Treasury Minutes

Government response to the Committee of Public Accounts on the Forty Third to the Fifty Eighth reports from Session 2017-19

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Government responses to the Committee of Public Accounts Session 2017-19

Forty Third Report of Session 2017-19

Department of Health and Social Care

Clinical correspondence handling in the NHS

Introduction from the Committee

Up to 31 May 2015, NHS Shared Business Services (NHS SBS) was one of a number of NHS and private providers responsible for redirecting correspondence about patients that was sent to the wrong GP. In March 2016 NHS SBS informed NHS England and the Department of Health that it had discovered a backlog of approximately 435,000 items of unprocessed clinical correspondence. The Committee took evidence on this issue in October 2017 and issued a report on 29 November 2017.

During the course of that inquiry NHS England informed the Committee that it had discovered a new backlog of 162,000 items of clinical correspondence that had not been redirected. NHS England stated that a small proportion of GPs had not been complying with guidance and had erroneously been sending clinical correspondence and other material to Capita, the current provider of primary care support services. NHS England is responsible for arranging primary care support services in England and for the process for redirecting clinical correspondence.

In May 2015, NHS England introduced new arrangements and since that date GPs are to return misdirected correspondence to the sender. At the Committee's March 2018 evidence session, the Committee examined how NHS England had allowed another backlog of unprocessed clinical correspondence to accumulate.

Based on a report by the National Audit Office, the Committee took evidence, on 26 March 2018, from NHS England. The Committee published its report on 6 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *Investigation into clinical correspondence handling in the NHS* - Session 2017-18 (HC 778)
- PAC report: *Clinical correspondence handling in the NHS* – Session 2017-19 (HC 929)

Government responses to the Committee

1: PAC conclusion: ***NHS England understated the problem at our evidence session in October 2017 by not disclosing the full extent of the new backlog of clinical correspondence.***

1: PAC recommendation: ***NHS England should write to the Committee in November 2018 and again in May 2019 with an update on the total number of items of misdirected correspondence identified to date; the size of the current backlog of unprocessed correspondence; any new backlogs of misdirected correspondence that have been identified since our March 2018 evidence session; and an update of its assessment of whether there has been harm to patients.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018.

1.2 NHS England will write to the Committee in November 2018 to provide a final update on the misdirected correspondence.

1.3 The total number of items of misdirected correspondence identified to date remains as 1,132,043 documents (708,259 SBS Incident and 423,784PCS incident related) reported in the Committee on 26 March 2018. There are no backlogs of unprocessed correspondence or misdirected correspondence. A business as usual function has been implemented to ensure correspondence is managed appropriately. The Clinical Review process has identified one case in the SBS Incident where the patient did not receive treatment in a timely manner which affected their health, this case was reported to the Committee in March 2018. Duty of candour has been fulfilled and the patient has been informed. The Information Commissioner has been kept informed throughout.

2: PAC conclusion: ***NHS England has not communicated effectively with GP practices about how they should handle misdirected clinical correspondence.***

2: PAC recommendation: ***NHS England should set out in its November 2018 update what it has done differently to ensure that its planned communication campaign is more effective than the last, as well as the impact the campaign is having on reducing the volume of correspondence that GPs are sending to Capita in error.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018.

2.2 A communication campaign is due to be delivered by the end of Summer 2018. NHS England will write to the Committee in November 2018 to provide an update on its communication campaign and its impact on reducing the volume of correspondence sent by GPs to Capita.

3: PAC conclusion: ***NHS England expects to spend £2.4 million attempting to resolve misdirected correspondence because some GP practices are not handling clinical correspondence correctly.***

3: PAC recommendation: ***NHS England should report back to the Committee by November 2018 on what it is doing to identify consistently non-compliant GP practices and how it is going to work with GP representative bodies to ensure GP practices are following the correct correspondence handling procedures.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018.

3.2 NHS England will write to the Committee in November 2018 to provide an update on identifying non-compliant practices and working with GP representative bodies on correspondence handling procedures.

3.3 A statistical analysis of the non-responding GP practices across England is underway. The findings of this analysis will be shared with local teams and Clinical Commissioning Groups for action. Capita are reviewing the clinical items received into the business as usual service to identify themes and practices which continue to redirect items incorrectly. This information will be shared with local teams and CCGs for action.

4: PAC conclusion: ***The problem got worse and remedial action for patients was delayed because it took NHS England too long to escalate the issue internally.***

4: PAC recommendation: ***In its November 2018 update, NHS England should set out what it has done to ensure that issues and risks get escalated promptly in the future.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018.

4.2 NHS England will update the committee in November 2018 on what it has done to ensure that issues and risks get escalated promptly in the future.

Forty Fourth Report of Session 2017-19

Department for Health and Social care

Reducing emergency admissions

Introduction from the Committee

NHS England defines an emergency admission to be "*when admission is unpredictable and at short notice because of clinical need*". In 2016–17, there were 5.8 million emergency admissions, up by 2.1% on the previous year. The growth in emergency admissions is mostly made up of older people. NHS England and partners have developed a number of national programmes that aim, among other objectives, to reduce the impact of emergency admissions. These programmes include the urgent and emergency care programme, the new care models, and the Better Care Fund. There has also been an increase in the number of people being readmitted in an emergency shortly after an initial inpatient stay. Readmission rates can indicate the success of the NHS in helping people to recover effectively from illnesses or injuries. One study estimates that emergency readmissions have risen by 22.8% between 2012–13 and 2016–17 but NHS England does not itself record readmission rates.

Based on a report by the National Audit Office, the Committee took evidence, on 26 March 2018, from the Department of Health, NHS England, and NHS Improvement. The Committee published its report on 8 June 2018. This is the Government response to the Committee's report

NAO and PAC Reports

- NAO report: *Reducing emergency admissions* - Session 2017-19 (HC 833)
- PAC report: *Reducing emergency admissions* - Session 2017-19 (HC 795)

Government responses to the Committee

1: PAC conclusion: ***Nearly one and a half million emergency admissions could be avoided with better preventive care outside hospitals.***

1: PAC recommendation: ***NHS England should identify gaps in capacity in primary and community health care and set out how it intends to fill those gaps. It should also consider the impact of pressures on social care provision on emergency admissions and use this understanding to inform discussions with the Ministry of Housing, Communities and Local Government and HM Treasury about the Green Paper on future funding of social care.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation: Autumn 2020.

