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Public Administration and Constitutional Affairs Committee
House of Commons
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11 April 2024

Dear Committee,

Thank you for your letter dated 26 March addressed to Sir Alex Chisholm, following his appearance before the Public Administration and Constitutional Affairs Committee on 27 February. You asked further questions arising from the most recent Cabinet Office Annual Report and Accounts, and I am pleased to provide the detail below.

Government Property Agency spending control non-compliance:

- **The Government Property Agency let a contract without the required clearance of the Cabinet Office. How was an executive agency of the Cabinet Office able to breach spending controls set by its own parent department?**

As part of the audit of the GPA's 2022/23 financial statements, the NAO concluded that the Government Property Agency (GPA) had not complied with Cabinet Office spending controls in awarding new operational security contracts. The irregularity identified was that the GPA engaged with the highest scoring bidders to agree the final allocation of contracts prior to obtaining approval from Cabinet Office Commercial Control, who deemed the engagement to constitute an implied award (as the bidders were informed of the evaluation outcome as part of the engagement) and therefore a breach of the control. Following the breach, the GPA team have established closer working relationships with the Cabinet Office Commercial Control team and the Facilities Management Control team in order to ensure the requirements of the control are better understood and fully adhered to going forward.

This was part of a set of procurements designed to produce a more flexible and resilient model (to mitigate the impact of a Carillion-style incident) and support the GPA's growing portfolio. By taking this approach, the GPA saved £9-10m of taxpayers' money and mitigated the risk of a legal challenge. The new contracts were approved by HMT and the Facilities Management Control. The NAO, in its findings, "acknowledge that there was no other inappropriateness in the procurement approach or its outcome".

An Accounting Officer Assessment was carried out which concluded that there was no issue of propriety or feasibility; a balance needed to be struck between the regularity test and securing value for money. On balance, the decision was to put value for money ahead of regularity, especially given the regularity concerns were procedural.

- **Do you think your Department is adequately ensuring compliance with these spending controls across Government if it failed to do so for its own executive agency and what steps are being taken to prevent further non-compliance?**

We have a number of ways of ensuring compliance with spending controls to reduce the amount of retrospectives that occur. We worked closely with GPA to formulate and implement a plan of action to improve compliance, and reiterated that CO approvals need to be factored into their timelines. The improvement plan included activities such as running improvement workshops; increased scrutiny over a 12 month period; and whilst also working closely with HMT, who withhold their own approval of business cases, (and subsequent the release of funding), until the spending control and other applicable controls have been achieved.

In 23/24 we identified 11 retrospective cases and for each we worked together with the departments to identify and understand why this occurred, how judgement was applied; and agreed and implemented an improvement plan to address the root cause. We further mitigate the risk of future non-compliance by ongoing engagement and monitoring with the Department to ensure controls are understood, applied and tightened where required. Breach of the spending controls and requests for retrospective approvals are often linked to poor awareness of controls. Wider work is underway by the central controls team to improve compliance across government, through awareness raising activities and improved guidance.

Comprehensive guidance is published on gov.uk and there is regular and varied engagement between the spending control team and those organisations subject to controls, for example pipeline reviews and teach-ins. The spending control team provides independent and objective assurance and works collaboratively with assurance and commercial teams across Departments and ALBs to promote clarity and ensure the effectiveness and integrity of spending controls.

- **How much expenditure has the GPA now incurred under this contract and do you expect the Cabinet Office's group accounts for 2023-24 to be qualified for irregular expenditure because of it?**

The contracts were mobilised for go live from October 2023 and expenditure of £6.2m has been incurred since then (up to 31 March 2024).

We understand that NAO will be recommending to the Comptroller and Auditor General that he qualifies his regularity opinion for the 2023/24 GPA accounts once actual expenditure has been incurred. We will continue to work with the NAO transparently now this has happened and will ensure that we work with the GPA to ensure controls are enhanced and tested.

Transactions with the Official Receiver:

- **Has the UK Cloud liquidation concluded yet, has the Cabinet Office recovered any of its £20m contribution, and have there been any claims to date on the indemnity?**

The liquidation is expected to conclude in the second half of 2024. The Government has underwritten the costs of the Official Receiver. The original cost estimation was up to £40m. The Official Receiver repayments and current level of Cabinet Office funding for the UKCloud liquidations is £17.5m. (*£20m day 1 funding less £2.5m repayment to the Cabinet Office*).

To date, there are no known claims against the Cabinet Office indemnity.

The final cost to the Cabinet Office cannot be confirmed as there are still outstanding matters to conclude, including ongoing asset realisations.

- **What progress has there been with the liquidation of Carillion? Has the Cabinet Office made any further recoveries, and have there been any claims to date on the indemnity?**

The Official Receiver repayments and current level of Cabinet Office funding for the Carillion liquidation is £34.75m. (*£150m day 1 funding less £75.5m returned to the date of Cabinet Office 2022-23 accounts and £40.75m subsequently repaid*).

