

## Help not hindrance - the future role of PAC

**Speech by Margaret Hodge MP Chair of the Public Accounts Committee, delivered at the Institute for Government on 20 January 2011**

Becoming Chair of the Public Accounts Committee at this time in our political and economic history is an enormous privilege, so I am determined to use my time as effectively as I can, to try and secure lasting benefits and lasting changes both in the way we as a committee set about our work and in the way the institutions of Government approach value for money.

I am therefore particularly grateful to the Institute for Government for facilitating tonight's event. Many PAC themes chime with the Institute's interests and I hope that through all the contributions this evening, we can embark on a continuing conversation raising a range of ideas on which we can reflect and which will help to inform our thinking as we develop the Committee's programme and approach. The Institute is still relatively new, whilst the PAC dates from 1861. But I feel we still have much to learn.

I am conscious that I am surrounded by people who have much more experience than I have of the operation of the PAC and the environment and context in which it works. Clearly I want to build on that expertise, knowledge and experience, particularly that of the members of the Committee itself, some of whom are with us tonight and all of whom with varying backgrounds already make an important contribution to the quality of our proceedings and conclusions.

However it is perhaps possible that a new set of eyes will see things differently from those who have spent many years toiling in the field.

I was lucky enough to hold a range of ministerial posts in Government departments during most of the time Labour was in power. I have therefore seen the challenges from the other side and I hope those insights will support the work of the PAC. However one difference between then and now - for which I am hugely grateful - is that I've got better security of tenure as Chair than I had as a Minister!

There, political imperatives meant that I was constantly reshuffled just when I was beginning to really get to grips with the portfolio. Whereas here I really should have the time - 5 years if we have fixed parliaments - to develop a proper understanding of the work and to see through approaches and changes I want to pursue. That is much more satisfying on the personal level and much better governance for the body politic.

This Parliament is the first time that we have held elections for Select Committees. Direct elections to select committees is a hugely important force for good. I was elected by all MPs from across the political spectrum whilst the members of the committee were elected by their party colleagues. Simply being elected gives us much greater credibility and authority, both within Parliament and beyond. Our job is to take advantage of that added credibility to raise our game, strengthen our influence on the Executive and improve the accountability of the Executive to Parliament; not to challenge the policy choices the Government makes, but to ensure that they really do eke out best value for every penny they spend of taxpayers' money.

The fact that we are elected provides us with the opportunity. Realising that opportunity depends on what we do and how we do it.

And the context is also very different. We now have the first peacetime coalition since the 1930s. And that Government has embarked on a programme of cuts that are the deepest (depending on who you ask and how

you add them up) since the 1970s, the 1940s or even the 1920s. At the same time many arms length bodies face abolition; major reforms are in the pipeline for the NHS and the police; and the relationship between central and local government is set to change.

Realizing best value for money in this climate is much more important for a number of reasons.

We all want to minimize the impact of the cuts on the lives of people, particularly those who are most dependent on public services and public expenditure. There is nobody on the left, the right or in the centre who doesn't want to maximise the effectiveness of public spending. And ensuring real productivity improvements will help protect frontline services.

But equally importantly, there is an unhealthy belief among voters and taxpayers that public services are expensive in cost and poor in quality. Securing greater confidence in the worth of public expenditure and the public services it provides is vital.

During the era of expansion in public expenditure between 2000 and 2010 the emphasis was never really sufficiently focused on value for money – people sought to stay within budgets and achieve the targets they were set, but efficiency, despite high profile initiatives by the Labour Government, was a lesser priority.

The Permanent Secretary to the Treasury told us that when he gave evidence on why the value for money targets set by the last Government in the last Comprehensive Spending Review were not achieved.

A perception that money was spent without maximizing value damaged the credibility of public services. Notably for politicians on the left, that loss of credibility is of particular concern, because of the important role we see for the state in our society. So establishing greater confidence in the worth and value of public spending by focusing on VFM, matters to politicians like me on the left.