1.2 The Departments Secretary of State gave evidence to the Health and Social Care Committee on 24 July 2018 confirming that one of his early priorities is prevention, including treating people more in the community rather than hospital, and preventing them needing hospital treatment. The recent funding settlement for the NHS gave the NHS increased funding of £20.5 billion in real terms per year by the end of the 5 years – an average 3.4% per year overall. The priorities of the associated Long-Term Plan include better prevention of ill-health, and the better integration of health and social care. This should therefore take into account many of the recommendations here and address the role of community services and primary care, and also social care.

1.3 An ageing society means the need to reach a longer-term sustainable settlement for social care. The Government has committed to publishing a Green Paper by autumn 2018 setting out its proposals for reform. It is right that social care funding is agreed alongside along the rest of the local government settlement at the forthcoming spending review. However, the Government recognises that the health and social care systems are two sides of the same coin, and will ensure that social care places no additional pressure on the NHS. The Department recognises that decisions on future reforms must be aligned, and therefore is planning to publish the Social Care Green Paper around the same time as the NHS 10-year plan.

1.4 The learning from the CQC's Local System Reviews, which were commissioned by DHSC and MHCLG specifically to address issues around the interface between health and social care in 20 challenged areas, is currently being disseminated.

1.5 The Urgent and Emergency Care programme aims to ensure that patients get the right care in the right place, whenever they need it. The programme is working with all partners to ensure that primary and community health care services have appropriately skilled staff to avoid unnecessary admissions, alongside developing new services to ensure that patient needs can be met in the most appropriate care setting using clinically and cost-effective interventions.

1.6 NHS England is working with Health Education England (HEE) to develop further education and career progression opportunities within the community nursing workforce to upskill and support retention of staff in this sector. Social care services need to ensure appropriately skilled staff are able to prevent unnecessary admissions from care homes.

1.7 NHS England recognises the inter-dependency between social care services and different parts of the health system, and is working with MHCLG and the Department to ensure the interactions are considered in developing the NHS plan and forthcoming social care Green Paper.

1.8 The Better Care Fund supports joint working across health and social care to improve prevention and effective discharge.

1.9 NHS England continues to work with NHS Digital to develop the Community Services Data Set (CSDS). The next phase is planned to deliver in the Autumn of 2020 to enable NHS Digital to link datasets and provide greater detail to identify activity across the system in community health services.

2: PAC conclusion: ***Rising bed occupancy rates further jeopardise hospitals' ability to cope with emergency admissions.***

2: PAC recommendation: ***NHS England's and NHS Improvement's regional teams should assess the capacity that hospitals need in terms of beds, staff and funding to deal with emergency admissions throughout the year. The Committee has previously highlighted the need for Trusts to have greater certainty earlier in the year of additional funding to cope with winter pressures.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation: December 2018.

2.2 The Government has confirmed capital allocation of over £100 million for projects to help improve flow and bed capacity, particularly ahead of winter, and has asked NHSI to consider what projects should be prioritised now for 2019/20. The Department is aware that there are opportunities to improve the time people wait for services to support discharge and will be working across health and social care to improve this, both in the longer term through the Social Care Green Paper, and through joint work with the NHS to develop the 10-year plan, and more immediately by building on the approach used with Delayed Transfers of Care, which have dropped by 2100 beds per day between the February 2017 baseline and June 2018.

2.3 Every trust has developed a 2018/19 plan setting out expected demand, activity levels, bed and workforce capacity, and financial position. These plans have been assured by Trust Boards, triangulated with commissioner plans and assessed by regional and national teams from NHS Improvement working closely with NHS England.

2.4 The length of stay programme aims to release bed capacity through a reduction in the number of patients staying in an acute hospital for over 21 days by 25%. Over time the programme is expected to release up to 4,000 beds across the NHS and reduce the risk of avoidable harm to those patients who are most vulnerable to prolonged hospital stay. The released capacity is intended to lower bed occupancy and improve flow.

2.5 Evidence shows that a significant number of patients in acute hospitals do not require an 'acute' hospital bed. Trusts will, therefore, focus on identifying when patients no longer require hospital care and would benefit from being cared for in community settings, where their assessed needs can be met to deliver the best care experience and outcomes.

2.6 Local systems are expected to collectively implement the interventions that are set out in published guidance to achieve these objectives.

3: PAC conclusion: ***NHS England has not systematically engaged with the voluntary sector to understand fully the importance of its support in reducing emergency admissions.***

3: PAC recommendation: ***The Department should encourage better sharing of best practice on how the voluntary sector supports health and social care efforts to reduce emergency admissions and understand the reliance the system has on the sector. It should report back to the Committee on this.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation: December 2018.

3.2 The Department recognises that having effective partnerships with the voluntary sector plays an important role, contributing to healthy communities, and particularly valued by patients with long-term conditions to assist with managing their own health, care and wellbeing more effectively.

3.3 Since April 2017, NHS England has coordinated a Voluntary, Community and Social Enterprise (VCSE) hospital discharge working group. This group brings together statutory partners, the Care Provider Alliance and national VCSE organisations such as British Red Cross and the National Association for Voluntary and Community Action to work on supporting hospital discharge and admission avoidance. The group shares existing good practice schemes, enabling voluntary sector bodies to join together to deliver programmes. Better Care Fund Plans for 2017-19 were required to be drawn up with the involvement of VCSE partners.

3.4 In 2017, the Department launched the health and wellbeing fund grant scheme, themed for its first year on social prescribing. Social prescribing is a means of enabling GPs and other frontline healthcare professionals to refer people to 'services' in their community instead of offering only medicalised solutions. Voluntary, community and social enterprise organisations were invited to apply and 23 successful schemes have been selected for funding with around £4.5 million in funding to support the schemes. Many of these programmes work in conjunction with GPs and hospitals to identify patients who regularly access services, including A&E, and offers support to improve self-care and health and wellbeing generally.

3.5 One of the challenges is that while individual social prescribing schemes are able to demonstrate impact there is a lack of robust comparable data at national level. The Department will use the Health and Wellbeing Fund projects to add to the evidence base.

