



House of Commons
Public Accounts Committee

Financial Management in the Home Office

**Forty–sixth Report of Session
2008–09**

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

*Ordered by the House of Commons
to be printed 8 July 2009*

The Public Accounts Committee

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).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
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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.

Publication

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 Sian Woodward (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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Summary

The Home Office (the Department) has made significant improvements to its financial management capacity, capability, processes and procedures over the past three years and it was encouraging to take evidence on the positive steps they have taken in response to the constructive criticism offered by this Committee some three years ago.

In these three years the Department has undergone major changes. Its policy responsibilities have been rationalised and it responded well to a weak Capability Review assessment in 2006, so that the Cabinet Secretary commended the Department to us as an exemplar of positive change in the Civil Service at our recent Hearing on the Capability Review programme. The Department is progressing and has, for example, strengthened its financial management by recruiting capable professionally qualified accounting staff and deploying them in key finance roles throughout its business units.

Over 70% of the Department's gross budget of £11.8 billion is paid out as grants to partner organisations, notably police authorities. The department has responsibility for paying these grants but accountability for performance and value for money rests with local police authorities. To strengthen accountability, the Department is expanding HM Inspectorate of Constabulary's role and moving to a single national target to increase public confidence in the police. This is a bold step and only time will tell if it results in greater accountability.

The Home Office assured us that it is 'ready for anything' and is confident of its ability to identify its priorities and respond appropriately to changes in them. It recognises, however, that it has more to do. It still does not fully understand the full costs of delivering its Departmental Strategic Objectives and has continuing issues with fees and charges.

To drive financial skills into its core business, the Department must go beyond its commitment to press on with its programme of continuous improvement and to refresh its financial improvement strategy. Only by putting in place sound financial management in all business units and raising the level of financial awareness of its staff can the Department truly embed the skills it needs to manage its business well and respond effectively to changes in its business environment.

On the basis of a Report by the Comptroller and Auditor General,¹ we examined the Department on its newly developed financial management capability and capacity, and on the challenges it faces to embed sound financial control at all levels across its business.

1 C&AG's Report, *Financial Management in the Home Office*, HC (2008–2009) 299

Conclusions and recommendations

- 1. Having considerably improved its financial management in recent years, the Home Office needs to sustain momentum by incorporating strong financial management as standard across its business.** The Department has made substantial progress in response to our recommendations in July 2006 to improve its basic financial systems and processes. We note that the Home Office is held up by the Cabinet Office as a good example of financial management in the Civil Service, and we look to the Home Office to continue to target financial management improvement, maintaining and building on its improved position.
- 2. The Department is confident that sound financial management is now routine but recognises the need for further improvement.** The next step should be to refresh the Department's strategy for finance improvement, focusing particularly on driving greater financial awareness to staff at all levels and in all aspects of the business, and to report its progress in achieving them in its Departmental Annual Report.
- 3. The Department faces increasing demands on limited resources and needs a greater understanding of the value gained from expenditure in every area of its business.** Operating Reviews have the potential to be an effective mechanism to hold all areas of the business, including arm's length bodies, to account for their use of resources, management of risk and the outcomes achieved. The Department should continue to refine and strengthen the Operational Review process, including by developing enhanced profiling and modelling tools.
- 4. The substantial improvements the Department has made to its financial management since 2006 stand it in good stead to respond appropriately to changes in its responsibilities and priorities.** The Department assured us that it considers itself to be 'ready for anything'. To sustain and consolidate the improvements it has made to its financial management, the Department should build in the flexibility, capability and capacity to respond to new challenges, while at the same time honouring the assurances already given to us in respect of other parts of its business, such as immigration and asylum.
- 5. The Department has found it challenging to set fees for services accurately enough to cover costs without creating a deficit or a surplus.** Legislation requires the Department to set fees at levels that cover the costs of the services it provides to UK citizens, although exceptionally the Treasury can approve a higher fee to offset an earlier deficit or to fund a capital investment programme. When setting fee rates for 2010 and beyond, the Department should model costs, fees and demand against a revised range of assumptions and identify the best options at the fee setting stage for managing fees within these assumptions.

6. **The Department is addressing over-optimism in timetabling the delivery of its capital projects.** The Department has improved its forecasting of capital expenditure such that capital expenditure for 2008–09 is expected to come within 97% of its budget. It is planning its capital budgets with a greater sense of realism, and is learning from its past performance. To sustain the momentum of change, capital budgets should better reflect the likelihood of delivery and there should be greater use of the Operating Review process to identify slippage and release funds for use elsewhere in the same timescale.
7. **The Home Office has only limited mechanisms available to it to hold police forces and police authorities to account for the £5 billion funding it provides for policing, its largest single area of activity.** We note the newly enhanced role being developed for HM Inspectorate of Constabulary (HMIC) and look to the Department to use the inspection regimes of HMIC and the Audit Commission to strengthen the accountability exercised by local police authorities, whilst identifying poor performing forces, and to encourage them to improve.
8. **A Single National Target for Police offers scope to incentivise local police forces to meet local priorities, and yet achievement of the target is influenced by many factors and not just police activities.** Time will tell whether the Single National Target in its current form is an adequate measure of police performance. The Department should use the information generated by the annual surveys that measure attainment of the target to identify regional variations in performance, and the results of HMIC's and Audit Commission's work to seek real improvements in performance, year on year.
9. **The Home Office has traditionally had difficulty recruiting and retaining staff in middle management positions with appropriate financial skills and capacity in key business unit finance posts.** The Home Office assured us that it has appropriate procedures in place to recruit, retain and train finance staff and non-financial staff with significant budgetary responsibilities, for example through the use of the in-house graduate recruitment scheme. The Department should set targets for retention and for attendance on training courses, and monitor its performance against them. It should also use its financial expertise flexibly, redeploying qualified staff as necessary, and making appropriate use of inward secondments from elsewhere in the Civil Service to meet demand.
10. **Newly established bodies did not have the appropriate financial resources, processes or procedures in place at start up to enable them to function effectively.** This is a recurring theme and we look to the Treasury to remind Departments to resource new organisations and business areas from start up to carry out their functions effectively.

- 11. The Department has a poor record of notifying Parliament in advance of accepting contingent liabilities and could not give an assurance that it would notify contingent liabilities in advance of accepting liabilities in future.** Retrospective reporting is unacceptable and is tantamount to flouting Parliamentary procedure. The Home Office should conduct a review to identify any unreported liabilities and strengthen its procedures for:
- identifying when a liability will be created;
 - for planning submissions so as to allow Parliament the full 14 sitting days to consider the liability and comment or raise questions or objections, and
 - for drafting an accurate and complete departmental Minute to make the notification.

1 Managing performance and expenditure

1. Since 2006, when we last took evidence on its financial management, the Home Office (the Department) has made significant progress.² These improvements are encouraging, and testify to the efforts of the Department and the benefits from external scrutiny by this Committee and the Comptroller and Auditor General. The Department felt it was close to business as usual but could not say categorically that sound financial management was 'bedded in'. The Department felt this would take more time and recognised the need to prove that it could consolidate its position through continuous improvement.³

2. It is heartening to see the Department's improvement openly acknowledged by others as an exemplar of progress in the Civil Service.⁴ The Cabinet Secretary held the Home Office up as an example to follow for the improvements it had made to its financial management at our recent Hearing on the assessment of Capability Reviews.⁵

3. A self assessment undertaken by the Home Office in the summer of 2008, and independently moderated by IPF Limited, identified the scope for further improvements in the Department's financial management. IPF Limited's findings, coupled with the Comptroller and Auditor General's Report have given the Department a valuable baseline for financial capacity against which to plan future action for improvement.⁶

4. In some respects, the Home Office operates in a similar way to a holding company, with many of its operations delivered through its agencies, arms-length bodies and delivery partners, notably the police. The Department relied upon a variety of tools to oversee the performance of the individual parts of its business (**Figure 1**).⁷ It was confident it has appropriate mechanisms in place. Oversight was closest where programmes were being delivered by parts of the Home Office or by its Executive Agencies, as the heads of these bodies sit on and are accountable through, the Home Office Board.⁸

5. The Operational Review process is the mainstay of the Department's oversight of its Executive Agencies. It reviews the performance of the UK Border Agency every month, for example, on the basis of a report from the Agency on its performance which focuses on outcome performance, money, expenditure and the Agency's assessment of risk. The Department told us that the frequency of review reflected the immediacy and political importance of immigration and asylum policy, although it did not intervene directly in the actions and decisions taken by the Agency. With some of the other agencies, like the Serious Organised Crime Agency, a non-departmental public body which has the job of

2 Committee of Public Accounts, Sixtieth Report of Session 2005–06, *Home Office Resource Accounts 2004–05 and follow-up on Returning failed asylum applicants*, HC 1079

3 Q 2

4 Q 1

5 Committee of Public Accounts, Forty-fifth Report of Session 2008–09, *Assessment of the Capability Review Programme*, HC 618–I, Q 44

6 C&AG's Report, para 1.11

7 Q 43

8 Q 44

tackling organised crime, the Department would not expect, nor would it be allowed statutorily, to interfere with its operational performance at all.⁹

Figure 1: The Department's different mechanisms to oversee delivery and performance

NAME OF BODY ¹	TYPE OF BODY	VALUE OF HO FUNDING (£MILLIONS)	MECHANISMS USED TO TRACK SPENDING
Central Support Services	Home Office Branch	424	Operational Review ⁵
Crime and Policing Group	Home Office Branch	248	Operational Review ⁵
Office for Security and Counter Terrorism	Home Office Branch	259	Operational Review ⁵
UK Border Agency ²	Executive Agency	1,912	Operational Review ⁵
Identity and Passport Service ¹	Executive Agency	507	Operational Review ⁵
Criminal Records Bureau ¹	Executive Agency	100	Operational Review ⁵
National Policing Improvement Agency	Non-Departmental Public Body	547	Operational Review ⁵
Serious Organised Crime Agency	Non-Departmental Public Body	465	Operational Review ⁵
Other ³	Non-Departmental Public Body	45	Operational Review ⁵
43 Police Authorities	Delivery Partners	6,000	Combination of HM Inspectorate of Constabulary and Audit Commission
Local Partnerships/ Authorities ⁴	Delivery Partners	669	Operational Review ⁵
Security and Counter Terrorism Partners	Delivery Partners	602	Operational Review ⁵
TOTAL		11,778	

Notes:

1. The shading on the Figure darkens the further the body lies from the Department.

2. The gross budgets for the Criminal Records Bureau, UK Border Agency and Identity and Passport Service are part funded by income raised and retained totalling £1,153 million.

