identified possible efficiencies equivalent to £13.48 million. The higher level of efficiency in the Delivery Plan was to ensure that there was a contingency element to our planning to manage the risk of some initiatives being unable to realise the full level of projected efficiencies and to address any inherent optimism-bias.

6. In the event, some projects and programmes encountered slippage in meeting projected targets, although, conversely, some other projects delivered higher than forecast efficiencies. The overall level of efficiency savings achieved by the Department for 2003–04 is equivalent to £11.08 million, or 3.11% compared to the ACL baseline.

CENTRAL DEPARTMENT AND AGENCY EFFICIENCY

7. The following gives examples of where efficiency savings have been made in 2003–04:

DfT (C)

- £1,000,000 savings by Regional Transport following the sunseting of the London Underground Task Group.
- £1,000,000 saving through replacing BT supplied ICT Telecoms contract. The Department redefined its requirements and is now using a range of alternative suppliers to suit business needs.

HA

- System for Managing project, enabling the Agency to manage more effectively its purchasing, inventory, accounting processes and programmes. An efficiency saving of £505,000 was achieved through a reduction in staff numbers due to the cessation of clerical functions and transfer of activities to e-business.

MCA

- Investment in a digital Integrated Coastguard Communications system, which meant 5% of coastguard resource was redirected to prevention activity. This is equivalent to an efficiency gain of £650,000.
- Absorbing an estimated 15% increase in the UK shipping register (in tonnage terms) within existing surveying resources. This is equivalent to an efficiency gain of £700,000.

DVLA

- The Agency measures ongoing operational efficiency by comparing the cost of carrying out a year's work with what that work would have cost at the previous year's prices. The formula that DVLA uses is:

$$\text{Efficiency} = 1 - \frac{\text{Sum of (Year 2 volumes x Year 2 unit costs) at Year 1 prices}}{\text{Sum of (Year 2 volumes x Year 1 unit costs)}}$$

Subject to the level of GDP, efficiency improvements therefore result from processing more transactions for the same cost, and processing the same level of transactions for the same or reduced costs. For 2003–04, this is currently reported as 2.4%, which is equivalent to a £2,712,000 efficiency saving on the DVLA baseline.

VOSA

- VOSA replaced its Aggregated Cost Efficiency measure with an outcome focused Performance Gain measure of its enforcement activity. Performance Gain captures efficiency and effectiveness. VOSA achieved a 2.6% Performance Gain on enforcement activities, in excess of the 2% target set, during 2003–04.

DSA

- For the past six years, DSA has delivered against the demanding efficiency target of absorbing input price increases while keeping fee increases to customers in line with growth in the Retail Price Index (RPI).

VCA

- VCA has not increased its fees for four years and last year they were only increased in line with RPI. Therefore, the Agency's annual cost pressures are absorbed through efficiency savings.

FUTURE DEPARTMENTAL EFFICIENCY PLANS

8. Future Departmental Efficiency Plans will be framed in the context of the finalised Gershon Efficiency proposals. This will focus on efficiency savings in the following areas:

- the Highways Agency collaborating with Local Authorities on road procurement;
- Departmental Reform in DfT (C) and its Executive Agencies; and
- the DVO Group's improved tax yield and development of e-transactional services.

9. Future efficiency monitoring will therefore need to cover both programme and administration budgets. Guidance is expected from the Treasury, giving further details on how this should be structured. The Department will continue to identify and monitor corporate improvement projects and savings in policy functions as part of this wider efficiency agenda. See also separate note on the Gershon Review below.

Question 58 (Mr Bacon): How much of the extra spending has been spent on higher wages for existing people and how much has been spent on new people?

1. SR02 allocated an extra £1,295 million in 2003–04. Of this, a small proportion (£14 million) was allocated to administration costs, primarily to pay for development of the Continuous Registration Initiative (DVLA), Electronic Service Delivery programme in the DVO agencies, the Highways Agency Traffic Management Initiative and improving transport security.

2. A small proportion of extra programme expenditure has also been spent on the costs of staff working in frontline services.

3. The attached table from the DfT Annual Report 2004 details staff numbers. Staff increases in agencies in years 2003–04 to 2005–06 are largely increases in frontline staff:

- The Highways Agency increase is due to the employment of Traffic Operations staff. Following the Traffic Management Bill, some responsibilities for dealing with traffic on motorways will transfer from the police to the Highways Agency. The Agency's traffic officers will manage the traffic consequences of incidents. The aim is to improve traffic management measures and to keep traffic flowing. Seven new regional control centres are being set up, the first of which will become operational in the West Midlands this year.
- The DSA are recruiting more driving examiners to bring about a reduction in the number of weeks candidates have to wait before taking their practical driving test. Similarly, the DVLA will be improving its services by employing extra staff to support the delivery of new projects, processes and systems such as Continuous Registration, Electronic Vehicle Licensing, the issue of Harmonised Registration Certificates, improving driving licence security and converging driver and vehicle databases. Staff numbers are expected to decline after 2006 as efficiency savings are realised.
- The DVO Group will experience increases in order to improve customer service.