4: PAC conclusion: ***Without a better understanding of what works best to reduce emergency admissions, NHS England cannot prioritise resources effectively.***

4: PAC recommendation: ***NHS England and NHS Improvement should set out their plans for how and by when they will determine which interventions are most effective at reducing emergency admissions and how they will use any findings to ensure a more targeted use of resources and funding.***

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 NHS England and NHS Improvement have set out the evidence base and delivery plan through the Urgent and Emergency Care Review and subsequent UEC Transformation and Delivery Programme, which set out the delivery mechanism for the objectives set out in the Review.

4.3 A significant focus to date has been on out of hospital interventions, for example developing the evidence base for the ambulance response programme and the development of the integrated urgent care model.

4.4 The length of stay programme has set out a range of interventions and the supporting evidence to demonstrate that their use can lower length of stay and create additional capacity i.e. the potential to reduce overnight admissions by up to 30% through ambulatory or same day emergency care, or the impact of introducing the SAFER patient flow bundle.

4.5 Through continued evaluation of interventions and increasing use of tools such as RAIDR to track the effectiveness of interventions, NHS England will continue to build and disseminate the evidence base.

5: PAC conclusion: ***Poor data on day case emergency care and readmissions stops NHS England knowing if its efforts to reduce emergency admissions are helping or potentially***

5: PAC recommendation: ***NHS England and NHS Improvement should improve data they collect and that hospitals record so that by the end of 2018 care can be tracked and publicly reported, together with a clear statement of what is a harmful level of readmissions for people's care.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation: April 2020.

5.2 While the Government agrees with the Committee's recommendation that NHS England and NHS Improvement should improve data they collect and that hospitals record, it does not agree with the timeline.

5.3 The Government does not believe there can be a meaningful definition of what a harmful level of readmission is. Factors which may influence readmission include age, complexity of condition, comorbidities etc – meaning that it is difficult to establish what an acceptable level of readmission across all condition is. There is currently no nationally consistent recording of readmission, and the rise in same day emergency care has further complicated assessing a meaningful rate of readmission. Readmission for zero day length of stay should be viewed distinctly from longer term admission; and any unintended consequences need to be identified – form example: some patients having longer lengths of stay than necessary in seeking to avoid readmission.

5.4 Work is underway to understand activity in same day / ambulatory emergency care settings and to create a dataset to support the recording on a consistent basis. This dataset will allow activity records to be linked to activity in different settings - A&E, ambulance and community services and enable readmission indicators to be monitored.

5.5 Experience tells the Department that such datasets take some time to develop and embed in order that the NHS is able to record and report to common standards. It is likely that such data would not start to flow until 2019/20. During that year, the focus would be on data quality and quality assurance. Once data is available from this setting, linkage could be made with other settings so that analysis could be made of those patients with the most frequent interactions with the hospital sector.

5.6 NHS England will consider what the key indicators should be to understand patient outcomes, including the balance between readmission with zero day length of stay and readmission for longer periods.

Forty Fifth Report of Session 2017-19

Department for Education

The higher education market

Introduction from the Committee

Over 2 million people are students at higher education institutions in England, mostly at universities. The Department for Education (the Department) provides £9 billion of up-front funding each year for higher education in England in the form of grants and tuition fees, equivalent to £7,903 per student, up from £6 billion in 2007/08. Some 85% of up-front funding now directly follows student choice (up from 23% in 2007/08) via tuition fee loans, which the government increased from £3,000 per year to a maximum of £9,000 in 2012. The government also removed caps on the number of students institutions could accept from 2015/16 to allow popular providers to expand and more young people to access higher education.

The Department introduced further reforms to the higher education market through the Higher Education and Research Act 2017. The Department's objectives for the reforms included introducing more competition and a wider variety of options (for example, two-year accelerated degrees or online courses) into the higher education market. The Department also intended for the reforms to foster excellent teaching, ensure students could make informed choices, and increase access to higher education among students from disadvantaged backgrounds. The reforms included setting up a new market regulator, the Office for Students (OFS), whose remit is to support a competitive environment, promote choice, quality and value for money in the interests of students and the taxpayer.

Based on a report by the National Audit Office, the Committee took evidence from the Department for Education, the Office for Students, the National Union of Students, University Alliance and the Oxford Centre for Higher Education Policy Studies on 12 and 28 March 2018. The Committee published its report on 15 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *The higher education market* – Session 2017-19 (HC 629)
- PAC report: *The higher education market* – Session 2017-19 (HC 693)

Government responses to the Committee

1: PAC conclusion: ***The Department treats the higher education sector as a market, but it is not a market that is working in the interests of students or taxpayers.***

1: PAC recommendation: ***The Department should write to the committee by October 2018 to explain what it expects a successful higher education market to look like.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2018.

1.2 The Higher Education reforms, enabled by the Higher Education and Research Act, include the establishment of the Office for Students, the creation of the new regulatory framework and the creation of a single Register so that providers will compete on a level playing field. These reforms will support greater choice and competition to the benefit of both the student and the taxpayer. They will strengthen the market and enable diverse, innovative approaches and models of provision and will drive quality and value for money. The Department will write to the Committee in October 2018.

2: PAC conclusion: ***Young people are not being properly supported in making decisions on higher education, due in large part to insufficient and inconsistent careers advice.***

2: PAC recommendation: ***The Department should write to the Committee by October 2018 with details of progress it has made with its careers strategy and the impact it is having. It should set up an evaluation framework to enable it to assess progress.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2018.

2.2 The Department agrees that high-quality careers advice is vital in helping people to make informed decisions on their education, training and careers options. The Government's careers strategy will radically improve the quality and quantity of careers provision across the country.

2.3 The Department has already taken important steps towards achieving the ambitions outlined in the strategy. Updated careers statutory guidance for schools and guidance for colleges has been published that sets out what is expected of them. The Government is investing £5 million to pilot 20 Careers Hubs across the country to build upon the success of the model piloted by Gatsby in the North East of England. The Secretary of State announced the twenty Local Enterprise Partnerships that were successful in their applications to establish Careers Hubs on 11 July 2018.

2.4 The Department has already made good progress in its plans to invest £4 million to fund training for Careers Leaders. The Careers and Enterprise Company published its Careers Leaders guide for secondary schools in March and are in the process of selecting training providers. The first training is on track to be rolled-out in the 2018-19 academic year.