3. Until 31 March 2009 the UK Border Agency operated with shadow Agency status.

4. Other Non-Departmental Public Bodies include the Office of the Immigration Service Commissioner, the Independent Safeguarding Authority, the Security Industry Authority and the Independent Police Complaints Commission.

5. Funding received by Local Partnerships/Authorities includes Crime Reduction and Drugs Grants, grants for border and immigration activity and Area Based Grants.

6. Operational Review takes the format of periodic Accountability meetings between the Home Office's Accounting Officer and the Head of the organisation being reviewed. The review draws on financial and operational performance information and covers outcomes, performance, expenditure, income and expenditure and ongoing assessment of business risk.

Source: Home Office, Qq 44-47

6. Where Operational Reviews indicate problems, the Department has intervened to strengthen financial management in its Non-Departmental Public Bodies. When the National Policing Improvement Agency experienced problems, for example, the

Department insisted on a review of its financial performance and its financial management, and the Agency put in place measures to secure improvement.¹⁰

7. The Identity and Passport Service have struggled to set fees at a level that allowed it to recover its costs without making a surplus or a deficit. The Treasury allowed fees to be set to over-recover costs to recoup a £26 million deficit from previous years, and in subsequent years to invest in the biometric passport and the interview office network.¹¹

8. The Department acknowledged that forecasting demand for services to citizens such as the provision of passports was problematic. Demand for passports had fallen by nearly 10% over the past two years, in response to the downturn in economic growth. There were signs that people were either not renewing until the point that they go on their holiday or were leaving it as late as possible, and in recent times that had affected forecasting. Falling demand impacted on the ability to cover costs. The Department had responded by reducing staffing at the Identity and Passport Service by 10% by loaning staff to JobCentre Plus, rather than incur redundancy costs.¹²

9. The Department has a history of being over-optimistic about how much it expected to spend on major capital projects and for profiling wrongly the way it expected to spend the money. The gap between forecast and actual capital expenditure was most evident in 2005–06 and 2006–07 (**Figure 2**), although it reduced the underspend to within 7% (£48 million) of the capital budget for 2007–08 and to an estimated 3% for 2008–09.¹³

10. The underspend on the major capital projects was often a result of projects getting underway slowly. Our report on the cancellation of Bicester asylum accommodation centre, for example, highlighted the impact of delays on capital budgets.¹⁴ The Electronic Borders Programme, now well-established, was slow to get going. The National Identity Scheme has also been slow to develop. Money set aside for the Electronic Borders Programme and the National Identity Scheme has been spent in later years rather than when the Department had forecast.¹⁵

11. The Department still does not fully understand how each pound it spends contributes towards its strategic objectives. It has a programme in place to match its resources to priorities and it believed it had a better understanding about what it was spending and what it was achieving.¹⁶ Overall, the Department felt confident that it understood its priorities. On immigration, for example, its priorities over the next two years were:

- an immigration points-based system which will match much better the people coming to the UK to the needs of the economy;

10 Q 49

11 Q 12

12 Qq 13, 62–64

13 Q 6

14 Qq 9–10; Committee of Public Accounts, Twenty-fifth Report of Session 2007–08, *The Cancellation of Bicester Accommodation Centre*, HC 316

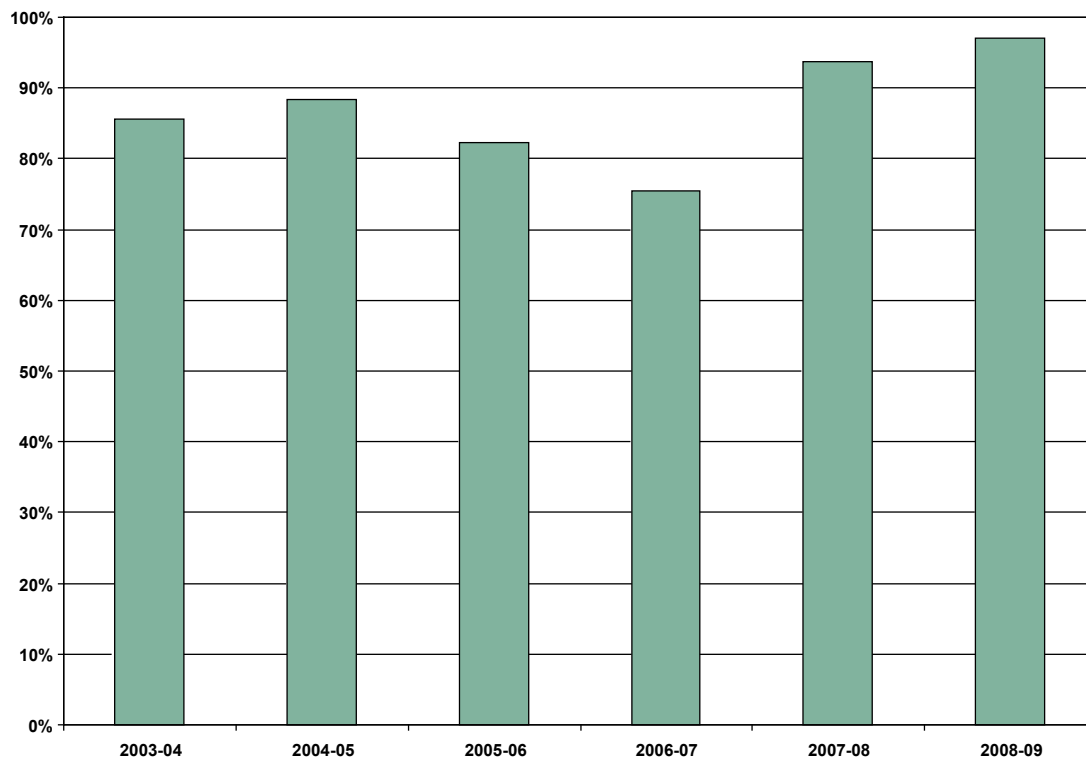
15 Qq 7–8

16 Q 25

- a system which is able to track people in and out of the country so that it knows who is here, and
- the clearance of the asylum legacy cases.¹⁷

The Department assured us that it was ready for anything, as it had the resources, capability and capacity, and the mechanisms in place to deal with quite fast moving pressure on its budget.¹⁸

Figure 2: Capital expenditure as a proportion of annual budget



17 Qq 26–28

18 Q 115

2 Influencing delivery partners

12. The Home Office has responsibility without power for much of the £6 billion a year it pays out to local police authorities as grants. Local police forces are accountable to, but operationally independent of, local police authorities with regard to how the main police grant is spent, and the local police authorities are constitutionally independent from the Department. The Home Office cannot, for example, attach conditions to the main police grant payment.¹⁹ Instead, it has set a series of strategic priorities at national level; created targets for the police and set up systems of inspection by HM Inspectorate of Constabulary (the Inspectorate), and in value for money terms through the Audit Commission.²⁰

13. The Home Office has increased the power of the Inspectorate. In addition to inspecting police forces, the Inspectorate will carry out regular independent inspections to assess whether police authorities are challenging the police and holding Chief Constables to account for the local services provided in their areas.²¹ The Audit Commission ranks police forces according to their performance on financial management on a scale of one to four, with four being the best. The Department told us it expected police authorities to focus on the quality of financial management in their local forces.²²

14. Good quality information on existing performance has helped improve accountability. Discussions between the Department and the police on future funding requirements centred around how funding had been spent, and compared the performance of individual forces in achieving efficiency targets.²³ The Department acknowledged that it had been hard to strike a reasonable balance between obtaining really good information relating to police performance without collecting more than it needed. A review led by the Home Office Accounting Officer and published in February 2009,²⁴ examined 111 existing and proposed data streams and identified scope for substantial reductions, cutting out altogether, or reducing significantly, 36 of these streams.²⁵ The Home Office is trying to cut by 50% the amount of information it required from the police, in part by making use of information collected by others.²⁶ The Inspectorate, for example, was seeking agreement with the Police Service about the right package of information to underpin its inspections, which could then also be used by the Department to monitor performance.²⁷

15. Additional responsibilities could not always be funded by an increase in the central government settlement. The Department outlined a joint project underway with the Home