4. Pay increases for past years are set out in the note below.

TABLE: STAFF NUMBERS

| | | 2000–01 | 2001–02 | 2002–03 | 2003–04 | 2004–05 | 2005–06 |
|---|---------------|---------------|---------------|---------------|----------------|------------------|------------------|
| | | <i>Actual</i> | <i>Actual</i> | <i>Actual</i> | <i>Outturn</i> | <i>Plans (1)</i> | <i>Plans (1)</i> |
| Central Department (2) | CS FTEs | 4,870 | 4,270 | 1,900 | 1,926 | 1,811 | 1,811 |
| | Overtime | 40 | 70 | — | — | — | — |
| | Casuals | 91 | 90 | 30 | 18 | 18 | 18 |
| | TOTAL | 5,001 | 4,430 | 1,930 | 1,944 | 1,829 | 1,829 |
| Driver and Vehicle Licensing Agency | CS FTEs | 4,701 | 5,081 | 5,326 | 6,500 | 6,535 | 6,555 |
| | Overtime | 107 | 106 | 106 | 98 | 84 | 88 |
| | Casuals | 567 | 183 | 411 | — | — | — |
| | TOTAL | 5,375 | 5,370 | 5,843 | 6,598 | 6,619 | 6,643 |
| Driving Standards Agency | CS FTEs | 1,742 | 1,851 | 1,949 | 2,270 | 2,560 | 2,600 |
| | Overtime | — | — | — | — | — | — |
| | Casuals | — | — | — | — | — | — |
| | TOTAL | 1,742 | 1,851 | 1,949 | 2,270 | 2,560 | 2,600 |
| Highways Agency (3) | CS FTEs | 1,980 | 1,673 | 1,842 | 2,054 | 2,762 | 3,762 |
| | Overtime | 15 | 23 | 21 | 8 | 0 | 0 |
| | Casuals | 30 | 39 | 21 | 8 | 6 | 6 |
| | TOTAL | 2,025 | 1,735 | 1,884 | 2,070 | 2,768 | 3,768 |
| Maritime and Coastguard Agency | CS FTEs | 1,020 | 1,630 | 1,100 | 1,139 | 1,139 | 1,139 |
| | Overtime | 55 | 52 | 47 | 50 | 56 | 56 |
| | Casuals | 30 | 40 | 50 | 39 | — | — |
| | TOTAL | 1,105 | 1,722 | 1,197 | 1,228 | 1,195 | 1,195 |
| Vehicle Certification Agency | CS FTEs | 93 | 100 | 104 | 112 | 111 | 110 |
| | Overtime | 3 | 4 | 3 | 3 | 2 | 2 |
| | Casuals | — | — | 3 | 1 | — | — |
| | TOTAL | 96 | 104 | 110 | 116 | 113 | 112 |
| Vehicle and Operator Services Agency (4) | CS FTEs | 1,947 | 1,900 | 2,110 | 2,233 | 2,240 | 2,240 |
| | Overtime | 88 | 78 | — | 58 | 88 | 88 |
| | Casuals | 100 | 110 | 80 | 80 | 80 | 80 |
| | TOTAL | 2,135 | 2,088 | 2,190 | 2,371 | 2,408 | 2,408 |
| Total DfT | 17,479 | 17,244 | 14,873 | 16,597 | 17,492 | 18,555 | |
| Office of the Rail Regulator | CS FTEs | 100 | 108 | 120 | 124 | 140 | 140 |
| | Overtime | 1 | 1 | 1 | 1 | 1 | 1 |
| | Casuals | 3 | 6 | — | — | — | — |
| | TOTAL | 104 | 115 | 121 | 125 | 141 | 141 |
| Office of Passenger Rail Franchising (5) | CS FTEs | 180 | — | — | — | — | — |
| | Overtime | 2 | — | — | — | — | — |
| | Casuals | 5 | — | — | — | — | — |
| | TOTAL | 187 | — | — | — | — | — |

(1) Figures for 2004–05 and 2005–06 are subject to review in the light of the Government's Efficiency Review.

(2) The staff figures prior to 2002–03 are those for DETR/DTLR. From 2002–03 onwards the figures are those for the Department for Transport. Due to a changeover of the Department's contractual payroll provider overtime figures for 2002–03 and 2003–04 are unavailable. The Central Department's staffing figures include Government Office staff allocated to DfT.

(3) These figures include Traffic Operations staff.

(4) From 1 April 2003 the Vehicle Inspectorate (VI) and the Traffic Area Network (TAN) combined to become the Vehicle Operator Services Agency. Figures for previous years are for VI. TAN figures for previous years are included in the DfT total.

(5) From January 2001 OPRAF became part of the Strategic Rail Authority, a non-departmental public body.

Question 85 (Chairman): Pay rises for civil servants in the Department for Transport (or predecessor departments) relative to inflation since 1997.

| <i>Year</i> | <i>Annual RPI increase (%)¹</i> | <i>Annual RPIX increase (%)</i> | <i>Headline (%)</i> | <i>Earnings growth (%)</i> |
|-------------|--|---------------------------------|---------------------|----------------------------|
| 1997 | 3.1 | 2.8 | 3.0 | 4.0 |
| 1998 | 3.4 | 2.6 | 4.3 | 5.3 |
| 1999 | 1.5 | 2.3 | 3.0 | 4.0 |
| 2000 | 3.0 | 2.1 | 3.9 | 4.9 |
| 2001 | 1.8 | 2.1 | 4.5 | 5.5 |
| 2002 | 1.7 | 2.2 | 3.6 | 4.6 |
| 2003 | 2.9 | 2.8 | 2.0 | 3.6 |

Notes

- Relates to grades below Senior Civil Service in the Central Department. The Senior Civil Service is covered by the Senior Salaries Review Body and terms set centrally, but paid from money included in the DfT paybill.
- Headline = increase to paybill funded by new money.
- Earnings growth = total increase to paybill funded by new money plus money gained from staff savings.

Question 140 (Chairman): What proportion of your extra resources has been spent on frontline services?

1. Virtually all the extra resources are being spent on frontline services.
2. Total net administration costs for DfT increased by £26 million in 2003–04 (based on estimated output). This compares to total increased resources of £1,295 million. Net administration costs accounted for less than 3% of the Department's total public spending in 2003–04.

Question 140 (Chairman): How are you going to deliver Sir Peter Gershon's proposed efficiency savings?

1. The Department has been actively engaged with Sir Peter Gershon's Efficiency Review of Government since its outset. The efficiency targets expected from the Gershon Review are set in the context of the Chancellor's budget announcement, which included the expectation that Departments would be required to make 2.5% year-on-year efficiency savings, on administration and programme budgets, over the 2004 Spending Review period.
2. Efficiency proposals were submitted alongside the Department's main 2004 Spending Review submission on 2 March. At the same time the proposals were sent to the Efficiency Review Team, to enable Sir Peter Gershon to make his final report. Overall, the Department's efficiency proposals have entered fully in the spirit of the Gershon Review and offer the potential to make substantial savings by 2007–08.
3. As part of the Department's 2004 Spending Review submission, the efficiency elements developed during the Gershon Review have yet to be finalised. Therefore full details of the areas of savings and what they will deliver cannot be confirmed until the Department reaches a final settlement with Treasury in July.
4. The Department has focused on the following areas to achieve efficiency savings by 2007–08:
 - the Driver, Vehicle and Operator Group plans to increase the collection of Vehicle Excise Duty and achieve further savings through efficiencies in transactional services and business process re-engineering;
 - the Highways Agency will lead a project to help Local Authorities improve efficiency in Roads Procurement;
 - Local Authorities and Transport for London will make efficiency improvements on Local Transport Capital and Local Authorities Revenue Support Grant in order to generate efficiencies and absorb unavoidable pressures over the 2004 Spending Review period; and
 - the Department has put in place a comprehensive and far-reaching Departmental Reform agenda, which will aim to deliver savings from remodelling of the departmental HQ, and a project to reform support services across the DfT group.

May 2004

¹ Source: National Statistics.

Supplementary memorandum submitted by the Department of Health

Question 13 (Mr Field) and Question 87 (Mr Davidson): To what extent have you raised the relative pay of the lowest paid workers and have they received a higher increase than those who were already best paid?