The final cost to the Cabinet Office cannot currently be confirmed as there are still outstanding matters to conclude, including ongoing asset realisations. However, the Cabinet Office has disclosed the net contributions in the Annual Report and Accounts since 2018-19, and will continue to disclose all costs and recoveries in the Annual Report and Accounts until it is no longer required. This is judged with reference to the relevant accounting standards, and is agreed through the audit process with the NAO.

To date, there are no known claims against the Cabinet Office indemnity.

Vetting Transformation Programme:

- **What is your current assessment of the deliverability of this transformation Vetting Transformation Programme? How much has been invested to date in developing software assets and how much is at risk of being written-off?**

The programme was recently formally reset by the IPA. The resources required to deliver are now in place and commercial contracts ready to be mobilised. Although at an early stage, we are confident regarding the deliverability of the programme.

To date, £6.6m has been invested in CDEL in digital assets under construction. At the present time, there are no anticipated write-offs for these assets.

Internal Fraud:

- **Can you provide further details on the nature of fraud identified in the Annual Report and what action you have taken to improve the Department's anti-fraud controls? Has the money been recovered yet?**

The information in the Cabinet Office Annual Report and Accounts relates to department related fraud, and mainly covers pay (inc overtime and flexi), expenses, travel and subsistence claims and abuse of official IT equipment for personal use that results in financial loss.

For superannuation, fraud typically relates to failure to disclose deaths, failure to report changes in circumstances and impersonation. For example, the majority of detected fraud in 22/23 related to a single case of a failure to disclose or deliberately conceal a change in marital status.

The internal counter fraud activities within the department continue to mature with a focus on improving detection, prevention and recovery. The department has put more dedicated resources towards this and have focused on the following areas:

- **Fraud risk assessments:** Conducted a risk assessment across the department particularly focusing on corporate services to identify where we have weaker controls and opportunities to strengthen them. This will be an annual exercise.
- **Strategy and response plan:** We have revised our strategy and response plan to improve the effectiveness and speed of the department's response when suspected fraud is identified. The GIAA has audited this and given a 'substantial' rating.
- **Raising awareness:** Greater awareness, engagement and training particularly amongst HR and Finance Business partners has resulted in an increase in reports of suspicious activity. Not all reports result in a fraud investigation.
- **Case management and investigations:** The department has established a case management and investigation capability and draws on the expert services of the GIAA fraud investigation services as required.
- **Assurance of action reviews:** Following instances of fraud, the fraud team have agreed actions with control or process owners that would limit or stop an instance of fraud occurring again.

The value of detected fraud set out in the 2022-23 Annual Report was £60k. This is largely composed of two cases: £19k relating to mobile phone abuse and £39k relating to a failure to notify changes in circumstances to the pension administrator.

The individual who misused the mobile phone was prosecuted and has pleaded guilty - we are awaiting sentencing which may include recovery. Following sentencing, civil recovery remains an option. The pension case is now in a repayment plan from January 2024, but due to hardship the member is only able to repay a nominal amount each month. We do not expect to ever recover the whole debt. Action Fraud (Police) were contacted but did not believe it added value to pursue a prosecution due to the person's state of hardship and the unlikelihood of a repeat offence.

Losses abandoned software development:

- **The Office of Government Property had an IT project that was abandoned. Can you explain why it was abandoned rather than being completed or repurposed?**

The IT project has not been abandoned, although a previous supplier's contract was terminated due to their non-performance.

The Office of Government Property (OGP) let a contract (to Landmark Information Group) in October 2020 to build a new property database (InSite). However, due to non-completion the contract was terminated in July 2022. This was following multiple attempts to secure improved performance from the supplier. At the point of termination, the supplier had built an estimated 60% of the database.

As part of the termination, the supplier reimbursed £300k to the Cabinet Office for the cost of re-procurement and inconvenience, transferred work completed to date, transferred a number of software licences and provided a service to assist a new contractor. The net total cost paid by OGP to the supplier was £585k.

Following termination of the supplier, a robust lessons learnt exercise was carried out. This identified a number of required improvements including the need for in-house technology expertise (rather than relying on external assurance), and a streamlining of the programme's governance arrangements. Other lessons learnt include the need for the supplier to provide a delivery roadmap with smaller and more iterative milestones, with payments under the contract linked to those milestones; the need to strike the right balance between price and quality in future procurement exercises; and embedding ways of working in the supplier contract. These were all addressed in the specification for the reprocurement. ,

Following the lessons learnt exercise, OGP procured a commercial off the shelf technology solution from Planon in June 2023 and increased capability and capacity of delivery resources. The Planon system is being configured and is largely complete; however, the system has not satisfied necessary accessibility requirements yet. The plan and the timeline for launch is being agreed with the provider who has taken full responsibility for this issue.

The data captured in InSite will prove an overview of property utilisation across central government enabling the identification of property efficiency opportunities.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Catherine Little', enclosed in a thin black rectangular border.

**Catherine Little CB
Cabinet Office Permanent Secretary and
Civil Service Chief Operating Officer**