19 Q 14

20 Qq 15–16, 29

21 Q 30

22 Q 49

23 Qq 56, 91

24 *Reducing the Data Burden on Police Forces in England and Wales*, Sir David Normington, Permanent Secretary, Home Office, published February 2009 and available at <http://police.homeoffice.gov.uk/publications/police-reform/data-burdens-review.pdf>

25 Ev 13

26 Q 92

27 Q 93

Office, whereby Norfolk Police, as one of the exemplar forces, was looking hard at its efficiency to identify scope for saving money and making efficiency savings from within its budget.²⁸

16. The Department was optimistic that the new single national target for police it announced in March 2009 to increase public confidence by 15% will be a meaningful indicator of public confidence in the police to address the things that mattered locally.²⁹ Public confidence will be assessed by specific questions in the British Crime Survey that will measure whether police are meeting public priorities in their local areas, whether forces are responding to the public, and are dealing with the crimes that the public most care about, for example antisocial behaviour and youth crime.³⁰ The Department acknowledged the link between public confidence in the police, the visibility of front-line policing, police numbers, and good management of police resources, all of which contributed to crime reduction.³¹

17. Use of discretionary grants to police forces and others gives the Department the flexibility to prioritise certain activities. By imposing grant conditions and reviewing the outcome of initiatives such as the Tackling Knives programme, the Department can identify and disseminate lessons learned. Alternatively, if it finds that a grant is being mishandled or misspent, it can stop the funding.³²

28 Qq 31–32

29 Q 102

30 Q 104

31 Qq 106–107

32 Qq 75–76; Ev 13

3 Home Office financial management capacity and capability

18. All of the Department's finance directors held a financial qualification, with the exception of one who was in the process of qualifying.³³ The Department has set up a group to look at each finance post across the Department and to identify the qualifications and skills needed for that post. This is a step in the right direction towards appointing the right people and as part of succession career planning across the Home Office. Another encouraging development has been the effort invested by the Department in developing competence in financial management amongst non-finance staff who have responsibility for managing resources and for project delivery.³⁴

19. The accuracy of financial forecasting and the quality of financial management varies between business areas.³⁵ The Office for Security and Counter Terrorism, a division of the Home Office, for example, had insufficient financial capability when newly established and its financial forecasting was appreciably less accurate than the rest of the business.³⁶ The Department acknowledged that the Office for Security and Counter Terrorism lost sight of financial matters following a major terrorist incident shortly after it was set up. Recruiting suitably qualified staff had taken too long and, as a short term measure, the Department strengthened financial management by using central resources. The Department assured us it had learnt from this experience, as well as from the setting up of the Serious Organised Crime Agency and other arm's length bodies. It was developing a support package as part of its financial improvement programme.³⁷ As indicated in this Committee's report on the early problems experienced by the Revenue and Customs Prosecutions Office, sound financial management procedures must not be an after thought when setting up a new body.³⁸

20. The Home Office is restarting its graduate training scheme to recruit and train its future financial managers.³⁹ The scheme offers the Department the flexibility to adjust its intake for wastage and to adjust for the changes in demand associated with forecasting staffing requirements three or five-years in advance.⁴⁰ The Department intends to bring new graduates into training for financial careers every year. It has recruited 16 people to the scheme for this summer and is keen to see the scheme extended more widely across government to reduce the loss of its graduate trainees to other parts of government.⁴¹

33 C&AG's Report, para 3.8

34 Q 33

35 C&AG's Report, para 3.36

36 Q 109

37 Qq 79, 110

38 Committee of Public Accounts, Fifty-first Report of Session 2007–08, *Revenue and Customs Prosecutions Office*, HC 601

39 C&AG's Report, para 3.18

40 Q 37

41 Qq 35–36

4 Compliance with Parliamentary procedure

21. Departments are required to notify Parliament and the PAC Chairman in advance of creating contingent liabilities.⁴² The Home Office has considerable experience of notifying Parliament of contingent liabilities and ought by now to be producing good quality, timely and complete notifications. It has been criticised on more than one occasion in recent years by our Chairman for shortcomings in its notifications, and for failing to plan its submissions to allow Parliament the full 14 sitting days notice before accepting a liability. The Home Office has been training its staff in the importance of complying with Parliamentary requirements. Close working with the Treasury and the National Audit Office has also led to an improvement in the timeliness and quality of submissions.⁴³

22. There has been a marked improvement in 2009, with the three notifications made to date having been made in advance.⁴⁴ Retrospective notification of liabilities is still a problem, however. The Department made retrospective notifications in 2003, 2004, 2007, and 2008.⁴⁵ Acknowledging its poor record for notifying contingent liabilities retrospectively, the Department attributed its poor performance in part to the arm's length nature of its business and to staff not being familiar enough with Parliamentary requirements.⁴⁶ It was unable to offer any assurance that the improvement would continue, as it has retrospective notifications still to make dating back to 2001.⁴⁷

42 A contingent liability is created when an undertaking is given or implied that Parliament will fund future expenditure that may arise if certain conditions are met or certain events happen.

43 C&AG's Report, para 3.47

44 Q 19

45 Q 23

46 Q 17

47 Qq 20–22

Formal Minutes

Wednesday 8 July 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Paul Burstow

Mr David Curry

Nigel Griffiths

Mr Austin Mitchell

Dr John Pugh

Geraldine Smith

Mr Don Touhig

Mr Alan Williams

Draft Report (*Financial Management in the Home Office*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 22 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

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

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 14 October at 3.30 pm]

Witnesses

Monday 8 June 2009

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Sir David Normington, Permanent Secretary, **Ms Helen Kilpatrick**, Director
General, Financial and Commercial, Home Office

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List of written evidence

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Forty-eighth Report	Renewing the physical infrastructure of English further education colleges	HC 924

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Oral evidence

Taken before the Committee of Public Accounts on Monday 8 June 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mr Ian Davidson

Dr John Pugh
Mr Alan Williams

Mr Amyas Morse, Comptroller and Auditor General, Mr Martin Sinclair, Assistant Auditor General and Helen Booth, Director, National Audit Office, were in attendance.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL FINANCIAL MANAGEMENT IN THE HOME OFFICE (HC 299)

Witnesses: **Sir David Normington**, Permanent Secretary, and **Ms Helen Kilpatrick**, Director General, Financial and Commercial, Home Office, gave evidence.

Q1 Chairman: Welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on *Financial Management in the Home Office*. We welcome you back, Sir David Normington, and your colleague Helen Kilpatrick, who is Director General, Financial and Commercial, Home Office. This is not the first time, Sir David, that we have taken evidence from the Home Office on your financial management. We did so in 2006 and, as we know, things were, frankly, in a bit of a mess in 2006. I am encouraged to see from the Comptroller and Auditor General's Report that things have improved since then. Indeed, when we had our hearing last week, Sir Gus O'Donnell held you up as an exemplar of progress in the Civil Service. You do come from a fairly low base so—

Sir David Normington: We come from the bottom actually!

Q2 Chairman: You come from the bottom, let us be honest about it! We congratulate you, Sir David, on your progress and we hope that you feel that the NAO and PAC has been, and can be in the future, a force for good. When do you think we are going to get to business as usual—and the expression “business as usual” is a phrase used in the Executive Summary at paragraph 22 on page 8—which will suggest that you are on top of the game and you can run this Department's financial affairs properly. When do you think you might hit that position?

Sir David Normington: Thank you very much. I think we have very significantly improved. Not only does the NAO Report say that but also the Institute of Public Finance, which has audited us and benchmarked us against other public bodies, says we are very well placed now to meet the standards that are set by the Treasury and within government. We feel that we are close to business as usual but with two caveats. One is that I cannot prove to you that it is embedded because that is a function of time. We

have improved but we have to prove now that actually we can consolidate that. Secondly, you only really consolidate by improving and improving and we have got in place, as a result of this Report, three actions that we are taking to improve even further. I think that is the story of the Home Office. You have to go on improving. You cannot stand still.

Q3 Chairman: So you can assure us this afternoon that this success is truly embedded in your Department?

Sir David Normington: Yes.

Q4 Chairman: We read in paragraph 3.10 on page 22 that you have had difficulty recruiting financial staff. I am surprised at this in a recession. What is going on? Why can you not recruit and obtain good financial staff in a recession?

Sir David Normington: It is a little easier now. The Report obviously reports on a situation just as we were going into recession. This is a problem all across government departments trying to get and retain good financial staff. I think the Home Office has been more successful at it in the last 18 months than many. We have increased the number of our professionally qualified staff by just under 70, by about 66, which is a big increase, but the long-term solution to this is actually training our own because what we are doing in the short term is effectively taking people from other places, some from outside government but of course some from other places in government and the public sector, and that effectively moves people around, so our long-term aim is to develop more of our own professionally qualified staff.

Q5 Chairman: And we pay enough in the public sector?

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Sir David Normington: We are not always competitive but I personally believe that if you need to get really good people that the system is flexible enough to go out and pay them. You do not have to pay them as much as you used to.

Q6 Chairman: We read in paragraph 8 of the Executive Summary that you are underspending on your capital budgets. Why is this? Why can you not spend the budgets that you have? After all, you are dealing with, you would have thought, some unbelievably difficult, complex areas such as immigration and the police, and I find it hard to understand why you cannot spend the money that you have?