In recent years we have tackled low pay in the NHS by weighting awards to the lowest paid. For example, in the three-year pay deal for non-review body staff covering 1999–2002 we agreed cash increases if more favourable, to lower paid staff. The details of the awards were as follows:

- 1999–2000—3% or £250
- 2000–01—3.25% or £300
- 2001–02—3.7% or £380

The effect of the awards gave some of the lowest paid ancillary staff pay increases ranging between 3.2% in year one up to 4.6% in year three.

In 2002–03, we went even further to address low pay. In addition to the headline increase to non-review body staff of 3.6%, or £400 if greater, we agreed a range of targeted action focussed particularly on the lower paid which resulted in pay increases worth up to 6.5% for lower paid ancillary staff.

Over the longer term period, since 1997, ancillary staff in the lower grades will have received pay increases of between 9–13% in real terms, in comparison to hospital consultants who have received between 8–10% (with the exception of those with eight Discretionary Points).

For illustrative purposes the table below shows the headline pay increases for Non-Review Body since 1997 and (see Annex 1² and Annex 2³) the effect of pay awards for ancillary staff and hospital consultants since 1997.

**HEADLINE PAY INCREASES SINCE
NON-REVIEW BODY SINCE 1997**

| <i>Year</i> | |
|-------------|----------------------------|
| 1997–98 | 3.3% ⁽¹⁾ |
| 1998–99 | 3.8% ⁽²⁾ |
| 1999–2000 | 3% (or £250 if greater) |
| 2000–01 | 3.25% (or £300 if greater) |
| 2001–02 | 3.7% (or £380 if greater) |
| 2002–03 | 3.6% (or £400 if greater) |
| 2003–04 | 3.225% |
| 2004–05 | 3.225% |

⁽¹⁾ staged award—2.8% from 1/4/97 balance from 1/12/97

⁽²⁾ staged award—2% from 1/4/98 balance from 1/12/98

Question 31 (Mr Allan): Have you delivered broadband access for NHS clinicians and support staff by April 2004?

The target to deliver broadband access for NHS clinicians and support staff by April 2004 was part of the Broadband Upgrade Programme negotiated under the NHSnet contract. The achievement of this target was affected by a review of the approach and a re-profiling of the programme to meet the National Programme for Information Technology (NPfIT) requirement and budget.

The Bandwidth Upgrade Programme was terminated in February 2004 when the NPfIT contract was awarded for the New National Network (N3) as this provided improvements in cost and performance. The April 2004 target has, therefore, been suspended. However, the benefits of better service levels, cheaper costs and higher bandwidth levels that the new N3 contract provides will far exceed those of the original target.

Upgrades are being scheduled to co-ordinate with the NPfIT Implementation Plans, PCT priorities and the GP Practice line utilisation. The GP upgrades will be complete by the end of the financial year 2004–05 and trust upgrades are being scheduled to co-ordinate with the NPfIT Implementation Plans.

² Ev 31

³ Ev 32

Questions 58–59 (Mr Bacon): Why is the current measure of efficiency unsatisfactory and what changes do you propose?

The most common measure of NHS efficiency currently used, the Cost Weighted Efficiency Index (CWEI), is calculated by the ratio of the growth in NHS activity and the growth in NHS expenditure. The activity measure is derived by calculating the change in activity (eg inpatients, outpatients and A&E visits) weighted by their share of expenditure.

The main drawbacks of the CWEI are that it:

- fails to count a large amount of NHS activity—eg primary care consultations/procedures, nurse led procedures, FHS prescriptions, NHS Direct Calls and Walk-in Centres Visits;
- takes no account of quality, such as better health outcomes, shorter waiting times, single sex wards or cleaner hospitals;
- classifies activity in only 12 activity types and two of which (inpatients and outpatients) account for 85% of the cost weights. This limits the ability to measure changes in case-mix; and
- perversely records shifts in activity from inpatients to outpatients and from outpatients to primary or community care as inefficiency.

The Office for National Statistics (ONS) also publish a measure of health productivity that is based on the CWEI but also includes additional data such as the number of prescriptions dispensed, plus General Ophthalmic, General Dental and General Practice visits. Even so, this also suffers from many of the same problems as the CWEI.

The ONS measure is a UK level measure. Where data sources are incomplete (for example certain types of activity data are unavailable in Scotland, Wales and Northern Ireland), ONS assumes activity increases are proportional to those in England.

The Department of Health is working closely with the Atkinson Review team at the ONS to develop a new measure of NHS productivity. The new measure will hopefully overcome many of the problems associated with the current measure by using more detailed activity data, include that undertaken in primary and community care and, if possible, the improved quality of NHS services.

Question 85 (Chairman): What have been the pay rises for DH staff since 1997 and how does that relate to inflation for all grades?

The table below shows how the money to fund pay awards for Department of Health staff relates to the DH paybill and inflation since 1997. The table covers staff in Integrated Paybands 1 to 4. The Senior Civil Service (SCS) pay awards are shown separately, as they are covered by the Senior Salaries Review Body (SSRB) and their terms are set centrally.

| <i>Year</i> | <i>Annual RPI increase</i> | <i>Annual RPIX increase</i> | <i>Percentage headline increase to DH paybill agreed by HM Treasury</i> | <i>Percentage increase to maxima for Integrated Paybands 1 to 4</i> |
|-------------|----------------------------|-----------------------------|---|---|
| 1997–98 | 3.1% | 2.8% | 1.90% | Between £500 and £1,000 cash increase |
| 1998–99 | 3.4% | 2.6% | 2.50% | 3.00% |
| 1999–2000 | 1.5% | 2.3% | 2.70% | 3.80% |
| 2000–01 | 3.0% | 2.1% | 2.50% | 1.00% |
| 2001–02 | 1.8% | 2.1% | 2.50% | 2.50% |
| 2002–03 | 1.7% | 2.2% | 4.80% | 2.50% |
| 2003–04 | 2.9% | 2.8% | 1.85% | 2.50% |
| 2004–05 | | | | |
| 2005–06 | | | | |

The 1999 award was significantly above the rate of inflation but was framed within the Government's approach to Public Sector spending which was announced in the Comprehensive Spending Review in July 1998. It remained below the median rise in pay settlements across the whole economy in the first part of 1999.

The 2000 pay award remained with the IRS forecast for an average increase in headline inflation to 2.5%.

The 2001 and 2002 settlements were negotiated as a two year deal. The 2001 settlement was 0.7% above inflation to provide a clear and stable base for the introduction of a new pay system in 2002. The 2002 award brought with it the introduction of a new pay system. The award for that year was significantly above the rate of inflation to allow for progression for DH staff whose pay levels had fallen significantly below those elsewhere across Whitehall.