2.5 The Department agrees on the importance of evaluating the impact of the strategy and will consider the progress made by schools and colleges in meeting the eight Gatsby Benchmarks of good career guidance.

2.6 The Department will write to the Committee in October 2018.

3: PAC conclusion: ***The Department does not have enough of a grip on actions to widen participation in higher education, and is over-reliant on the actions of some universities.***

3: PAC recommendation: ***The Department should provide the Committee with evidence of how it is widening participation and opening higher education to students from disadvantaged backgrounds. The Department should demonstrate how they will maintain pressure on providers to measure success.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 It is for Office for Students (OFS), as the regulator, to seek and report on progress in this area and agree targets with providers. The Government, through the Higher Education and Research Act 2017, has put in place the OFS as the regulator with a statutory duty to "*have regard to the need to promote equality of opportunity in connection with access to and participation in higher education*" in performing its functions. The Government has already issued guidance to the OFS, to take forward work on an Evidence and Impact Exchange. The Exchange will identify and disseminate what works from an access and participation perspective, with the aim of ensuring widening participation money is spent most effectively.

3.3 The guidance also includes improving access to the most selective institutions and those institutions that provide the best outcomes. Any provider wishing to be registered as an Approved (fee cap) provider and to charge above the basic amount of fees must have in place an access and participation plan agreed with the Director for Fair Access and Participation. Approved providers and Approved (fee cap) providers whose students can access fees at the basic level are also required to show their commitment to access and participation in higher education through publishing Access and Participation Statements.

3.4 The OFS has issued guidance on the production of Access and Participation Plans with a priority on access to increase the entry rates of students from underrepresented groups to higher education, in particular, reducing the participation gaps for those from socio-economically disadvantaged backgrounds and at higher tariff providers. The OFS must prepare a report on the performance of its functions during each financial year, including on access and participation, and send it the Secretary of State who must lay it before Parliament.

3.5 In addition, the terms of reference of the Review of Post 18 Education and Funding include a specific requirement that the independent panel address the issue of accessibility to higher education. This includes consideration of how people from disadvantaged backgrounds can have equal opportunities to progress to, and succeed in, all forms of post-18 education and training. The panel will publish their report at an interim stage before the Government concludes the overall review in 2019.

4: PAC conclusion: ***Students have limited means of redress if they are unhappy with the quality of their course, even if they drop out.***

4: PAC recommendation: ***In developing the new regulatory framework, the Department and OFS must ensure students' interests are protected. The OFS should include clear guidelines to enable students to shift courses or institutions more easily.***

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The OFS published its regulatory framework in February 2018.[1] The regulatory framework sets out how the OFS will regulate English higher education providers in the interest of students. The OFS aims to ensure that higher education is delivering positive outcomes for students – past, present and future.

4.3 The regulatory framework sets out four regulatory objectives to ensure that all students, from all backgrounds, and with the ability and desire to undertake higher education:

- are supported to access, succeed in, and progress from, higher education;
- receive a high quality academic experience, and their interests are protected while they study or in the event of provider, campus or course closure;
- are able to progress into employment or further study, and their qualifications hold their value over time; and
- receive value for money.

4.4 Where students want to transfer from one course or provider to another, the OFS will work to ensure that in practice students are able to transfer to another course or provider wherever it meets their needs and aspirations.

4.5 Many providers have transfer systems in place but many students are unaware of the opportunities available. In order to improve the information available to students, the OFS has set a condition of registration (condition F2) requiring providers to publish information about transfer arrangements. The OFS will monitor and report on the availability and utilisation of student transfer arrangements.

5: PAC conclusion: ***The new Office for Students has not yet articulated how it will support the varied and complex interests of students.***

5: PAC recommendation: ***The Office for Students should report back in six months to set out in detail how it will measure and report on its performance in regulating for students, and be clear about what its priorities are in protecting student interests.***

[1] https://www.officeforstudents.org.uk/media/1406/ofs2018_01.pdf

5.1 The Government agrees with the Committee's recommendation.

Recommendation Implemented

5.2 The OFS aims to ensure that every student, whatever their background, has a fulfilling experience of higher education that enriches their lives and careers. The OFS sets out clear objectives for protecting student interests in its regulatory framework and its strategy 2018 – 2021.[2]

5.3 The OFS business plan 2018-19[3] outlines specific priorities for the coming year, including plans to:

- complete registration of current and new higher education providers, so students can choose from a diverse range of provision;
- develop and implement an information, advice and guidance strategy to support informed choice by all students;
- set targets for the OFS and the sector on access and participation and develop a new approach to access and participation plans, with a focus on student outcomes;
- develop an evidence and impact strategy for access and participation to ensure all activity is underpinned by evidence and 'what works'; and
- develop processes to protect students' interests in the event of course, campus or provider closure.

5.4 The strategy has been updated and was published on 13 September 2018 with key performance measures for each of the strategic objectives, setting out how the OFS will measure and report on its performance. The OFS has written to the Committee to share the updated strategy.

[2] https://www.officeforstudents.org.uk/media/1435/ofs-strategy-2018-to-2021.pdf
[3] https://www.officeforstudents.org.uk/media/1439/ofs-201819.pdf

Forty Sixth Report of Session 2017-19

HM Treasury and Infrastructure and Projects Authority

Private Finance Initiatives

Introduction from the Committee

The Government has been using the Private Finance Initiative (PFI) for over 25 years to build public infrastructure assets (particularly schools, hospitals and roads) and deliver services linked to the asset. In PFI deals the public sector enters into a contract with a private company specifically created to deliver the asset. The private company raises the finance needed to fund the asset from debt and equity investors. Once the asset is constructed and available for use, the taxpayer makes annual payments to the private company over the length of the contract, typically 25 to 30 years. These annual payments cover debt and interest repayments, shareholder dividends, asset maintenance, and in some cases other services like cleaning.