Sir David Normington: Most of our capital is spent on big, complex projects and, frankly, we have a history of being over-optimistic about how much we will spend on those projects and profiling the amounts of money wrongly. If you look back at 2005-06, a huge amount of that accumulated underspend comes from those two years. As we have improved our financial management, we have spent in 2007-08 94% of our capital budget and last year 97%.

Q7 Chairman: Could you give us an example of something you have not delivered because you have underspent?

Sir David Normington: This is only about our programmes not going fast enough; it is not about not delivering our programmes.

Q8 Chairman: What have you not delivered fast enough?

Sir David Normington: Our Electronic Borders Programme is getting underway now and is well-established but it was slow to get going. The National Identity Scheme—and some people of course will be glad about this—has actually been slow to develop and to build up so some of the money that was set aside for instance for those two programmes has been spent in years subsequent to the ones where we expected to spend.

Q9 Chairman: Even in our work for instance in Bicester, which was a project where nothing ever happened?

Sir David Normington: Yes and £60 million was set aside for Bicester.

Q10 Chairman: That was an obvious underspend.

Sir David Normington: Yes it was and that goes back to 2005.

Q11 Chairman: In paragraph 2.28 we read about the budgets for instance of the Identity and Passport Service. Why are you overcharging United Kingdom nationals for their passports? You are, are you not?

Sir David Normington: I do not believe we are.

Q12 Chairman: You have got money in the kitty there which should not be there, should it? If you were charging them the right amount of money there would not be all this money in that particular kitty.

Sir David Normington: It is quite a complicated answer but I will try to simplify it. There are different reasons. We have to have approval from the Treasury for either retaining a surplus or actually achieving the surplus in the first place, and we have actually been allowed by the Treasury in most of these years to overclaim (i) to recoup a deficit we had in previous years which was £26 million and (ii) in subsequent years to get money to invest in the biometric passport and also in the interview office network, so actually most, not all, of that is about over-recovering in order to invest. We do have problems though at the margins with our forecasting of passport demand. It has particularly fallen off in the last year. Passport demand is down by nearly 10% as a result of the recession.

Q13 Chairman: So the short answer is you are not going to charge us less?

Sir David Normington: We are not going to take the price down; we are trying not to put it up.

Q14 Chairman: Thank you very much for that. We give or, rather, we give to you to give to the police forces £5 billion a year. It is a huge amount of money. Do you have any real influence with what they are doing with the money?

Sir David Normington: The main police grant we are not allowed to attach conditions to its payment.

Q15 Chairman: It is a lot of money for a department to hand over with so little control, is it not?

Sir David Normington: Yes. The way we do it is we try to set from national level a series of priorities, and sometimes targets, though in the last year we have taken out all the targets bar one, and we try to set up a system which enables us to be confident that we have good performance in the police and that they are spending their money properly and that there is transparent information for the public, for the police authorities, and for Parliament about that. Most of that is done by the Inspectorate of Constabulary, HMIC, and by the Audit Commission, and those two bodies are absolutely key to us in performance management and in efficiency and value for money. There is increasingly a lot of information about how that money is being spent and what performance is being delivered.

Q16 Chairman: So you reckon although we cannot control how this money is spent we do know how it is being spent, that is the assurance that we have?

Sir David Normington: We know how it is being spent but we do not of course, and rightly, have control over how it is allocated locally. That should be a decision taken locally.

Q17 Chairman: It is a slightly technical question but I have got to ask you, perhaps Mrs Kirkpatrick can answer. I have to deal with these contingent liabilities all the time and one thing on contingent liability is you give me very little notice. You are supposed to inform me in good time of what is going on. The process is supposed to work so that if you

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have to spend more money we know about it and we can report to Parliament. Why do you have such difficulties over this?

Ms Kilpatrick: We accept that in the past there have been problems with identifying contingent liabilities across the Home Office and the Report, I think usefully, identifies some of the reasons for that. Partly business areas were not familiar enough with the parliamentary requirements. We have been working very closely—

Q18 Chairman: Or perhaps you do not take Parliament very seriously?

Ms Kilpatrick: We do take Parliament very seriously. I think everybody recognises—

Q19 Chairman: So this sort of nonsense is not going to go on, is it?

Ms Kilpatrick: There has been a very significant improvement this year. The three minutes that we have laid this year have been in time and that is a significant improvement. We have been training everybody throughout the business in the importance of the parliamentary requirements and I believe that we are in a much better position going forward to have put that right.

Q20 Chairman: You are giving me that assurance; I believe you.

Sir David Normington: Sorry, I cannot give you an assurance for what will be.

Q21 Chairman: No, that would too much to ask for.

Sir David Normington: If I may, there is no use giving you assurances which are not true.

Q22 Chairman: No, I understand.

Sir David Normington: But what we are doing, remember, is digging over the past and we know that there will be contingent liabilities from maybe 10 years ago somewhere and that is what we are trying to do. We are trying to make sure that you know everything that we know. So I cannot guarantee that there will not be any; in fact I know there will be from 2001.

Q23 Chairman: The Home Office made retrospective notifications in 2003, 2004, 2007, 2008 and there are more to come in 2009. It is not really a very good record, is it?

Sir David Normington: No.

Q24 Chairman: I think it is something that you could take personal responsibility for, Sir David.

Sir David Normington: But we do and I will. This is part of putting the financial management of the Home Office on a sound footing.

Q25 Chairman: When we read paragraph 3.43 on page 28, Costing of Strategic Objectives, that tells me that you do not fully understand how each spare pound you spend actually contributes towards your strategic objectives. Is that a fair criticism?

Ms Kilpatrick: I think what the Report says is fair. We do not know and we will not be able to match precisely all the money we spend to our strategic objectives. As a result of this we have put a lot of work in hand and we are in a much better place now than we were. We have had a programme to match our resources to priorities and we do, I think, know much, much more about what we are spending and what we are getting but, as you will know, in our world, it is not a perfect match between if you spend this much you get that, particularly crime for instance.

Q26 Chairman: Just to sum up, Sir David, you have obviously made some progress but if you come back in two years' time—because this is very important and this Committee wants to keep a tab on what is going on—what do you think you will be able to tell me that you have accomplished in two years' time? Give me a specific example, perhaps relating it to an area of great controversy, a significant impact with relation, say, to immigration. Your Department, according to one of your own Home Secretaries, in the past has been somewhat dysfunctional so when you come back in two years' time what do you think you will have achieved? Give me a practical example.

Sir David Normington: On immigration?

Q27 Chairman: I just give immigration as an example.

Sir David Normington: I will take immigration although it is not without its political context but let us just assume we are working on present policies.

Q28 Chairman: You always assume you are working on present policies.

Sir David Normington: We do. On present policies I think three things in two years' time. One is an immigration points-based system which will match much better the people coming here to the needs of the economy; secondly, a system which is able to track people in and out of the country so we know who is here; and, thirdly, the clearance of the legacy cases which we talked about when I was last here—those three things.

Chairman: Thank you. Richard Bacon?

Q29 Mr Bacon: Sir David, I would like to start with a question that relates to something the Chairman said earlier, and it is referred to in paragraph 2.11 where it says: "In 2008–09 the Home Office will pay out over £8 billion of its budget, often at fixed levels, in grants to delivery-partner organisations, devolving to varying degrees the responsibility for how or on what the money is spent." £5.4 billion of that is to local police authorities. You rightly said that you are not allowed to attach conditions. The moment I read that I thought there for you is a huge management problem because you have got responsibility without power in some respects. You have got to come here as accounting officer and yet there is this enormous bulk of your budget that is handed over without conditions and, as the paragraph continues to say, local police forces are constitutionally independent from you and they

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make decisions based on local priorities and they are accountable to, although operationally independent from, local police authorities. Ever since I have been an MP I have met with other Norfolk MPs with the local constabulary every so often, together with the police authority. In fact we are doing it again this Thursday. We do it at least once a year and I am sure other MPs do the same. I cannot say that I have ever had any sense in that time that the local police authority acts, certainly in the way we see it, as some sort of challenge to the constabulary. It is as if they are coming to us jointly, the constabulary and the police authority, as joint supplicants usually, and I am sure they will have one for this Thursday, with a paper that amounts to a very sophisticated whinge as to why they have not got enough money for the things that you are asking them to do. There is always an enormous gap and each year I look and in Norfolk the sky has not quite fallen in. What concerns me slightly is that this has been during a period of enormous growth in spending from the centre, where there have been very generous settlements from central government and we are almost certainly going into a period where that is not the case. Given what you have said about the fact that you cannot attach conditions that must place an enormous extra emphasis on the importance of local accountability mechanisms working properly, being effectively, efficient and economic, if you like, and it is not obvious that they are. I know that is a big question but you have got this enormous sum of money here, you are handing it over, you cannot attach conditions, how do you get round this because it is not obvious that it is working the way it should.

Sir David Normington: We cannot say how that money should be spent so we cannot say that much should be earmarked for frontline policing and that much for serious crime and so on. What the Home Secretary has a power to do is every year set the strategic priorities for the police from national level. Secondly, if he wishes, he can set targets for the police, and we have chosen in the last year to set just one target for the police related to public confidence in the police. Thirdly, we can, and do, set up the system which enables us and the public to know whether that police authority is performing. That is done and we are increasing those powers through HM Inspectorate of Constabulary, HMIC, and in value for money terms through the Audit Commission, and of course if the Home Office and the Home Secretary is limited in its power and has to stand back from that, you are very dependent on the police authority to hold the chief constable to account. The HMIC is going to audit and inspect each police authority to see whether it is doing its job in future in holding the police to account and in representing the public. The police authority should of course be challenging the police and it should be doing it on behalf of the public.