But I have no doubt that this view is shared across the political spectrum (perhaps for different reasons) and I know that all the members of the PAC share with me a commitment in that regard.

The PAC has traditionally been the focal point for public debate about efficiency and value for money. Indeed we've got a 150 year history to live up to, with an impressive run of previous Chairs (including Harold Wilson whom I am told used to regularly sing The Red Flag in the room that goes with the job.)

Though I might just add, with deep pride, that I am the first woman to hold the post!

And the PAC has been effective in drawing attention to Government waste with a continuous flow of reports on an extraordinarily wide range of topics. We obviously want to build on that tradition and will do so. But what might we do differently and what could we do better?

The PAC has a reputation for being something of a bear garden, with Permanent Secretaries dreading their appearances and expecting humiliating verbal maulings. But as the authors of IPPR's 2006 report 'Whitehall's Black Box' found, quoting an anonymous Permanent Secretary; although appearing before the PAC could be 'very difficult', it seldom and I quote 'changes the price of fish.' More generally this anonymous civil servant admits that people are never 'fired as a result of a bad performance.'

So we are trying to change the style of engagement so that we can strengthen the impact of our findings. I don't think it helps anybody to use committee hearings as a theatrical exercise in public humiliation. That doesn't mean

we are less tough; it doesn't mean we are less rigorous in holding public servants to public account; it doesn't mean we are less incisive and hard-hitting in our findings and recommendations, but we do want to emphasise learning and capacity improvement.

We want the hearings to be constructive exchanges, not defensive appearances because in that atmosphere we are more likely to identify what's really going wrong and we're more likely to be able to articulate good and practical recommendations for change.

And we want to get better at seeking out and publicizing good practice, pointing to exemplars of excellent value for money, because praise can often be a more effective tool for securing change than blame and Government can learn from success as well as failure.

We've started to do that but need to do more. Our exchanges are focused and challenging but less confrontational. We've held a number of hearings where we've sought to learn rather than comment. For instance, we held a hearing with two permanent secretaries and senior officials from the Cabinet Office and Number 10 to better understand the Government's approach to implementing the Comprehensive Spending Review. We held a private session with a range of health experts to consider the value for money challenges of the forthcoming health reforms.

And we are publishing reports which highlight successes. To give just one example, we found the achievements of the previous Government's Schools Academies programme to have been delivered in a clear value for money way – major change at minimal cost – and I would encourage any civil servant who wants to transform an educational establishment, or indeed any other people based organisation to look at our forthcoming report.

But if we are to be effective, civil servants and ministers must not just pay lip service to our recommendations, they must consider them properly, implement those with which they agree and give us a coherent and convincing argument where they disagree. At the same time, our reports must not just criticise past actions; our recommendations should always spell out what needs to be done to achieve improvements and better value. We may even need to consider reports in advance of spending by departments.

What can we do differently to ensure greater impact of our findings? Again we are pursuing a number of initiatives.

We are being much more rigorous in monitoring the implementation of our recommendations and we intend to set aside time in our calendar to recall witnesses where we believe Departments have failed to implement changes to which they have agreed.

We've strengthened that process by getting agreement through Parliament just before Christmas to a motion from the PAC that requires Ministers to report to Parliament if they have failed to implement agreed recommendations on PAC reports within a year.

But we need to do more to examine and observe the changes in departments over time. We tend to consider NAO reports in isolation, not properly linked to the history of investigations on particular issues. If we can get better at tracking performance we will get better at acknowledging improvements in performance as well as drawing attention to continuing institutional incompetence.

To improve value for money performance of Government departments and agencies we all need to look at that performance over time as well as at a particular point in time. And that means our being prepared to look back at previous reports and treat our own record seriously.