The 2003 pay award remained below the rate of inflation.

Responsibility for SCS pay is not delegated to individual departments as it is retained in the Cabinet Office. The fourth column, therefore, shows the percentage increase to the SCS paybill and not the DH paybill.

SCS PAY AWARDS

| <i>Year</i> | <i>Annual RPI increase</i> | <i>Annual RPIX increase</i> | <i>Increase to SCS paybill recommended by Cabinet Office</i> | <i>Percentage increase to maxima for SCS Paybands 1 to 3</i> |
|-------------|----------------------------|-----------------------------|--|--|
| 1997–98 | 3.1% | 2.8% | 4.5–5.0% | 2.75% |
| 1998–99 | 3.4% | 2.6% | 5.0–5.5% | 3.5% |
| 1999–2000 | 1.5% | 2.3% | 4.1–4.5% | 2.8% |
| 2000–01 | 3.0% | 2.1% | 4.2–4.6%* | 2.9% |
| 2001–02 | 1.8% | 2.1% | 4.2–4.6%* | 3.0% |
| 2002–03 | 1.7% | 2.2% | # | 2.5% |
| 2003–04 | 2.9% | 2.8% | # | 2.25% |
| 2004–05 | | | 3.5% # | 2.0% |
| 2005–06 | | | | |

* in addition, 0.4% of paybill available for additional increases to SCS staff in posts with a job evaluation for senior posts (JESP) score of 17 and above.

in addition to base pay increases the following percentages were available for non-consolidated bonuses:

| | |
|---------|------|
| 2002–03 | 2.3% |
| 2003–04 | 3.8% |
| 2004–05 | 4.0% |

Questions 91–92 (Mr Davidson): Benchmarking—why do you not compare yourselves with Scotland, Northern Ireland or Wales?

The Department is concerned with the performance of the NHS in England and as such does not generally make comparisons of performance with the home countries. There may be instances, however, where it is appropriate to do so in order to move individual pieces of work forward. This may be more relevant where there are cross-border issues to be considered in which case any comparisons are likely to be specific to particular countries and would not generally cover each one. Comparisons with other countries of a similar size, with similar health systems, tends to generate more useful information. Examples of regular comparisons are:

International work

The Organisation for Economic Co-operation and Development (OECD) plays a prominent role in fostering good governance in the public service and in corporate activity. It has a membership of 30 countries and is a unique forum to discuss, develop and refine economic and social policies.

The OECD has produced a number of papers concerned with health issues and in 2003 produced a working paper on “*Tackling excessive waiting times for elective surgery: A comparison of policies in 12 OECD countries*”.

Online System for Comparative Analysis and Reporting (OSCAR)

OSCAR is an online service on NHSnet to help primary care trusts (PCTs) and other NHS organisations benchmark performance and make strategic planning decisions. The service offers quarterly updated information on all admissions to every provider in England. Information is displayed through interactive graphs and tables, illustrating national and local admitted patient care.

Questions 103–105 (Mr Williams): Why is the NHS not part of the Gershon disciplines?

Mr Williams referred to a previous hearing with Sir Peter Gershon (former Chief Executive of the Office of Government Commerce) on 21 April 2004. Sir Peter said then that his remit “was civil central government”. The OGC, therefore, formally covers Department of Health (DH) expenditure, but not the National Health Service.

However, as Sir Peter also mentioned, collaboration with the NHS has been developed through DH and we routinely use this approach in major projects. The NHS has been validated by OGC to use the OGC Gateway review process since April 2003. All high risk and volunteer medium risk programmes and projects are reviewed eg PFI hospital, LIFT primary care and IT schemes.

Questions 129–133 (Mr Bacon): Did the ambulance service contract only have one bidder?

The NHS Information Authority (NHSIA) is undertaking a full OJEU (Official Journal of the European Union) Procurement, on behalf of the Department of Health. The new infrastructure will also satisfy the Civil Contingency Committee's requirement to have in place voice interoperability between the Police, Fire and Ambulance services across Great Britain. The project is not part of the National Programme for Information Technology (NPfIT).

The procurement was split into four lots and bidders were invited to offer any combination of lots. Eleven suppliers were long-listed (eight as potential prime contractors). Six responses to the Output Based Specification were received of which three were selected to go forward to the negotiation stage. Of these, Airwave O2 is the only bidder for the first of the lots (the network infrastructure). No contract has yet been awarded. It is expected that the Full Business Case will be submitted for approval in late summer and follows a Gateway Review 3 Health Check carried out recently by the Office of Government and Commerce. These processes plus additional checks that are being undertaken in light of the fact that there is a single bidder will ensure that this contract is not agreed unless it offers real value for money.

Question 140 (Chairman): What proportion of your extra resources has been spent on frontline services?

In 2004–05, the Department of Health's administrative budget came to £316 million and it represents 0.5% of the total Departmental Expenditure Limit (DEL) for the NHS of £67.4 billion

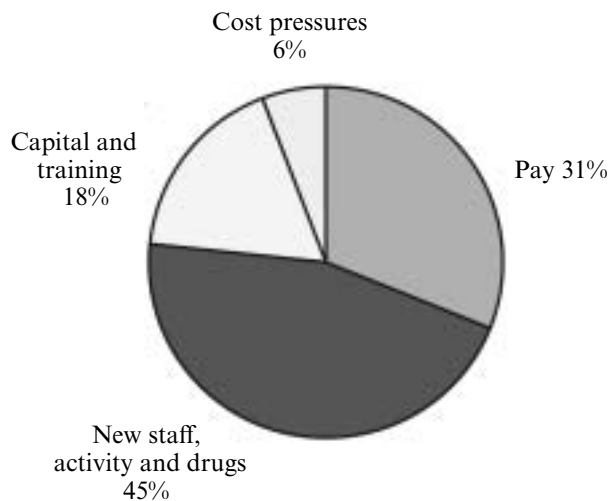
The remainder of the funding is used to delivery the Department's priorities on Health.

A high level breakdown of the total NHS DEL is given below:

- £58.0 billion revenue and capital (86% of total expenditure) is allocated to the NHS to spend locally on the delivery of primary and secondary health care.
- £9.4 billion (14%) is expended through central revenue and capital budgets. This funds, for example, training for doctors, nurses and allied health professionals (£4.1 billion), research and development, the national programme for information technology and national risk pooling arrangements for clinical negligence.

The spread of the extra funds in 2003–04 is shown in the following breakdown:

**Breakdown of Additional Spend in 2003–04
(Total £5.9bn)**



Question 140 (Chairman): How are you going to deliver Sir Peter Gershon's proposed efficiency savings?