There are currently over 700 PFI and PF2 contracts in operation, with around £60 billion of assets built using them. Public bodies paid £10.3 billion to private companies under these contracts in 2016–17. Even if the Government does not enter into any new PFI-type deals it will pay private companies a further £199 billion between April 2017 until the 2040s for existing deals, in addition to some £110 billion already paid. In 2012, the Treasury replaced the PFI model with PF2 to address some of the previous Committee's criticisms of PFI, including inflexibility and lack of transparency. So far only six PF2 projects have been commissioned, with another two projects in the pipeline

Based on a report by the National Audit Office, the Committee took evidence from the Treasury, and the Infrastructure and Projects Authority on 28 March 2018. The Committee published its report on 20 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *PFI and PF2* - Session 2017-19 (HC 718)
- PAC report: *Private Finance Initiatives* – Session 2017-19 (HC 894)

Government responses to the Committee

1: PAC conclusion: ***It is unacceptable that after more than 25 years the Treasury still has no data on benefits to show whether the PFI model provides value for money.***

1a: PAC recommendation: ***The Treasury and IPA should, by April 2019, publish the results of their work in collecting data on the benefits of PFI, and set out what they will do to evaluate the value for money of PFI projects currently in operation in the absence of benefits data.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2019.

1.2 The Treasury and IPA agree that value for money is of primary importance and apply a strict scrutiny process to projects with the aim of ensuring that a decision to use private finance is only made where it can be demonstrated to provide value for money over conventionally procured and Government-financed alternatives.

1.3 In addition, Treasury and IPA would highlight that the PFI model was retired in 2012 following a fundamental assessment of its performance and building on concerns raised by the Committee and other parties. Treasury and IPA's preferred model of Public Private Partnership is now PF2. To date, government has procured only six PF2 projects.

1.4 Although there have only been six PF2 projects, Treasury and IPA recognise the Committee's concerns about the absence of data showing the benefits of either PFI or PF2 and, over the next year, will work to collate existing datasets on the performance of these models. The Treasury and IPA will analyse the available data in order to assess inputs (such as construction cost) and outputs (such as the performance of a facility). Treasury and IPA will then write to the Committee with the results of this analysis. The results will also be shared with departments developing future capital investment programmes, with a view to improving their design and execution.

1b: PAC recommendation: ***In addition to the Priority School Building Programme (PSBP), the Treasury and IPA should take a representative sample of PFI projects with a public sector comparator, for example roads and hospitals, and undertake in depth analysis of the suggested benefits of PFI. They should publish their findings by December 2018.***

1.5 The Government disagrees with the Committee's recommendation.

1.6 Treasury and IPA would highlight that the PFI model was retired in 2012 following a fundamental assessment of its performance and building on concerns raised by the Committee and other parties. Treasury and IPA's preferred model of Public Private Partnership is now PF2.

1.7 Until the Priority School Building Programme (PSBP), part of which has been delivered through the PF2 model, there had been no instance of a public capital funded and privately financed programme being run at the same time and to the same standards. To make an ex-post comparison of differently specified projects would provide misleading results. In the case of the PSBP, which does provide a good comparison between the two approaches, the Treasury has made it a specific condition of its approval that the Department for Education uses the opportunity of a programme that is funded through both traditional capital and private finance to collect comparative value for money data.

2: PAC conclusion: ***Some private investors have made large returns from PFI deals, suggesting that Departments are overpaying for transferring the risks of projects to the private sector, one of the Treasury's stated benefits of PFI.***

2: PAC recommendation: ***The Treasury should calculate the returns to originating PFI equity investors when they sell on their stake and use the information to inform pricing for future projects. This should include the domicile of project equity holders, and what impact a reduced tax take would have had on the original project value for money tests.***

2.1 The Government disagrees with the Committee's recommendation.

2.2 Transparency is a key policy objective of the Government. As part of the reforms introduced following the review of PFI in 2012, investors in projects procured under the PF2 model are required to disclose to the Treasury the rates of return achieved, and forecast to be achieved, on their investments in these projects. This information is published annually by the Treasury. However, investors in projects concluded under the original PFI model are not required to disclose returns. As such, it would not be proportionate to calculate returns on the sales of PFI equity because this would require Treasury and IPA to collect years of data at company level from the unlisted secondary market. This would not be a short-term exercise and would require significant time and investment.

2.3 The cost of equity is only one component in the total price of a private finance project. Treasury will only approve a PF2 project where its total cost and benefits demonstrate better value for money than alternatives. In addition, IPA work with procuring authorities to ensure the delivery of competitive procurement, which improves the pricing and value for money of PF2 deals.

2.4 UK and international investors are shareholders in PFI and PF2 projects. The majority are long term investors such as pension funds. The Treasury publishes data annually on PFI and PF2 projects, which includes the identity of project shareholders.

2.5 In addition, Treasury's *Green Book* instructs procuring authorities to consider the impact of tax on PF2 value for money assessments. This entails an adjustment for the effective tax rate paid, rather than a theoretical maximum. Departments may seek advice from Treasury spending teams on this.

3: PAC conclusion: ***The Treasury and IPA are not doing enough to identify or address the impact of individual PFI projects on local budgets.***

3: PAC recommendation: ***The Treasury should publish how it monitors the impact of PFI at local level, how it shares good practice in contract management, and the circumstances in which it would proactively intervene to help those public bodies struggling with their PFI legacy.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Treasury monitors PFI at a local level through its annual data collection exercise, which sets out the future payments expected to be made each year under PFI and PF2 contracts, the results of which are publicly available. However, it is not the role of Treasury to monitor or assess these payments in relation to the budgets of procuring authorities for over 700 contracts, many of which are local authorities. The primary responsibility for supporting projects which are struggling rests with the sponsoring department. Where needed, procuring authorities can also access expert advice from the IPA.

3.3 In 2011, the Government gave an undertaking to deliver at least £1.5 billion of savings from the operational PFI portfolio in England, which has been met. The IPA and Treasury have worked with Departments and local bodies to deliver a program of cost reductions on about 100 existing contracts in schools and other Government buildings. This programme continues with the support of the IPA but is now driven at a departmental level.

3.4 The Treasury also introduced a voluntary code of conduct for operational projects in 2011. The code sets out the basis on which public sector bodies and their partners (investors, lenders, construction contractors and service providers) agree to work together to identify and deliver efficiencies in operational contracts. The code is underpinned by sixteen commitments around partnership working, transparency and a commitment to delivery of public services. More then 200 organisations have signed up to the code.

3.5 The IPA facilitates regular network groups with Departments with operational PFI and PF2 projects which cover topics such as refinancing, contract management, benchmarking and market testing of services and stakeholder and supplier engagement. Support to operational projects is also available to procuring authorities from their sponsoring departments and Local Partnerships, which is jointly owned by Treasury, the Local Government Association and the Welsh Government.