This became clear when we recently considered the Government's use of consultants. We had the 2010 report and we knew from the NAO that action on the Committee's previous recommendations from 2007 and 2002 had been slow to say the least. But if we hadn't had Richard Bacon's personal institutional knowledge gained from his years of service as a committee member, we wouldn't have known that a very similar report with very similar recommendations had actually been published in 1994. Repeating the same stuff year on year without achieving any change is a waste of all our time and certainly both fails the taxpayer and fuels the cynicism around public expenditure.

But whilst we need to get better at monitoring, Government needs to improve its approach to accountability and responsibility. This isn't a call for a witch-hunt against the senior civil service but we do need to foster clear and proportionate accountability for public funds and we need to encourage an ethos in our public service that incentivizes successful delivery.

The tradition of changing jobs every two years which still prevails within the Civil Service completely undermines personal accountability. People move on too fast too often and therefore have no sense of personal responsibility.

This was clear when we took evidence before Christmas on the M25 PFI road widening project. It took the Department nearly a decade to sign the procurement contract. It ended up costing £660million more than it should have because of the credit crunch and potentially £1.1billion more than an alternative hard-shoulder running scheme. And the Highways Agency spent £80 million on consultants to help them project manage the widening of a road!

When the Committee tried to take evidence from the Senior Responsible Owner we were told he had left, and had apparently taken up a job with one of the consultants to the project and was at that time in Spain. A pretty extreme case to make an important general point.

Accountability is also less than perfect at Permanent Secretary level in practice if not in theory. In theory the top civil servants are responsible for ensuring their departments spend within budgets and achieve value for money. Yet in practice, if I take the MOD as an example this does not always happen. Something has gone wrong with the job description.

The decision within the MOD to sign the contract for the aircraft carriers in 2008 was taken without the resources being agreed and without alternative savings being identified. Eight months later officials chose to delay the contract they had just signed to make the rest of the Defence Budget affordable in the short term, adding £1.6billion to its cost, a cost which arose entirely because of the decision to delay. It seemed pretty obvious to us that the Permanent Secretary should have asked ministers for a letter of direction in these circumstances. He didn't and despite our best endeavours was backed by his superiors within the Civil Service and as a result a heck of a lot of taxpayers' money was wasted with nobody being held to account.

So clear accountabilities must be defined and they must mean something. And this has become ever more urgent with the new governance arrangements being introduced by the new Government.

For example, the Government wants ministers to chair the Executive boards in every department. Fine, but who then is responsible and accountable to Parliament for decisions taken to spend money and ensure VFM? It's supposed to be the Accounting Officer, but should it be the Minister?

Similarly non-executive directors are being recruited who will have the power to recommend the sacking of permanent secretaries. Again fine, but what does that do to the responsibilities of the Accounting Officers for managing the budget and ensuring VFM? And what might it mean for the accountability of Ministers too?

The PAC is looking at closely at these new responsibilities and accountabilities. We took evidence yesterday from the top civil servants, Lord Browne (who is leading on non-executive directors) and Francis Maude as the lead minister on these matters. We will shortly be considering our recommendations on this critical issue.

Six months into the job and it is already obvious to me that the same issues occur and re-occur time and time again, across all departments, yet ensuring people learn from past mistakes and take the necessary action to improve efficiency and effectiveness appears an unachievable goal. That's not good enough.

I know from my years in Government that the machinery of Government is like a huge, unwieldy tanker which is lethargic by nature and resistant to change. Civil servants move on; there are still too many civil servants who are more concerned with getting the papers off their desk and onto somebody else's desk than with achieving an effective value for money outcome. There is still an entrenched culture which believes that the purpose of the civil service is to provide advice, not manage services. And the civil service still fails to recruit sufficient people with the appropriate skills to manage public services in the modern world – like effective project managers and qualified IT specialists.

Neither Ministers nor senior officials make longer-term decisions with any sense that the consequences of their actions can ever come back to haunt them. It is as if there is an unwritten rule that failures in big government are inevitable and that it would be unfair to penalise any one individual for any particular decision. The trouble with such an approach is that it encourages irresponsible and poor value decision making. To take two examples from recent transport history, the Conservatives' rail privatisation was a costly disaster which is still causing expense. Labour's public-private partnership for London Underground was also an expensive failure. Today's ministers and officials cannot be held to blame for past errors – but then nobody can.