Most of the areas Sir Peter identified for savings in his Efficiency Review are areas that we were already working on. The areas we will be looking to achieve savings are:

- Better procurement of commodities and services by making more use of NHS and social services "corporate muscle".
- Improving the productive time of front line staff through pay and workforce reform, system redesign and investment in IT.
- Better use of shared service centres to reduce "back office" costs.
- Reduced size of the core Department and the Arms Length Bodies through the restructuring and reviews already taking place.

The actual level of savings is still to be finalised as part of the Spending Review process.

Annex 1

EFFECT OF PAY AWARDS FOR ANCILLARY STAFF SINCE 1997

| Grade | | 31/03/97 | | | 01/04/2003 | | | 01/04/04 | | | (Cash Increase) | (Real terms Increase) |
|-------|-------|----------|----------|--------|------------|----------|---------|----------|----------|---------|-----------------|-----------------------|
| | | Per Hour | Per Week | Annual | Per Hour | Per Week | Annual | Per Hour | Per Week | Annual | | |
| B(1) | Inc 1 | £3.46 | £134.94 | £7,036 | £4.61 | £179.88 | £9,379 | £4.76 | £185.68 | £9,681 | 38% | 13% |
| | Inc 2 | £3.53 | £137.65 | £7,177 | £4.69 | £182.97 | £9,540 | £4.84 | £188.87 | £9,848 | 37% | 13% |
| | Inc 3 | £3.60 | £140.41 | £7,321 | £4.77 | £186.11 | £9,704 | £4.93 | £192.12 | £10,017 | 37% | 12% |
| C | Inc 1 | £3.53 | £137.65 | £7,177 | £4.69 | £182.97 | £9,540 | £4.84 | £188.87 | £9,848 | 37% | 13% |
| | Inc 2 | £3.67 | £143.24 | £7,469 | £4.81 | £187.71 | £9,787 | £4.97 | £193.77 | £10,103 | 35% | 11% |
| D | Inc 1 | £3.67 | £143.24 | £7,469 | £4.81 | £187.71 | £9,787 | £4.97 | £193.77 | £10,103 | 35% | 11% |
| | Inc 2 | £3.82 | £149.05 | £7,771 | £4.98 | £194.35 | £10,133 | £5.14 | £200.62 | £10,460 | 35% | 10% |
| E | Inc 1 | £3.82 | £149.05 | £7,771 | £4.98 | £194.35 | £10,133 | £5.14 | £200.62 | £10,460 | 35% | 10% |
| | Inc 2 | £3.98 | £155.10 | £8,087 | £5.16 | £201.37 | £10,499 | £5.33 | £207.87 | £10,838 | 34% | 10% |
| I | Inc 1 | £3.82 | £149.05 | £7,771 | £4.98 | £194.35 | £10,133 | £5.14 | £200.62 | £10,460 | 35% | 10% |
| | Inc 2 | £3.98 | £155.10 | £8,087 | £5.16 | £201.37 | £10,499 | £5.33 | £207.87 | £10,838 | 34% | 10% |
| II | Inc 1 | £3.98 | £155.10 | £8,087 | £5.16 | £201.37 | £10,499 | £5.33 | £207.87 | £10,838 | 34% | 10% |
| | Inc 2 | £4.14 | £161.40 | £8,415 | £5.35 | £208.83 | £10,888 | £5.53 | £215.57 | £11,240 | 34% | 10% |
| III | Inc 1 | £4.14 | £161.40 | £8,415 | £5.35 | £208.83 | £10,888 | £5.53 | £215.57 | £11,240 | 34% | 10% |
| | Inc 2 | £4.31 | £167.96 | £8,757 | £5.56 | £216.69 | £11,298 | £5.74 | £223.68 | £11,663 | 33% | 9% |
| IV | Inc 1 | £4.31 | £167.96 | £8,757 | £5.56 | £216.69 | £11,298 | £5.74 | £223.68 | £11,663 | 33% | 9% |
| | Inc 2 | £4.48 | £174.78 | £9,113 | £5.77 | £225.08 | £11,736 | £5.96 | £232.34 | £12,114 | 33% | 9% |

Notes

- (1) Unable to separately identify pay increases for cleaners from the pay of other ancillary workforce—but majority are likely to be paid on Grade B.
- (2) Ancillary staff are graded from Scale B to Scale E—the non-supervisory grades. There are four supervisory roles (Scales I–IV).

Annex 2

HOSPITAL CONSULTANTS: EFFECT OF PAY AWARDS SINCE 1997

| <i>Pay Determined by: DDRB</i> | | | | <i>%</i> | <i>%</i> |
|----------------------------------|-----------------|-----------------|-----------------|----------------------------|----------------------------|
| <i>Notes</i> | <i>31/03/97</i> | <i>01/04/03</i> | <i>01/04/04</i> | <i>Increase (Cash)</i> | <i>Increase (Real)</i> |
| <i>Consultant (old contract)</i> | | | | | |
| Scale Minimum | £42,170 | £54,340 | 55,699 | 32% | 8% |
| Scale Maximum | £54,430 | £70,715 | 72,483 | 33% | 9% |
| With 5 DPs | (1)(2) £65,315 | £84,890 | 87,118 | 33% | 9% |
| With 8 DPs | (1)(2) — | £93,395 | 95,899 | 47% | 20% (3) |
| With B Award | (2) £76,200 | £99,005 | 101,686 | 33% | 10% |
| With A Award | (2) £92,530 | £120,220 | 123,585 | 34% | 10% |
| With A + Award | (2) £106,140 | £137,895 | 141,830 | 34% | 10% |

Notes

(1) DP = Discretionary points. For consultants, max number increased from five to eight wef 1/4/00.

(2) In the case of consultants with DPs and distinction awards who are also entitled to intensity supplements, the value of the intensity supplements would be paid in addition to the salaries quoted above.

(3) Cash and real terms increases are percentage increase in *potential* maximum earnings for consultants with DPs by comparing 1997 earnings with five DPs with 2003 earnings with eight DPs.

Supplementary memorandum submitted by the Department for Education and Skills

Question 17 (Mr Field): Note on any research we are doing to find out about the increase in permanent exclusions among young children.

1. The latest figures on permanent exclusions from schools (for 2002–03) were published on 27 May and show that they have fallen for the first time since 1999–2000 to 9,290, almost a quarter down on their 1996–97 peak of 12,700.