4: PAC conclusion: ***The Treasury's obvious desire to keep PF2 projects excluded from Government debt statistics has created risks to value for money for the taxpayer.***

4: PAC recommendation: ***If it is no longer a Treasury requirement to keep PFI contracts off balance sheet for reporting public debt, it should revisit the original plans for PF2, and the subsequent adjustments made to keep it off balance sheet, and ensure the focus is on value for money and not accounting treatment. The Treasury should write to the Committee before any new PF2 deals are signed, demonstrating how the changes introduced under PF2 are not influenced by balance sheet treatment.***

4.1 The Government disagrees with the Committee's recommendation.

4.2 The Treasury places primary importance on value for money and has always been clear in guidance to Departments that it is value for money and not the budgeting treatment, which is the key determinant of whether a PF2 scheme should go ahead. A strict scrutiny process has been applied by the Treasury to projects with the aim of ensuring that a decision to use private finance is only made where it can be demonstrated to provide value for money over conventionally procured alternatives.

4.3 It is for procuring authorities to determine the procurement route to be used based on the value for money assessment as set out in the *Green Book*.

4.4 However, where the assessment demonstrates that a revenue-funded investment route would provide value for money over alternative options, it is important that the budgeting outcome is predictable in order that Departments are able to manage their budgets. For that reason, the current standard PF2 contractual guidance follows the guidelines set by Eurostat for the statistical treatment of revenue-funded public private partnerships.

5: PAC conclusion: ***PF2 is hardly being used, and IPA hasn't made clear when its use is appropriate.***

5: PAC recommendation: ***The Treasury and IPA should set out more clearly the nature and level of risk they consider appropriate to transfer to the private sector in PF2 projects, and outline a clearer view of how it expects public bodies to use PF2 and other types of private finance in future.***

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 Procuring authorities are responsible for drafting their PF2 contracts. However, Treasury's standard form of contract guidance - Standardisation of PF2 Contracts – covers the vast majority of risk positions which can be adopted in a PF2 contract. Although the guidance is currently being updated, procuring authorities have access to the latest draft version on request, in order to inform their procurement of new PF2 contracts.

5.3 The *Green Book* sets out the process that procuring authorities should go through to determine the most effective procurement route (including the appropriateness of a privately financed route) and the Treasury approvals process is based on the Better Business Cases methodology and the Treasury Five Case Model, which is much more rigorous and effective than reliance on a single decision criteria. An updated version of the *Green Book* was published in March 2018 and now includes a specific annex on PPP projects. This new annex clearly sets out the critical success factors and the issues that need to be taken into account when considering a project's suitability for PF2 or other forms of private finance.

Forty Seventh Report of Session 2017-19

Department for Education

Delivering STEM skills for the economy.

Introduction from the Committee

STEM stands for science, technology, engineering and mathematics. In education, it means the study of these subjects, either exclusively or in combination. In employment, it refers to work that involves the application of STEM knowledge and skills, an appropriate qualification in a STEM subject, or a particular industry or sector, such as pharmaceuticals, construction or aerospace. Since the early 2000s, there have been growing concerns about the supply of STEM skills in the workforce, focusing on achieving increased productivity and economic growth in an era of rapid technological change. Exit from the European Union could also affect the availability in the workforce of people with the requisite STEM skills.

Responsibility in Government is spread across a number of Departments. The Department for Education (DFE) is responsible for the main learning routes - schools, colleges, apprenticeships and higher education institutions - and is also responsible for generating research on skills needs. The Department for Business, Energy and Industrial Strategy (BEIS) develops insights into key business sectors, and leads a STEM inspiration programme, encouraging young people to consider STEM careers. Other Departments also play an important role. Between them, Government Departments spent almost £1 billion between 2007 and 2017 on initiatives to encourage more take-up of STEM subjects.

Based on a report by the National Audit Office, the Committee took evidence from the Department for Education and the Department for Business, Energy and Industrial Strategy on 18 April 2018. The Committee published its report on 22 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *Delivering STEM (science, technology, engineering and mathematics) skills for the economy* – Session 2017-19 (HC 716)
- PAC report: *Delivering STEM skills for the economy* – Session 2017-19 (HC 691)

Government responses to the Committee

1: PAC conclusion: ***BEIS and DFE do not currently have sufficient understanding of what specific skills businesses really need or how Brexit will affect the already difficult task of ensuring the supply of STEM skills in the workforce.***

1: PAC recommendation: ***Following publication of the Migration Advisory Committee report in September 2018, BEIS and DFE should, within six months, set out the further steps they will take to ensure that STEM skills shortages are addressed.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2019.

1.2 The Government continues to support STEM sectors, and ensuring that STEM skills shortages are addressed is at the heart of this work. The Government will be designing an immigration system that works in the national interest, while at the same time providing the public with confidence that migration is controlled. Future proposals will be evidence driven, which is why the Government commissioned the Migration Advisory Committee (MAC) to advise on the economic and social impacts of the UK's exit from the European Union and also on how the UK's immigration system should be aligned with a modern industrial strategy. In autumn 2018, the Government will publish a White Paper on future immigration arrangements after the UK leaves the EU.

1.3 The Government committed to tackling particular shortages of STEM skills in the Industrial Strategy. The Department for Education (DFE) will continue to support and develop STEM initiatives that raise participation and attainment in STEM subjects at all stages of the education pipeline, and inspiration programmes which encourage young people to study STEM subjects and move into STEM careers, such as the STEM Ambassadors programme. DFE is also taking steps to remove barriers to increasing maths participation at A level, including through the new Advanced Maths premium. In 2017, maths was the most popular A level and was taken by 24.9% of students taking academic qualifications. It will consider what further steps might be needed.

2: PAC conclusion: ***The Committee remains to be convinced that the proposed Skills Advisory Panels will properly understand national and global skills issues.***

2: PAC recommendation: ***DFE should set out what specific steps it will take to ensure that SAPs are sufficiently aware of national and global skills supply issues to be fully effective.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2019.

2.2 DFE has established a central Skills Advisory Panels (SAPs) analytical team. As part of its remit, the team is working across DFE, The Department for Business, Energy and Industrial Strategy (BEIS) and other Government Departments to bring together key evidence on national and global skills issues and raise awareness with SAPs.