Q30 Mr Bacon: You would expect there to be tension to some extent just like there is likely to be tension between this Committee and departments of state,

although hopefully constructive tension, between police authorities on the one hand and constabularies on the other, would you not?

Sir David Normington: I am not surprised that a police authority will stand up for its own constabulary with the Government but I would expect in parallel that police authority to be very challenging of the police service in its area.

Q31 Mr Bacon: Perhaps they are, it is just that we do not see it.

Sir David Normington: Norfolk is a very interesting example. It is not long since I was there and it is a very forward-looking force.

Q32 Mr Bacon: By the way we have to protect the Queen when she is at Sandringham so we do need more money!

Sir David Normington: I am sure you do, like every other police force, but it is a force that is looking hard at its efficiency and it is doing it in a joint project with the Home Office. In a sense they do not have to but they have been working as one of the exemplar forces in how to save more money and to get more money out of their budget.

Q33 Mr Bacon: I would like to move on to the issue of your staff and particularly professionally qualified staff. I think it is an extremely encouraging development that you have now got, it says in paragraph 3.8 in your various different sections a series of finance directors all of whom are financially qualified, with the exception of one who is getting financially qualified. I think that is a really welcome development and it is a shift in Whitehall, there is no doubt about it, in recent years, but how do you know that the current proportion of professionally qualified staff will actually meet your requirements?

Sir David Normington: You only do it by the judgment that you bring to the management of an organisation or a function really. I think that we are looking for professional qualifications but of course we are also looking for competence in financial management. A lot of our effort is in developing financial capability in those people who are not professional finance people because of course they handle the money, they handle the projects, they manage the projects. I think the balance has been completely askew—and I do not know whether you have anything to add, Helen—but it is getting better.

Ms Kilpatrick: It is and one of the things that we have done is to set up a group that looks across the whole Home Office group at each finance post to decide what qualifications and skills are needed for that post and to make sure that the right people are moved into those posts, so we can do succession career planning across the whole of the Home Office.

Q34 Mr Bacon: But is there an assumption that if the person has not necessarily got the right qualifications there is not necessarily an absolute power but there will be an assumption that if they are put in post they will be getting those qualifications while in post? Is that a guiding assumption for recruitment?

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Ms Kilpatrick: That is absolutely true and that applies to all of the finance director posts across the Home Office. If they are not already qualified the expectation is that they will become qualified as soon as possible.

Q35 Mr Bacon: This recruitment of graduates directly to the financial management function is referred to in paragraph 3.12. It says that you are reintroducing a graduate training scheme to nurture home-grown talent. Why was it scrapped?

Ms Kilpatrick: It was scrapped at a time when we needed to bring in qualified people quickly to plug the gaps. Now that we have a critical mass of qualified people ready, we are able to go back to growing our own, so we are bringing 16 graduate trainees in this year.

Q36 Mr Bacon: 17 it says here.

Ms Kilpatrick: 16 or 17, something of that order. I think it is 16 actually.

Q37 Mr Bacon: Why do you not know if that is enough? It says here that it is not clear whether that is the right number of people. You know how large your organisation is and you must have similar-sized organisations that you can benchmark or compare yourselves with. Why is it not clear that that is the right number of people to recruit as it says in paragraph 3.12?

Ms Kilpatrick: 16 is our judgment of the right number of people for this summer. We are intending to do this every year so we will have the opportunity, if we do need more, to bring in more next year. It is intended to be a continuous process of bringing new graduates into training for financial careers every year.

Sir David Normington: It is really important to do this across government because otherwise our 16, if they are any good, will be poached by other parts of government, so we are trying to do this across government as a whole.

Q38 Mr Bacon: There is evidence, is there, of departments poaching from each other?

Sir David Normington: Of course, yes.

Q39 Mr Bacon: Would not have said there is any "of course" about it.

Sir David Normington: We do it in a very gentlemanly fashion but it is still poaching.

Q40 Mr Bacon: I was going to say you are all gentlemen, but obviously not, you are ladies and gentlemen. The answer there presumably is to have enough?

Sir David Normington: It is to have enough and of course when you are training people for a three or five-year horizon, you are not quite sure what that holds and you are going to have wastage over that period.

Q41 Mr Bacon: Do you think that there is too much bias towards the Senior Civil Service? It says in paragraph 3.13 it says there is a programme where

members of the Senior Civil Service are encouraged to do at least two full workshops in a year. What about the middle managers and the junior staff, are they getting enough of a look-in on this training?

Ms Kilpatrick: Yes, the training for the Senior Civil Service is for everybody, not just financial people, it is for the whole Senior Civil Service so they have a good knowledge of resource management. For other grades of staff we have a one-day finance workshop, a three-day finance training course, we have e-learning, we have specific training courses for all of the different financial processes and procedures that go on, so there is a huge amount of training going on for financial staff throughout the Home Office. We have placed a specific emphasis on broadening that out so all members of the Civil Service who are managing resources have the opportunity to attend these financial management workshops.

Q42 Mr Bacon: And they are advertised so people are encouraged to go at all levels?

Sir David Normington: They are told they have to go. They do not all go but if they do not go they get told they have to go. It is almost compulsory, depending on what people's experience and capability already is.

Mr Bacon: Thank you.

Chairman: David Curry?

Q43 Mr Curry: Sir David, the Home Office is a holding company, is it not, really?

Sir David Normington: Well it is, sort of. You can think of it like that, I suppose, we have a number of agencies, we have the police.

Q44 Mr Curry: So how confident are you that you know what is happening in the agencies?

Sir David Normington: I am very confident that I know what is happening in my executive agencies because they are close into the Home Office, the heads of them sit on my Home Office board and share the management of the Home Office with me. Obviously the further out you go the less tight our hold is, and rightly, on for instance the Police Service or on our NDPBs.

Q45 Mr Curry: Would you like to describe for me the planetary system as it were with the Home Office as the sun, which are the near planets and which are the distant planets and where are the forces of gravity?

Sir David Normington: You can think of the Home Office first of all as having four main businesses, the Identity and Passport Service, the Border Agency, the Crime and Policing Group and the Office of Security and Counter-Terrorism. They all have a slightly different constitutional base, nevertheless those are the four main things. Around the outside of those are a number of NDPBs which have statutory authority.

Q46 Chairman: Sir David, we have got delegations from The Gambia, Sierra Leone and Denmark so no initials please, people have got to understand what you are talking about.

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Sir David Normington: These are statutory bodies that are beyond the Home Office set up for specific purposes and they include the Serious and Organised Crime Agency and the National Police Improvement Agency, and they get grants each year, we approve their plans, we appoint their boards but they operate at arm's length. Beyond that, we pay grants, as you have been hearing, to the police, to local authorities and to voluntary bodies to do things on our behalf.

Q47 Mr Curry: So what is the mechanism whereby you keep an eye on the efficiency of their spend, by the criteria as applied to you, by what mechanism do you make sure that your operational subsidiaries are delivering?

Sir David Normington: There is a range of mechanisms. The agencies that are executive agencies to the Home Office are reviewed by me personally on a monthly basis for their performance and financial management and so on.

Q48 Mr Curry: Please would you rank them for me? Who are the good boys and who are the not so good boys? There must be some better than the others and it would be nice to know which are which. What do you do if they are a basket case?

Sir David Normington: It is a bit invidious of me to rank bodies.

Q49 Mr Curry: That is why you are here.

Sir David Normington: Yes, indeed. I think they are all improving. We have had some problems with the National Police Improvement Agency which has a budget of 400 million. There is a new finance director there. We insisted on a review of their financial performance and their financial management, as a result of which they have done a series of things to improve. They were one that we had to intervene with to ensure that they improved. On the police side, the Audit Commission actually ranks them according to their performance on financial management on a scale of 1-4. I do not carry in my head what all 43 are, but there are some that have a ranking of 2-4 being the best—and that is a public ranking. We expect the police authority to be focusing on the quality of financial management in those forces. There is a range of things we do. We also review the performance regularly of our non-departmental public bodies, which are these statutory bodies set up by Parliament to do specific things for us. There is a range of mechanisms, but it is all basically about performance.

Q50 Mr Curry: When you say “review”, are you like the Department of Health in every hospital three times a day to find out whether they are following their targets?

Sir David Normington: No, we are not.

Q51 Mr Curry: How arm's length are you? How do you balance?

Sir David Normington: Do you mean the police?

Q52 Mr Curry: No, I am fed up with the police now, I want to move to something else. How do you balance letting people get on with doing the job and making sure that since you answer for the money at the end of the day they are making proper use of it?

Sir David Normington: With the UK Border Agency, which is one of my agencies, I review their performance religiously every month on the basis of a report from them on their performance which is both about their outcome performance, their money, how they are spending their money, and their assessment of risk. I do not expect, nor does the Home Secretary, to intervene every week in the actions and decisions they are taking but, of course, immigration and asylum policy is not something that any government can let go because it is so immediate and political. With some of the other agencies, like the Serious Organised Crime Agency, we would do that process.

Q53 Mr Curry: Are they the people who have to say you are okay to take a job in teaching or something?