2. This reflects our commitment to improving behaviour and attendance in schools. Under the £470 million Behaviour and Attendance Strategy, work to tackle the root causes of exclusions and improve standards of behaviour has been placed for the first time at the heart of schools' policy. All schools benefit from the behaviour and attendance strand of the Key Stage 3 strategy, which provides all secondary schools with audit and training materials, and consultancy support. There is also a behaviour and attendance strand of the Primary Strategy, which has started by piloting curriculum and training materials for primary schools in 25 LEAs. Under the Behaviour and Attendance Strategy:

- 10,000 learning mentors are now helping individual pupils overcome behavioural problems in schools;
- 17,000 children at risk of exclusion are receiving intensive support from more than 100 specialist Behaviour Education Support Teams;
- over 150 police officers under the Safer Schools Partnership are now working with pupils, teachers and the wider community to keep children in school and out of trouble;
- 450 specialist Pupil Referral Units are ensuring that excluded pupils continue their curriculum including English, maths, sciences, Personal, Social and Health Education and ICT;
- almost all local education authorities are now meeting the challenge to provide full time education for permanently excluded pupils in innovative ways through partnerships with further education colleges, work experience, vocational courses, NVQ training, and home tuition.

3. The Department is not conducting any research specifically into the increase in permanent exclusions among young children. However, we have commissioned two pieces of research looking at specific groups which will have a bearing on exclusion of young people:

- Canterbury Christ Church College are conducting research into minority ethnic exclusions and the Race Relations (Amendment) Act 2000 which is due to report in August 2004.
- The National Foundation for Education Research are conducting research into the admission and exclusion of pupils with special educational needs and are due to report in September 2004.

Questions 58–59 (Mr Bacon) and Question 86 (Chairman): Note setting out the problems in the education area, some of the measures you use currently of productivity, what is right and what is wrong with them, and the changes you propose?

1. Productivity is defined as the ratio of outputs to inputs: productivity rises if we obtain more output for given levels of input or the same level of output for less inputs.

THE CURRENT METHOD OF MEASURING PRODUCTIVITY

2. Although the Office for National Statistics (ONS) is a world leader in the measurement of Government output, and one of the few countries to follow international best practice guidelines, there is still the potential to improve their methods further.

3. The combination of comprehensive expenditure data and well-established price indices allow ONS to estimate the volume of input which supports the delivery of education. The key question is how the volume of output should be captured.

4. Until 1998, the assumption was that the volume of output produced was equal to the volume of inputs therefore nothing could be implied about productivity. From that date, ONS began the task of measuring output directly, and the Atkinson review is an important part of that continuing refinement of measurement.

5. As a part of the General Government Education sector, the ONS measure the output of nursery, primary, secondary and special schools. These institutions are included in the ONS productivity measure that is under review. They also estimate the output of Higher and Further Education institutions, but these sectors of the education system are not covered by the ONS productivity measure.

6. The ONS currently view pupils in schools as consumers of education and hence count as output the number of pupils being taught. Inputs are, of course, the teachers and other resources going into the production of those lessons.

7. Clearly, this substantially improves on the previous input based measure and is a significant step towards a fully fledged output measure. However, as currently constructed, it is as much a measure of activity as of output. This method therefore gives rise to a number of problems:

- it takes no proper account of how the quality of education output may be improving. The current measures simply assume a modest rate of improvement of 0.25% per annum for primary and secondary schools, and no rate of improvement for nursery and special schools (nor, incidentally, for Further Education or Higher Education institutions);
- it implies that, as long as real expenditure on the system rises by more than the rate of increase in pupil numbers and the arbitrary quality adjustment, productivity must be falling as a matter of definition; and
- bizarrely, and as a consequence, it implies that we could double the rate of productivity simply by doubling class sizes, regardless of the impact this action would have on the attainment of pupils.

THE SEARCH FOR A BETTER METHOD—THE ATKINSON REVIEW

8. The Department is currently supporting the independent Atkinson review of productivity measurement. We are investigating the possibility of improving the measurement of the quality of output from the school system.

9. The obvious way to try and measure the volume of school output whilst ensuring that quality has not fallen is to use the large amount of information we collect annually on qualification outcomes. We are investigating the possibilities here actively.

10. That is not to say, however, that a new method can be introduced easily. There are a number of technical difficulties to be overcome, including the following:

- identifying that expenditure which relates to the particular cohorts under consideration;
- allowing for the tendency of the costs of some education inputs to run ahead of the general rate of inflation; and
- finding an appropriate method to capture the full range of outputs from the education system .

11. We are currently making good progress on overcoming these difficulties.

Questions 58–59 (Mr Bacon): How much of the extra spending has gone on higher wages for existing people and how much has gone on new people?

1. The Department has direct information on the school workforce, and particularly concerning teachers.

2. Improvements in teachers' pay have a beneficial effect on the quality of education provided in schools and changes to the national framework for teachers' pay have been introduced to aid the recruitment and retention of a high-quality workforce. Recent changes include the introduction of a shorter main pay scale for classroom teachers and the introduction of an upper pay scale based on performance to reward experienced teachers.

3. The average salaries for full-time regular teachers in the maintained schools sector in England and Wales are:

| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 ⁽¹⁾⁽²⁾ |
|---------|---------|---------|---------|---------|------------------------|
| £22,900 | £23,510 | £24,430 | £25,400 | £27,200 | £28,720 |

Source: Database of Teacher Records

⁽¹⁾ Salaries shown are round to the nearest £10 and cover all grades including any allowances paid. The average salary figures include some threshold payments that were made before March 2001, following the introduction of the threshold in September 2000. Some threshold assessments were not made in time for the associated payments to be reflected in the March 2001 data, but these were ultimately backdated to September 2000. As a result the figures in the table below will be an underestimate of the actual average salary in March 2001.

⁽²⁾ 2002 is the most recent information available and these provisional figures are based on pensions data that will be updated. Significant changes are not expected.

⁽³⁾ The Department does not have information on support staff salaries.

4. The latest available figures for the school workforce in England show that by 2004 it had increased by approximately 25% of the 1997 figure. This represents an extra 28,600 full-time equivalent teachers and 105,300 full-time equivalent support staff. The 2004 figures, which are provisional, show an increase of 4,300 teachers and 16,000 support staff since 2003.