2.3 As a result of the feedback from the Local Enterprise Partnerships (LEPs) and Mayoral Combined Authorities (MCAs) involved in the initial phase of SAPs since November 2017, DFE is now reshaping the data offer to support local decision making.

2.4 DFE is also promoting local evidence development by supporting the growth of local capability to gather insights and promote the sharing of best practice utilising the LEP network on a peer to peer basis.

2.5 These actions should start to have an impact from January 2019 and will develop local and national capability and future sustainability.

3: PAC conclusion: ***The Committee is concerned that Government STEM boards and working groups do not include enough practical industry or commercial experience to spot key problems and deliver effective solutions.***

3: PAC recommendation: ***By summer 2018, the Departments should review the membership of all STEM boards and working groups, and address any shortfalls in expertise - for example, in industry knowledge or experience in STEM learning and work.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 DFE has set up a STEM External Working Group to feed into the work of the Cross-Government STEM Board. This Group will act as an official mechanism for drawing in the views and expertise of industry into the Cross-Government work on STEM skills, operating as both a sharing forum for discussion, and as a working group to test current and future thinking on STEM.

3.3 The Group comprises some of the major stakeholders across STEM industry representation bodies, academic institutions and employers.

3.4 For Digital Skills specifically, the Department for Digital, Culture, Media and Sport has created the Digital Skills Partnership, which brings together a broad range of industry stakeholders to specifically consider Digital Skills related issues. From September 2018, the Department for Education will be co-sponsoring this Board.

4: PAC conclusion: ***DFE does not know whether people given financial incentives to undertake teacher training are remaining in the profession.***

4: PAC recommendation: ***DFE must identify as soon as possible whether financial incentives for teacher training have delivered value for money, and report its findings to the Committee as promised.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2018.

4.2 DFE is continuing its detailed analysis of linked initial teacher training and school workforce data to explore the proportion of bursary holders awarded qualified teacher status (QTS) and the progression of bursary holders into the state funded workforce in England. This will include analysis of employment and retention rates and whether the subject for which a trainee received a bursary is the subject they go on to teach. This will be published in autumn 2018.

4.3 DFE has already completed a review of financial incentives for teacher training and announced two new pilots. The first of these is a phased bursary pilot for mathematics trainee teachers starting initial teacher training (ITT) in the 2018-19 academic year. This will comprise a lower bursary during the training year followed by two additional early-career payments in the third and fifth year of teaching. DFE is piloting this to test whether offering a lower bursary upfront followed by retention incentives once in teaching secures a greater supply of teachers than the traditional bursary approach, where the entire bursary is paid during the ITT year only.

4.4 The second pilot is student loan reimbursement for teachers. From September 2018, DFE will be offering reimbursement of the student loan repayments that biology, chemistry, computer science, language and physics teachers have made, targeted in 25 local authorities. The pilot encompasses teachers in years 1 to 5 of their careers and those completing ITT in the 2018-19 academic year. DFE will be completing full evaluations of both these pilots to assess their impact on teacher recruitment and retention, and therefore their value for money in comparison to traditional bursaries.

4.5 This work will feed into the recruitment and retention strategy, as announced by the Education Secretary, the Rt Hon Damian Hinds MP, at the Association of School and College Leaders' (ASCL) conference on 10 March 2018.

5: PAC conclusion: ***The Departments are making insufficient progress in addressing the gender imbalance in many areas of STEM learning and work, which is particularly troubling given the Committee's previous concerns.***

5: PAC recommendation: ***By the end of 2018, the Departments should establish, and start to monitor progress against, specific targets relating to the involvement of girls and women in key STEM learning programmes such as apprenticeships.***

5.1 The Government disagrees with the Committee's recommendation.

5.2 DFE already monitors gender participation at every educational stage, so has a very clear picture of participation rates at every stage. The Government is taking targeted action to address gender imbalance concerns across all educational phases, such as efforts to increase girls' take-up of physics A level through the Stimulating Physics Network. DFE remains concerned about gender participation, but does not believe that setting specific targets is likely to help us properly tackle this issue.

5.3 Beyond targeted interventions to address gender balance, DFE is carrying out broader activities to encourage more young people to recognise the value of a STEM career path. For example, through the Year of Engineering, the Government is working with industry to challenge traditional perceptions of engineering and show young people, parents and teachers that background, gender and education is not a barrier to becoming an engineer. DFE committed to improving STEM careers advice in schools in the Government's Careers Strategy – including ensuring that STEM encounters, such as with employers and apprenticeships, are built into school career programmes by updating school and college statutory guidance.

5.4 DFE recognises, however, there is more to do and that this issue will not be solved by Government alone. Industry itself recognises that the proportion of women in STEM industries is far from optimal. DFE will be engaging with businesses and educators to understand what the barriers are for them to recruit and retain a gender diverse workforce.

5.5 On apprenticeships specifically, DFE knows that these jobs reflect wider issues about female representation in STEM sectors. It is addressing gender representation disparities in sectors including STEM through the work of the Apprenticeships Diversity Champions Network, which was set up to champion gender representation in apprenticeships amongst employers in industries where improvement is needed - including ensuring more women are able to access STEM apprenticeships.

6: PAC conclusion: ***The Committee is concerned about the quality of careers advice in schools and colleges.***

6: PAC recommendation: ***DFE should make better use of data on career destinations and salaries to incentivise young people to work towards careers in particular STEM sectors where there is higher need. As part of its plans to improve the quality of careers advice, DFE should work with Ofsted to consider rating the quality of advice provided in schools.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020.

6.2 Good careers education and guidance should give people access to the information and data they need to make informed decisions that are right for them. Government already publishes information and data, but this is an area where it is keen to do more and where it already has substantial work underway.

6.3 Specifically, as part of its careers strategy commitment, DFE is exploring options for making data on destinations and outcomes more accessible and relevant. It will raise awareness of how data can support decision-making and encourage young people and schools to make more use of it through adopting the Gatsby Benchmarks, which define excellence in school careers guidance. DFE's statutory guidance for schools details the expectation on all schools to meet the Gatsby Benchmarks in full by the end of 2020. A new website for the National Careers Service is being developed and a new version of the job profiles is being launched. These will be available by December 2018.