Sir David Normington: No, that is the Criminal Records Bureau.

Q54 Mr Curry: I beg your pardon.

Sir David Normington: The Serious Organised Crime Agency are basically trying to detect serious criminals and tackle organised crime. We would not expect, nor would we be allowed statutorily, to interfere with their operational performance at all.

Q55 Mr Curry: It is quite difficult to check outcome, is it not, in the sense that a successful outcome might be something that has not happened?

Sir David Normington: Yes. With the Serious Organised Crime Agency it is a long-term investment in detecting serious crime, serious criminals, breaking into crime rings and so on.

Q56 Mr Curry: Just to come back to the police and following Mr Bacon's questions, because we all have similar experiences, you have a chief constable and chairman of the police authority absolutely in cahoots from start to finish, of course, how do you persuade them not to pursue this charming little habit of saying, “We have looked at our family of forces and find that we are not spending as much as the average, therefore we ought to be spending as much as the average”? Is the budget not task driven often in the police authority? How do you deal with that?

Sir David Normington: With difficulties, of course. As I say, when dealing with government they often stand together. I do not think it is always the case that in dealing with each other they stand together. The only way to deal with this is to have transparent information available to Parliament and the public about how each force is performing, the ability to compare it and the regular, independent inspection of how those forces and police authorities are

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performing. If you have really good information and you make it in a state that people can understand you are at least halfway there to accountability.

Q57 Mr Curry: When you are seeking to recruit people into the Home Office with particular expertise, and I suspect what you said about financial expertise probably goes for legal expertise and others as well, what do you tell them about the prospects of future pension arrangements? You say you cannot compete on salary very often, but the one area which at the moment would be an attraction, I imagine, would be the pension arrangements although there is a huge question mark over all that.

Sir David Normington: They do, of course, have access to whatever the pension scheme is at that time and it is a favourable pension scheme, although for newcomers it is not as favourable as it was when I joined 30 years ago. We make sure that is a very important part of the package we are offering to people because if we cannot offer the salary then we need to offer the whole remuneration package. That is what we try to do, and pension is one of those things.

Q58 Mr Curry: What about issues of retention? Civil servants quite like going into whatever Peter Mandelson's department is now called because they have constant contact with the private sector and with a bit of luck they will get poached into the private sector. What are the incentives for retention in the Home Office, which does come in for fairly strong political battering quite often, does it not? Maybe it is an incentive.

Sir David Normington: There are few places automatically to go from the Home Office. Inside the Home Office, particularly now, there is tremendous pride in working for the Home Office. We do not have huge turnover, sometimes we could do with a bit more actually. We have tremendous pride in working for the Home Office and a very, very strong commitment to our core purpose which is about protecting the public and people join the Home Office for that. You mentioned the legal profession, we have no trouble recruiting lawyers because some of the most fascinating work in Government is the legal work in the Home Office. In particular professions as well we have a good supply of people.

Q59 Dr Pugh: In the report you did not seem to get so many hard things right but you seemed to get some easy things a little bit wrong. In particular I was looking at the income from both the Criminal Records Bureau and the Passport Service. You gave a response to the Chairman that it is quite hard to assess the need for passports from one year to the other, particularly in changing economic circumstances. Am I right in thinking the whole operation costs something of the order of £329 million, which is the figure I have got written down here and I must have got from somewhere?

Sir David Normington: Did you say the Identity—

Q60 Dr Pugh: The Passport Service.

Sir David Normington: It is broadly that.

Q61 Dr Pugh: You made a surplus of £12 million and the object of the game is really not to make a surplus at all but just simply to cover your costs.

Sir David Normington: Yes.

Q62 Dr Pugh: Can I just press you to explain why it is so hard to forecast demand because they do suggest in the report that you could get better at modelling demand. It seems to me fairly self-evident that we know the age of the population and that will mean as people mature they will want passports. We know also who needs renewal of passports because you already have the records. Is there really that much significant variation each year in demand for passports?

Sir David Normington: It should not be all that difficult to forecast demand for passports. After all, people renew after 10 years and we do know what the likely number of people coming to 16 and so on is, which is when they often get their passports, so it should not be all that difficult. What has been happening in the last two years is that demand for passports has been falling and we think that is because as the recession has come on people are delaying renewing their passports. It is £72 for a passport. As air travel has got cheaper then £72 is a lot more at a particular point when you may be going on your holidays, it is quite a sizeable sum. There are signs that people are either not renewing until the point that they go on their holiday or in the recession leaving it as late as possible and in recent times that has affected our forecasting.

Q63 Dr Pugh: Is it going to have an effect on the price of the passport itself because obviously you have certain on-fixed costs, you have to reach a black line, you have got to cover your costs, and if fewer people apply, unless you make people redundant in the Passport Office, clearly you are going to find it more difficult to break even, are you not?

Sir David Normington: Yes, we are.

Q64 Dr Pugh: And you are going to put up the cost?

Sir David Normington: No, we are doing our best to hold that down. We have taken 10% of the staff of the Passport Service out in order to try and keep our costs down. Some of those we have lent, but they are paying for them, to JobCentre Plus, which after all is recruiting very fast. So rather than incurring redundancy costs we are moving them to other places in government where they can be useful.

Q65 Dr Pugh: Just a small point. You are praised for meeting your efficiency targets. Do you count the £12 million surplus you made on passports with your efficiency targets?

Sir David Normington: No.

Q66 Dr Pugh: Can I turn to the Criminal Records Bureau. Am I right in thinking, and again I have written the figures down and am not entirely certain where I have got them from, it is a smaller operation, it cost about £88 million in 2007 and made £10 million surplus? Am I also right in thinking that was largely due to an HM Revenue estimate of VAT?

Sir David Normington: Yes.

Q67 Dr Pugh: Normally you do not make a surplus.

Sir David Normington: No, indeed, the history of the Criminal Records Bureau is that it has made a deficit and some of the surplus we have made subsequently was to catch up on that deficit. The most recent one was because we thought that all VAT decisions normally go against you but this one went in our favour and, therefore, we ended up with more money than we expected at the last minute.

Q68 Dr Pugh: Is there any way that you can streamline the process there because in the general perception of the public any sort of CRB check is an extremely cumbersome and long-winded process? Have you performance targets to meet on that?

Sir David Normington: Yes, we do. We are trying very, very hard to streamline the processes. Why there are often delays is because the Criminal Records Bureau have to make inquiries of the police, and this is not blaming the police, and it takes time for the police to do the checks they need to do before they can give clearance. It is that where the blockage is in the system. We are working very hard with particular police forces to try to speed that up for just the reason you describe.

Q69 Dr Pugh: There are fairly obvious things that the public tell you you can do. For example, if you are working in a care home or something like that and you have been employed for a few months and then get another job a week or so later, you have got to apply all over again, have you not?

Sir David Normington: It should be fairly straightforward to get the clearance again.

Q70 Dr Pugh: It is not.

Sir David Normington: Well, it should be. One of the things that has been happening is because we are in a very risk-averse world the number of people who are getting their staff cleared is going up and up, I think unnecessarily in many cases, and people are erring on the side of getting people cleared when they do not have to.

Q71 Dr Pugh: I have a personal anecdote. A colleague of mine is a church warden, has been there for many years, a pillar of the community, well-known, a local representative and so on. He had to get a CRB check and it turned out his name was a very common name and there was somebody with the same name who was on the police database as a criminal, which clearly he was not. Nonetheless, he had to go to the police station and give his fingerprints. That is an expensive business, laborious

and easily sorted one way or another. Self-evidently he is not a criminal and has never been a criminal.

Why can the process not be improved on what it is?

Sir David Normington: From recollection, those cases are very, very few. They are about 1% of all cases. I do sympathise with that but, on the other hand, in the end we have to side with those we are seeking to protect, who are the children or the elderly people, and until we have done the checks—

Q72 Dr Pugh: That is because they judge people purely on what is on the police database and not using other material which is just as reliable.

Sir David Normington: If the police records are showing some problem—

Q73 Dr Pugh: It was only showing two people of the same name.

Sir David Normington: But that has to be checked and the only way of checking it is to show that person is not the same person as the one on the police database.

Q74 Dr Pugh: I just venture the suggestion that the process could be subject to improvement.

Sir David Normington: I do not know why he needed clearing in the first place, I do not think church wardens do normally.

Q75 Dr Pugh: Can we move on to an area in which you have direct involvement. You make a number of discretionary grants to regional bodies, police forces and so on for specific purposes, specifically for reducing violent crimes, drugs and so on. How closely do you monitor the efficacy of those grants? Do you just give it out and hope for the best?

Sir David Normington: No. Both specifically and in general terms we evaluate what we are getting for that money.

Q76 Dr Pugh: Have you ever stopped a grant or a grant funding stream?

Sir David Normington: Yes, we have. We do stop grants, particularly if we think the money is being mishandled or misspent.

Q77 Dr Pugh: Broadly how many?

Sir David Normington: I am afraid I do not know. I can let you have that information.¹

Q78 Dr Pugh: Thank you.

Sir David Normington: If you take something like the Tackling Knives Programme, where we put specific money in, we evaluated that very carefully to see whether it was having an impact, and you would expect us to do that because we learn some lessons there which we can then spread.