THE SCHOOL WORKFORCE IN ENGLAND

FULL TIME EQUIVALENTS MEASURED IN JANUARY OF EACH YEAR

(thousands)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Increase |
|--|-------|-------|-------|-------|-------|-------|-------|-------|----------|
| All regular teachers ⁽¹⁾ | 399.2 | 397.7 | 401.2 | 404.6 | 410.2 | 419.6 | 423.6 | 427.8 | 28.6 |
| Total support staff | 136.5 | 143.8 | 151.5 | 164.7 | 189.0 | 217.0 | 225.4 | 241.7 | 105.3 |
| of which: | | | | | | | | | |
| Teaching assistants ⁽²⁾ | 61.3 | 66.3 | 70.3 | 79.8 | 95.8 | 106.4 | 122.4 | 132.6 | 71.4 |
| Administrative staff | 39.2 | 40.1 | 41.2 | 43.2 | 46.3 | 49.8 | 50.6 | 54.1 | 14.9 |
| Technicians ⁽³⁾⁽⁴⁾ | 12.7 | 13.1 | 13.5 | 14.2 | 15.0 | 16.6 | 18.0 | 19.6 | 6.8 |
| Other support staff ⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾⁽⁹⁾ | 23.3 | 24.4 | 26.5 | 27.5 | 31.8 | 44.2 | 34.4 | 35.4 | 12.2 |

Source "618g survey" and Annual School Census

⁽¹⁾ Excludes occasional teachers.

⁽²⁾ Includes nursery nurses, nursery assistants, literacy and numeracy support staff and any other non-teaching staff regularly employed.

⁽³⁾ Includes laboratory assistants, design technology assistants, home economics and craft technicians, and IT technicians.

⁽⁴⁾ Excludes technicians in nursery schools and pupil referral units.

⁽⁵⁾ Excludes matrons/nurses/medical staff in nursery schools and pupil referral units

⁽⁶⁾ Includes qualified and unqualified child care staff. In 2004 this category is applicable to special schools only excluding general hospital schools.

⁽⁷⁾ Includes librarians, welfare assistants, learning mentors employed at the school and any other non-teaching staff regularly employed at the school not covered in teaching assistants.

⁽⁸⁾ Includes technicians and matrons/nurses/medical staff in nursery schools and pupil referral units

Totals may not appear equal to the sum of the component parts because of rounding.

Questions 61–69 (Mr Bacon): A note on the announcement by the Chancellor in the Budget.

1. The Committee raised the issue of direct funding for primary and secondary schools. In referring to the total cash sums that typical schools will receive by way of direct, per-pupil payments (both revenue and capital), the Chancellor was emphasising the Government's commitment to get resources to the front line with money going direct to schools to spend on their own priorities.

2. Secondly, the Chancellor did not announce that primary schools would be getting an extra £55,000 in 2005–06 or that these would be one-off payments. As indicated in evidence to the Committee, the figures go up to around £55,000 for a typical primary school. This compares with the figures for 2003–04 when such schools received £50,000 and a typical secondary school received £165,000.

3. “Typical” in this context means a primary school with 250 pupils and a secondary school with 1,000 pupils. The intention of the announcement was to indicate that the previous payments of direct funding were not “one-off” budget additions, but were taken into account in the overall package to stabilise school funding in 2004–05 and 2005–06.

Questions 83–84 (Mr Bacon): How many guidance circulars have been issued by DfES to schools—per month for the last 5 years?

The number of guidance circular issued by DfES to Primary and Secondary Schools are shown below.

Some circulars go to both primary and secondary schools and so monthly totals have not been provided as this would result in some double counting.

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|-------------------------------|-----------------------|-------------------------|
| September 1999 to August 2000 | 122 | 155 |

For 1999–2000 we are unable to provide monthly totals.

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|-------------------------------|-----------------------|-------------------------|
| September 2000 | 11 | 9 |
| October 2000 | 7 | 6 |
| November 2000 | 5 | 7 |
| December 2000 | 5 | 3 |
| January 2001 | 1 | 3 |
| February 2001 | 8 | 5 |
| March 2001 | 11 | 10 |
| April 2001 | 0 | 0 |
| May 2001 | 7 | 10 |
| June 2001 | 3 | 4 |
| July 2001 | 6 | 3 |
| August 2001 | 0 | 0 |
| September 2000 to August 2001 | 64 | 60 |

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|-------------------------------|-----------------------|-------------------------|
| September 2001 | 15 | 15 |
| October 2001 | 9 | 7 |
| November 2001 | 10 | 12 |
| December 2001 | 11 | 10 |
| January 2002 | 4 | 3 |
| February 2002 | 4 | 6 |
| March 2002 | 6 | 11 |
| April 2002 | 7 | 7 |
| May 2002 | 4 | 6 |
| June 2002 | 3 | 4 |
| July 2002 | 3 | 4 |
| August 2002 | 0 | 0 |
| September 2001 to August 2002 | 76 | 85 |

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|-------------------|-----------------------|-------------------------|
| September 2002 | 5 | 8 |
| October 2002 | 4 | 2 |
| November 2002 | 2 | 5 |
| December 2002 | 6 | 5 |
| January 2003 | 5 | 2 |
| February 2003 | 4 | 8 |

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|-------------------------------|-----------------------|-------------------------|
| March 2003 | 4 | 4 |
| April 2003 | 2 | 3 |
| May 2003 | 2 | 1 |
| June 2003 | 3 | 3 |
| July 2003 | 0 | 0 |
| August 2003 | 0 | 0 |
| September 2002 to August 2003 | 37 | 41 |

| <i>Month/Year</i> | <i>Primary School</i> | <i>Secondary School</i> |
|------------------------------|-----------------------|-------------------------|
| September 2003 | 7 | 9 |
| October 2003 | 4 | 4 |
| November 2003 | 2 | 6 |
| December 2003 | 1 | 1 |
| January 2004 | 3 | 2 |
| February 2004 | 3 | 3 |
| March 2004 | 5 | 7 |
| April 2004 | 3 | 2 |
| September 2003 to April 2004 | 28 | 34 |

Q85 (Chairman): Pay rises for civil servants in DfES since 1997 and how that relates to inflation for all grades.

1. The table below shows how the money to fund pay awards for DfEE/DfES staff relates to the DfEE/DfES paybill and inflation since 1997. The table covers Junior/Executive staff and Senior managers at Grade 7 and 6 level. The Senior Civil Service is covered by the SSRB and terms set centrally, but paid from money included in the DfEE/DfES paybill.

| <i>Year</i> | <i>Annual RPI increase %</i> | <i>Annual RPIX increase %</i> | <i>Percentage headline increase to DfEE/DfES pay bill agreed by HM Treasury %</i> | <i>Percentage increase to Payband Maxima for Junior and Executive Staff %</i> | <i>Percentage increase to Payband Maxima for Senior Staff %</i> |
|-------------|------------------------------|-------------------------------|---|---|---|
| 1997-98 | 3.1 | 2.8 | 2.0 | 3.0 | 2.0 |
| 1998-99 | 3.4 | 2.6 | 2.5 | 3.0 | 2.0 |
| 1999-2000 | 1.5 | 2.3 | 2.5 | 2.0 | 2.0 |
| 2000-01 | 3.0 | 2.1 | 2.5 | 2.0 | 2.0 |
| 2001-02 | 1.8 | 2.1 | 2.9 | 7.0 | 7.0 |
| 2002-03 | 1.7 | 2.2 | 3.8 | 2.0 | 0.0 |
| 2003-04 | 2.9 | 2.8 | 2.7 | 2.0 | 0.0 |
| 2004-05 | | | 2.6 | 2.0 | 2.0 |
| 2005-06 | | | 2.5 | 2.0 | 2.0 |

2. In general terms DfES payband minimums are competitive with the rest of Whitehall but the maximums are below most Departments of State. Most staff are at points below the payband midpoint.