The PAC has the great advantage among Select Committees of being able to look across Government and across Departments and so identify trends and challenges which are relevant in all or many departments. Over the coming period I want us to focus more on these cross-government issues. In part that means looking at practical issues in areas like IT and project management.

But I also want us to examine other common problems across Government, especially where the action taken by one department can impact on the work of another department. To date the work of the PAC has too often reflected the silo departmental structure of Government. I do want that to change.

That is why I am particularly pleased that the Comptroller and Auditor General has agreed to look at how means-testing has worked right across Government. That study will create a better understanding of the pros and cons of this approach as the Government moves forward with its new policy proposals.

And I am also looking forward to the study the Comptroller and Auditor General has agreed to undertake on how different departments define 'need' in differing ways to determine the allocation of their resources, so that we can better understand the impact of the differing definitions and perhaps suggest best practice back to Government.

Which brings me finally to the relationship between the Comptroller and Auditor General and the NAO on the one hand and the Public Accounts Committee on the other. I have been hugely impressed by the excellent value

for money work produced by the National Audit Office. The quality of our work in the PAC is very dependant on the quality of the NAO reports and that is often outstandingly good.

The C&AG has the access rights that guarantee us our unparalleled ability to see what has been done with public money and it is important that we work closely and well together. I am personally very grateful for the effort being put in by the C&AG and his staff to support me and my committee colleagues.

But quite properly the Comptroller and Auditor General, whilst an Officer of Parliament, is independent of the PAC. It would be utterly wrong for politicians to dictate what the NAO should do.

But equally the PAC should not be a creature of the NAO, simply reacting to NAO findings and completely dependant on the NAO for information and advice. It is for this reason that I have successfully steered through Parliament changes to our Standing Orders. We are now able to initiate our own studies and recruit our own advisers. This in no way reflects on the quality of the NAO work, but it gives us the facility to seek advice from independent voices and subject specialists whose primary purpose is to support the work of the Committee, not the work of the National Audit Office. We will very shortly be deciding how to recruit such support.

It is also why we have started to have seminars with professionals on particular topics - like how we should approach the Comprehensive Spending Review and the Health Reforms. And it is why we have started taking evidence from witnesses outside the senior civil service for the first time – from judges in our inquiry into CAF/CASS; from charities that run Academy schools and from private providers who supply Employment services to the DWP.

The PAC is an excellent invention and has an admirable track record. But in different times new challenges emerge. Never has ensuring good value for money been more important than it is today with the substantial proposed cuts in public expenditure.

And let's not forget the constitutional importance of the PAC. It was in a way gratifying to see the paragraphs addressing our work in the draft Cabinet Manual published by the Cabinet Office in December.

Using the PAC to restore strong accountability of the Executive to Parliament must be one important way in which we restore confidence in our politics after the damaging events of the last couple of years.

So we must raise our game. That is why we need to be constantly listening and learning ourselves. Perhaps some of our recommendations are not quite right at present; perhaps that's why they are not always implemented as quickly or as completely as we would hope. Perhaps our understanding of what an ideal value for money solution would be needs to more often be seen in the context of the harsh realities of Government and Politics – the lack of funding, the political imperative for speed; the impact of public opinion and the media.

It's easy to grab a headline out of the work of the PAC. But that's not what I want to be about. I passionately believe in the value and importance of public services and I passionately believe that getting value for money is critical to building confidence in public spending and public services. I believe this objective is shared by MPs of all parties.

So I want to help to make a difference over the coming period and I hope your ideas and thoughts will help us to do that. So please feel free to contact me with any ideas you have. I want to be seen to be making a difference because it really matters. Making a difference because there is an awful lot of difference to make.