Q79 Dr Pugh: Can I refer you to page 19, paragraph 2.24. I think this was touched on briefly by Mr Curry. The NAO suggests that when you are dealing with the three new non-departmental public bodies, and

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they are obviously very important bodies like the Serious Organised Crime Agency, they say these bodies need more robust financial assistance processes and controls. What are you doing to ensure they do have those?

Sir David Normington: We accept this, by the way. In each of these cases what you are doing is bringing together several organisations into one and usually they have different systems, different budgets and different financial monitoring systems. We have learnt from setting up these and other bodies that you have to put much more effort upfront into developing those systems quickly and in our financial improvement programme we have actually got a specific stream just about that.

Q80 Dr Pugh: You kind of assume if they make that kind of comment that there is some serious overshoot in the budget somewhere.

Sir David Normington: No, they have not overshot.

Ms Kilpatrick: The problem has been more underspending than overspending.

Q81 Dr Pugh: The size of the underspend on the Serious Organised Crime Agency?

Ms Kilpatrick: There has not been an underspend of any significance on the Serious Organised Crime Agency. That organisation has more or less hit its budget for the two or three years since it has been operating. There was an underspend on the National Police Improvement Agency in its first year of operation, but for the year that has just ended and the accounts that have just been audited they have come in having spent 97% of their budget, which is a very considerable improvement.

Q82 Dr Pugh: Excellent. Can I close on a friendly question? Can you tell us something about the use of procurement cards, which is mentioned in several places? Are they a good thing and something that is improving the financial efficiency of the organisation?

Ms Kilpatrick: Yes. A procurement card is just like a payment card that we use in the organisation to make the process of buying goods more efficient. If we buy goods on a procurement card then the company that is running that for us produces an itemised statement.

Q83 Dr Pugh: What I was trying to get at was are you delegating financial control lower downstream and allowing people to have greater departmental flexibility through the use of these or are they just simply another way of paying?

Ms Kilpatrick: They are a way of paying within the financial delegations that we have set out.

Q84 Dr Pugh: So that has not changed?

Ms Kilpatrick: No.

Q85 Mr Davidson: Can I follow on from the points that were made earlier on by the Chairman about the history of over-optimism which you indicated sometime in the past. I think you mentioned in particular the Electronic Borders Programme and

National Identity Scheme and so on. Can you clarify for me what happened to the surplus cash that was underspent? Is there a mechanism for reallocation and, if so, what is that?

Sir David Normington: A lot of the surplus cash has been kept by the Treasury and becomes a sort of notional account for the Home Office. In this three year Spending Review period they have allowed us to spend £292 million of the accumulated underspend, but not the rest. There is your answer in a way. When we get better at financial management we have the capability of moving the money around in year and not giving it back to the Treasury and that is clearly much better.

Q86 Mr Davidson: You have got the ability to move that money around at the moment?

Sir David Normington: Within some limits, yes.

Q87 Mr Davidson: What are the limits?

Sir David Normington: The Treasury imposes some conditions. It depends on the programmes, but for big movements we would have to seek Treasury approval.

Q88 Mr Davidson: You still have a sort of slush fund, as it were, for pet projects which comes about as a result of underspending?

Sir David Normington: We are not generally allowed to carry money from year to year.

Q89 Mr Davidson: No, but during the course of the year.

Sir David Normington: I do not know about a slush fund, but we are able to move money around and we always have something we call unallocated provision which is our contingency which is quite small, usually about £50-70 million in any year.

Q90 Mr Davidson: Whether or not it is described as a slush fund depends on whether or not you have got it really.

Sir David Normington: And what we want to spend it on.

Q91 Mr Davidson: Indeed. Following up another point that one of my colleagues made, given that you give away so much of your money and it is the relationship that you have with your partners, how do you overcome, as it were, the Oliver Twist mentality that people find themselves in a tension with yourself where the focus is always on asking for more? How do you make sure that you are intervening to try and improve the efficiency, effectiveness and so on and so forth? How do you strike that balance?

Sir David Normington: I think you have to have very good information on the basis of which you can have the conversation with people and say, "Well, let's look at the facts. This is how you are performing and this is how you are spending the money. Compared with that organisation or that police force, you are not achieving your efficiency targets", having a conversation based on the best possible information you can accumulate, and that is what we try to do.

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Information enables you to have a sensible discussion. We are trying all the time to build a really good relationship with most of the people we are asking to do things on our behalf. If you have a fractious relationship you do not get anywhere.

Q92 Mr Davidson: How much of the information you are collecting or getting police forces to collect, say, is in order to inform the discussions between the two of you, as it were, and how much of it is meaningful and useful information in its own right?

Sir David Normington: Some of it is meaningful and useful in its own right. We are trying, of course, to get this balance right. We are trying not to ask for things that are not needed for a purpose. We are trying to make sure that across the system it is collected once and then used by the police authorities, the Inspectorate and the Home Office. We are trying to cut by 50% the amount of information we require of the police, and this is something I believe in personally, to allow them to demand that we justify if we are asking for extra information. We need really good information, but we do not need more than we need for the purpose and it is hard to get that balance.

Q93 Mr Davidson: How would we know that programme was being effective? How would we know that you were asking for the right things now as distinct from things to score points?

Sir David Normington: There is a new programme to try and get an agreement with the Police Service about the right package of information which is being led not by the Home Office but by the Inspectorate of Constabulary because they need good information for their inspections. If we can all agree on the package that they need, we can use that information as well. That is transparent and people can judge for themselves whether it is right. There is plenty of noise in the system of people saying, "Could you please stop collecting", there is always pressure on us to stop.

Q94 Mr Davidson: Give me some examples of information that you used to collect that you no longer do or that you might soon cease to collect.

Sir David Normington: It is very difficult to do that. I led a review where I recommended, and this is being implemented, the removal of 38 data streams. If you will permit me, I could let you have that list.²

Q95 Mr Davidson: That would be helpful to let us see that. In paragraph 2.11 it mentions the formula used to allocate the main police grant and so on, but can I just clarify is this a transparent formula or is this one of those things that is for you to know and them to guess?

Sir David Normington: No, it is a transparent formula, although if you ask me to explain it I would have difficulty!

Q96 Mr Davidson: There will be people in the Department who will understand it.

Sir David Normington: Fortunately, yes.

Q97 Mr Davidson: And there will be people in the police authority who will understand it as well and be able to dispute the implementation thereof.

Sir David Normington: Indeed, Surrey, who have been capped this year, are questioning this very hard at the moment on the basis of the criteria.

Q98 Mr Davidson: From the heads nodding behind you some of the people who understand it seem to be with us at the moment, so I will not embarrass you by asking more questions about that.

Sir David Normington: Thank you very much.

Q99 Mr Davidson: Could I ask about the question of discretionary grants. I see from the report here they are often channelled through the Regional Government Offices. To what extent do they actually add value to this process and to what extent are they just another hurdle to be overcome? Do they not just get in the way?

Sir David Normington: It is quite a small amount of money nowadays. I think it is £60 million from the Home Office from recollection. What happens is that a number of government departments put money into a single pot which local authorities with other partners spend on local priorities which they declare and agree with us, but they decide what those priorities are.

Q100 Mr Davidson: I have got the note here indicating, "grants to local partnerships are often paid through Regional Government Offices which are designed . . ." You are saying that is essentially a very small amount of money and the vast majority of your money is actually handed out directly so there is a direct relationship between yourselves and all the police authorities, for example, and the other agencies.

Sir David Normington: It is more than £60 million going out in specific grants to a whole range of people. The money that goes through the Government Offices into what is called the Area Based Grant is about 60 from recollection, but there are other grants as well of course.

Q101 Mr Davidson: It is a direct relationship with yourselves and it is not through the Regional Government Offices and there is not an intermediary?

Sir David Normington: That is right.

Q102 Mr Davidson: I was looking at paragraph 2.19, "The Home Office announced a single national target for police to increase public confidence by 15 percentage points". That is a bit like measuring happiness, is it not? How meaningful is it, our supervision of yourselves, when you are being held to account for something which is so intangible and in the hands of others?

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Sir David Normington: You can measure through specific questions in the British Crime Survey, and we do measure, what confidence the public have that the police are addressing the things that matter locally. That is broadly the question that is asked and measured. That is based on the public's personal experience and their—

Q103 Mr Davidson: You are not telling me, are you, that a good campaign by the *Daily Mail*, say, would not change public perception of these matters?

Sir David Normington: It can do.

Q104 Mr Davidson: Therefore, that would affect the score and would impact adversely on the whole scenario. It just seems so touchy-feely as to be meaningless.

Sir David Normington: Actually I think the key issue in relation to the police is, are they meeting the public priorities and have the public got confidence in them. I think that is the issue and that is the way into looking at whether the police are responding to the public, whether they are dealing with the crimes that the public most care about, like antisocial behaviour and youth crime. I think that is the way to that issue. It is true that a big national media campaign will affect those figures, but usually they will affect the perception of how national government and its agencies are dealing with these issues; it will not often affect very much what is happening locally. If the police have a really good, trusted relationship with their local population then that—

Mr Davidson: We can speak about this all day so I will move on to something else. In paragraph 2.20, the report from the Home Affairs Select Committee is mentioned saying, “the significant reductions achieved in crime levels do not seem to have been directly related to the significant increase in police resources” indicating, I would have thought, that paying more money does not necessarily bring about results or results can come about irrespective of more money. Given that you have got this Oliver Twist approach quite inevitably from the forces and their police committees, how do you manage to meld the two?