3. The annual pay reward for staff in DfEE/DfES contains 3 elements:

- Consolidated underpinning payment that revalorises the payband.
- Consolidated performance payment to reward good performance.
- Non-consolidated bonus payment for the best performers.
- Unsatisfactory performers do not receive any reward.

4. Good performers do receive pay rises above the rate of inflation to give progression up the pay band to the rate for the job. But this is mainly funded by money recycled in the pay system, eg by more senior and more highly paid staff leaving a particular grade or payband and being replaced by less well paid new recruits to that grade or payband. All bonus money comes from a non-consolidated bonus pot carried over from year to year.

Paybill notes:

(1) From 1997 to 2000 the increase to the DfEE/DfES paybills was in line with the Government's Inflation Target.

(2) In 2001 the paybill increase was 0.4% higher than the inflation target to allow for some catching up with the pay maximums of other Government Departments.

(3) In 2002 the increase was 1.3% higher to pay for launching a new performance management system in line with Cabinet Office guidance, to cope with changes within the Department related to Machinery of Government moves (DfEE to DfES) and to tackle some equal pay issues.

(4) Years 2003 to 2005 are part of a three year pay deal.

(5) In 2003 and 2004 the increase was 0.2% and 0.1% above the target to complete the pay modernisation identified by the Departmental review of equal pay.

(6) In 2005 the increase will be in line with the inflation target.

Questions 98–101 (Ian Davidson): What comparisons of performance for school are made with Wales, Scotland and Northern Ireland?

1. The most recent data we have available for making comparisons with Scotland are from the Progress in International Reading Literacy Study (PIRLS) published in April 2003. Northern Ireland and Wales did not participate in the study.

2. PIRLS was a comparative study of reading achievement amongst 10 year olds (Year 5 in England; Primary 5 in Scotland) co-ordinated by the International Association for the Evaluation of Educational Achievement (IEA). It was carried out for the first time in 2001 and similar surveys are being planned every five years in order to measure trends. Over 140,000 pupils in 35 countries participated, of which 17 were Organisation for Economic Co-operation and Development member countries.

3. The average performance of children in England (average score 553) was ranked third out of the 35 countries involved, with only Sweden ranked significantly higher (average score 561). The Netherlands was ranked second but its average score (554) was not significantly higher than that of England. Scotland was ranked 14th out of the 35 countries, with an average score of 528, significantly lower than that of England. England also significantly out-performed all the other English-speaking countries in PIRLS: the USA, New Zealand and Canada (Ontario).

4. The only previous literacy study of this age group was carried out by the IEA in 1991 and none of the home territories participated in it. We are therefore unable to offer any solid trends data. However, in 1996 the National Foundation Education Research, which administered PIRLS in England on behalf of the Department for Education and Skills, carried out a partial replication of the 1991 study using a sample of children from schools in England and Wales. NFER has been unable to provide us with disaggregated data for the performance of the schools in England and Wales.

5. The average score in the 1996 test would have put England and Wales close to the average for the 1991 study, within a group of 13 countries whose average scores were not significantly different. Among these countries were the Republic of Ireland, Belgium (francophone), West Germany, Hungary and The Netherlands. Countries which had significantly higher scores were Finland, USA, Sweden, France, Italy, New Zealand and Norway. Since England was not part of the survey proper in 1991, any conclusions have to be tentative; however, NFER has ventured to allow that there does appear to be a marked increase in the international standing of England between the mid-1990s and 2001.

6. The other most recent study for which we have data on England, Scotland and Northern Ireland is the OECD Programme for International Student Assessment (PISA 2000) published in December 2001, which assessed the performance of 15 years olds primarily in reading literacy but includes some coverage of mathematical and scientific literacy as well. Wales did not participate in this study. Although the OECD published only aggregated data for the UK in its international report, each of the participating home territories published their own national data from which it is possible to draw some comparisons.

7. The average performance of the three countries was very similar and the only significant differences were:

- England's performance was higher than Scotland and Northern Ireland in scientific literacy; and
- Scotland's performance in the "interpreting" component of reading literacy was higher than England and Northern Ireland.

8. Results from the next cycle of the study (PISA 2003) will be published in December 2004 and this time the OECD's international report will contain disaggregated data for the home territories in an annex. A small number of Welsh schools participated in PISA 2003 but the sample will be too small to draw any meaningful comparisons. It is hoped that Wales will participate fully in PISA 2006.

Question 140 (Chairman): What proportion of the extra resources have been spent on frontline services?

Between 2002–03 and 2005–06 the planned expenditure on programme rises from £45.509 billion to £59.082 billion—a 29.6% increase. Over the same period administration costs are expected to rise from £797 million to £832 million—a rise of 5%. The effects of the June 2003 Machinery of Government changes have been excluded.

Question 140 (Chairman): How are you going to deliver Gershon's proposed efficiency savings?

1. The details of the Department's plans on the Gershon efficiency review are still being considered. We have already announced a substantial reduction in the size of the Department itself: by 2008 staffing will reduce by 1,460, a 31% reduction. This is part of a wider reform to ensure that our delivery chains of NDPBs and other intermediate bodies are slimmed down in order to free up resources and to reduce the burden on front line services.

2. We are also looking at how we will use resources more efficiently across the education, skills, and children and families system as a whole. Many of the reforms the Department is pursuing will result in a better use of resources at the front line, for example:

- Reform to the school workforce will result in a more efficient use of teachers' time, as support staff take on more extended roles working alongside teachers and covering more of the administrative duties within schools.
- Our plans to streamline accountability mechanisms will reduce the amount of time spent on bureaucracy in universities, colleges and schools. Funding and quality agencies including the Learning and Skills Council and OFSTED as well as the Department itself will adopt better, less burdensome mechanisms.
- In the Building Schools for the Future programme, under which we will be investing over £2 billion per year by 2005–06, we have set up a new joint venture which will drive up value for money from our investment through better procurement practice and management of the supplier market.

June 2004