Sir David Normington: I think there is evidence that how resources are used is what is key to the performance locally, not always the total amount of money. There is evidence too that if you invest in frontline policing, policing on the streets, police numbers and police workforce numbers, that has a direct relationship to crime. There is plenty of evidence that police numbers relate to crime reductions. Not completely because you have to have intervening good management and, of course, the economic environment is important too. It is a mixture of those things that bring crime down. It is hard to say, “For that amount of money you get that reduction in crime”. I think that is quite well-understood now in the conversations between us and the police forces.

Q105 Mr Davidson: I take your point about the primacy of the frontline, and I remember when I and a number of colleagues did the Police Placement Scheme we were struck by the extent to which, while an enormous amount of lip service was paid to the frontline, whenever there were personnel shortages from specialist units they had infill usually from the frontline, but everyone said how wonderful the frontline was, they were always the ones that were needed. Has that situation changed from a few years ago?

Sir David Normington: I think that still happens. I think it happens less because they have more resources. We would completely agree that protecting the Bobbies on the beat, for want of a better description, is an absolute key to bringing crime down.

Q106 Mr Davidson: Do you know if that is happening or is this just anecdotal? Do you have a set of statistics that indicates the extent of this? I hesitate to ask you to collect more, but is there any evidence that you have?

Sir David Normington: We know that police numbers and police workforce numbers are going up but we do not have specific information about whether they are taking people off the frontline for urgent operations. Clearly if there is a very urgent operation that is what happens.

Q107 Mr Davidson: I understand this. This was not just urgent operations, it was the norm that if there was a shortage in units, and particularly those people on the frontline who wanted to get into those units and saw it as a route to promotion, they would agitate in order to get those vacancies filled and so on and the frontline was denuded.

Sir David Normington: That happens in some places. I do not believe that is happening generally. Since we know that the confidence of the public is very related to who they see and whether they have got people on the street, that is one way of keeping the police in evidence on the street rather than having them taken off. If we put more pressure through that target it will actually stop people shifting their people off the frontline and putting them in specialist units.

Chairman: Thank you. I think Mr Bacon has a supplementary.

Q108 Mr Bacon: Yes, I have two. Can I point out firstly by way of advance warning to your PR advisers that your answer to Mr Davidson, “I don't know about a slush fund”, in the current febrile atmosphere is more than enough for a journalist to write the headline, “Permanent Secretary denies knowledge of slush fund”. That is just so they are warned in advance.

Sir David Normington: I get misrepresented in all sorts of ways.

Q109 Mr Bacon: Tell me about it! I would like to ask about the paragraph on the Office for Security and Counter Terrorism, not specifically that but because of the point 3.36 makes about insufficient financial capability. As it says, this was a new organisation

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that was set up and there was quite a variation between different business areas. I think it said it was appreciably less accurate in that area in terms of financial forecasting and so on.

Sir David Normington: Yes.

Q110 Mr Bacon: What this reminded me of was the Revenue and Customs Prosecutions Office where it was set up as a separate body, a new body, and suddenly, “Oops, no financial management, no corporate services, HR capability”, it was all kind of rather retrofitted afterwards when they realised there was a need for it. It sounds a bit similar here. Ought there to be an absolute kind of presupposition, almost a knee-jerk response, when setting up a new organisation, and there will be plenty of occasions in the future when because of policy changes or approaching old problems in different ways, someone says, “Let’s open an organisation”, that says “Where is the financial management, what are we doing to put it in place now at the time we create this organisation” rather than wake up 16 months later and think “Oops”, which is what seems to happen at the moment?

Ms Kilpatrick: We very much agree with that. That is why we are developing this package to be able to support immediately any new organisation that is set up with the right procedures and we can put staff in there. We have now recruited suitably qualified staff to the Office for Security and Counter Terrorism but it did take too long. We have learnt that lesson so we are now trying to respond before the events occur.

Sir David Normington: Just to say about the Office for Security and Counter Terrorism, it is effectively a division of the Home Office, it is not an arm’s length body and, therefore, we were able to deal with its financial management by using central resources. What we are seeing there is an underspend. They were not able to spend their money fast enough. Very early on when they were set up they did have a major terrorist incident and, frankly, they took their eye off the financial ball.

Q111 Mr Bacon: This brings me neatly on to my second question which is about the capital underspend. I am the last person to suggest that Government should go around racing to spend money as quickly as possible, and we actually saw that recently in the Office of the Third Sector in the Cabinet Office when the National Audit Office’s report showed very clearly that there were officials saying, “We were saying we can’t spend this money and there was just pressure to spend, spend, get it out the door and we said this will impact on the quality of what is done” and they were told to just get on with it and, indeed, it did. In a way, it is heartening that rather than doing that there is a capital underspend, but the fact that it accumulated over a period of years to £725 million does rather stagger me in a way because here are public servants who want to do good and they have got the opportunity and the budget with which to do things but are not able to get it out of the door. Especially over a period of several years you would think that problem would get sorted. What causes it to endure in that way?

Sir David Normington: I think it is getting sorted because this last year we have spent 97% of our capital budget which is very close to par, as it were. This is a problem more across government of big programmes and big projects with people being over-optimistic at the beginning about how quickly they will get off the ground, how quickly contracts will be let and how quickly the money will get out of the door, and we have been slow to learn that lesson. One of the bits of improvement we are seeking is to be much better at managing projects so that we are not asking for more money than we need too soon. I think the story is of us getting better, but there are some very, very complex projects. If I take one which I can only talk about in general terms, which is intercept modernisation, because Government is having a consultation about this, it is very controversial, we were over-optimistic about how quickly we could get that programme off the ground, partly because we have to go through, rightly, a process of public scrutiny and public debate and argument and we underestimated how long that would take and, therefore, budgeted in the expectation that the money would need to be spent earlier. In a sense, it is a good outcome in a way because we decided that we needed to go back out and explain it and argue it and debate it.

Q112 Mr Bacon: In a way it is a shame our Danish colleagues have left because there is a Danish social scientist called Bent Flyvberg who has written about optimism bias and, indeed, you will know that the Treasury has for some years had models for optimism bias which it has used specifically in relation to private finance initiative projects, of which your own building is one.

Sir David Normington: Yes.

Q113 Mr Bacon: It is not like it is completely alien. It does sound as if that approach, which is not new, has not actually percolated its way right out across Whitehall.

Ms Kilpatrick: We do apply the Treasury optimism bias factors to our programmes, but those are mainly in relation to how much you are going to spend and not when you spend it. We do use the optimism bias factors when we are working out the budgets for our programmes. As the Permanent Secretary says, a key focus of our work has been monthly engagement with each project to get them to forecast more accurately and this year that has been successful. We have been able to reallocate some money during our mid-year review to projects that need it from those which often for very good reasons, like planning permission, consultations, whatever, have not been able to spend as fast as possible. There are always going to be delays in projects, the secret is to actually be flexible within the year within your budget to reallocate money where it is needed because you are never, ever going to be able to accurately forecast every project.

Sir David Normington: We have not got £725 million on account at a bank, by the way.

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Q114 Mr Bacon: If you did we could use it in Norfolk!

Sir David Normington: The Treasury would take that money back.

Q115 Chairman: Sir David, thank you very much. I have just got one final question. Obviously we live in difficult times with pressure on your budgets and everything. Without asking you to comment in any

way on what those pressures might be, presumably you have financial resources and mechanisms in place to deal with quite fast moving pressure on your budget?

Sir David Normington: We do and we are ready for anything really.

Dr Pugh: You will regret saying that!

Chairman: That concludes our hearing. Thank you very much.

Supplementary memorandum from the Home Office

Question 77 (Dr John Pugh MP): *on the number of grant funding streams stopped*

Grants are routinely terminated on the grounds that their purpose has come to a natural end or the agreement was for a limited period. The following list reflects only grants terminated because we have re-evaluated their purpose or were concerned the terms of the agreement were not being adhered to. In some cases the grant recipients may still be contesting the Home Office decision and grants may be reinstated if circumstances, or adherence to requirements, change.

With the agreement of the Clerk of the Committee, we have limited the coverage of our response to the financial years 2007–08 and 2008–09.

<i>Grant Recipient</i>	<i>Original Grant Award</i>	<i>Ceased</i>
Damilola Taylor Trust	£300k	2007–08
National Black Police association	£180k	2008–09
Praxis Community Projects	£56k	Mid 2008
Drug Testing Pilots	£250k	2008–09
Young People's Arrest Referral Pilots	£1.5m	2007–08
Home Office Regional Deputy Directors Allocation	£9m	Progressive reductions 2007–08 to 2008–09
Refugee Integration Section	Funds diverted to the RIES (see aside)	Refugee Integration and Employment Service started 1 October 2008
Prevent Strategy Project	£170k	October 2008

Question 94 (Mr Ian Davidson MP): *on information that we used to collect but have ceased, or intend to cease, collecting*

A full copy of the report, *Reducing the data burden on police forces in England and Wales*, which includes details of all 37 data streams to be ceased in its Annex can be found at <http://police.homeoffice.gov.uk/publications/police-reform/data-burdens-review.pdf?view=Binary>

26 of the 37 data streams have now been removed with progress being made towards the target of removing the remaining 11 by March next year.

Please note that Sir David Normington referred to 38 data streams, but one stream was removed from the list just prior to publication leaving 37 in the final report.

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