6.4 Students' ability to make informed choices is at the heart of the Higher Education (HE) reform agenda. Government is taking steps to improve the quality of information provided and how it is provided, especially around graduate outcomes. To ensure the sector delivers for all, information must support all students' needs and aspirations, including those from under-represented groups who may have less experience and awareness of higher education.

6.5 DFE is also working alongside the Office for Students to redesign the HE course comparison website, Unistats, by September 2019. Unistats now includes Longitudinal Educational Outcomes (LEO) data for the first time, which provides prospective students with more information about the salary they may earn 3 years after graduation by studying a specific course at a particular HE provider. DFE launched a Higher Education Open Data Competition in summer 2018 to support the development of cutting-edge and innovative online platforms to provide information to prospective students on graduate outcomes using LEO data.

6.6 Careers provision is already considered as part of school inspections. Ofsted is developing new inspection arrangements for September 2019 and, as part of this, is reviewing how careers will be covered within inspections in the future. DFE is engaging with Ofsted on this. There are, however, no plans to introduce a separate grading for careers advice.

7: PAC conclusion: ***The current education funding model will make it difficult for new types of learning institution, such as institutes of technology, to establish themselves.***

7: PAC recommendation: ***As a matter of urgency, DFE needs to develop a clearer plan for how new types of learning institution, such as the institutes of technology, will attract the numbers of students they need to be viable.***

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 The Institute of Technology model is predicated on the Institute putting in place appropriate recruitment strategies. DFE's role is to ensure that these plans are sufficiently robust, before granting their endorsement.

7.3 To become an Institute of Technology, applicants will need to be successful in a two-stage competition that assesses the credibility, deliverability and financial viability of their proposals. Only those applicants that can demonstrate this robustly can expect to secure Institute of Technology status and funding.

7.4 The recruitment of sufficient numbers of students to achieve the requisite scale is a key part of the assessment process. At Stage One of the competition, applicants had to demonstrate how they would attract sufficient students by clearly differentiating their curriculum and teaching approach from the existing provision and setting out how they would widen access by focusing on specific target groups. From 35 applications, 16 were successful at Stage One and were invited to proceed to Stage Two (as announced on 27 May 2018).

7.5 At Stage Two of the competition, applicants will be required to justify their forecasts of student numbers and set out how their curriculum is distinctive, how they will market it and how they will attract, recruit and retain a wide range of students. They will need to robustly explain the assumptions behind their forecast student numbers and provide evidence that supports them.

7.6 The Committee also mentioned other, school level provision, including Maths Schools and University Technical Colleges (UTCs). At present, none of the recently opened Maths Schools are struggling to recruit sufficient student numbers. Recruitment and standards remains a challenge for some UTCs, so the Department is taking a systematic approach to working with UTCs including introducing two pieces of legislation to support pupil recruitment and encouraging them to join appropriate Multi-Academy Trusts.

8: PAC conclusion: ***The Departments have allowed poor quality provision - especially in apprenticeships - to continue for too long without being addressed are concerned about the quality of careers advice in our schools and colleges.***

8: PAC recommendation: ***DFE should ensure it has effective monitoring systems in place to quickly identify apprenticeship programmes that are not fit-for-purpose, along with poor quality provision, and the action it will take in each case.***

8.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

8.2 Quality is at the heart of DFE's apprenticeship reforms and it has a range of quality assurance processes in place. For example, a strong focus is placed on assurance at market entry: all providers must meet a clear set of stretching quality criteria to be included on the Register of Apprenticeship Training Providers.

8.3 The Institute for Apprenticeships was established as an employer-led body. It has a key role in maintaining overall quality of the apprenticeships system and is responsible for developing and maintaining quality criteria for the approval of apprenticeships standards and assessment plans, along with reviewing and approving them and ensuring all end-point assessments are quality assured.

8.4 Ofsted inspect the quality of apprenticeship training provision at levels 2 to 5. Where providers deliver prescribed Higher Education as part of an apprenticeship standard, the Office for Students, which regulate the quality of degree apprenticeships (levels 6 and 7), may provide relevant information to Ofsted. Ofsted also carry out early monitoring visits to new apprenticeship providers and inspect the quality of apprenticeship training provision delivered by subcontractors.

8.5 DFE will always take action to protect apprentices if a training provider is not fit for purpose. Any training provider that receives an inadequate Ofsted grade is removed from the Register.

8.6 DFE recognises that more can be done and it is carrying out work to look at how it measures and monitors the quality of the apprenticeship system across the end-to-end process. It is exploring options to take into account more frequent apprentice and employer feedback to provide additional assurance of the quality of delivery and identifying any problems at an earlier stage. The first release of a feedback service launched in September 2018.

Forty Eighth Report of Session 2017-19

HM Treasury

Exiting the EU: the financial settlement

Introduction from the Committee

The Government is negotiating the terms of the UK's withdrawal with the European Union (EU). As part of this, the Government intends to agree what the UK will pay towards the financial commitments and liabilities the EU entered into when the UK was a member state, known as the financial settlement. This will be part of the withdrawal agreement, alongside citizens' rights and the impact on the Northern Ireland border. The government has stated that it aims for the settlement to be fair and in accordance with the law and spirit of a continuing partnership with the EU.

HM Treasury, on behalf of the UK Government, has been leading negotiations with the European Commission (the Commission) on the financial settlement. In December 2017, the government and the Commission published a joint report on the progress of negotiations on the UK's withdrawal. This set out the principles they had agreed would underpin the financial settlement. In January 2018, the Treasury estimated that the value of the financial settlement would be between £35 billion and £39 billion. In March 2018, the Government and the Commission set out further details on how the settlement will be calculated and paid, in a draft of the withdrawal agreement. Parliament will vote on the finalised withdrawal agreement, including the terms of the financial settlement, and a framework for the UK's future relationship with the EU, in late 2018. The UK will then leave the EU on 29 March 2019. This is the Committee's first examination of the financial settlement, which we will continue to watch closely.

Based on a report by the National Audit Office, the Committee took evidence from the Treasury on 23 April 2018. The Committee published its report on 27 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *Exiting the EU: The financial settlement* – Session 2017-19 (HC 946)
- PAC report: *Exiting the EU; the financial settlement*– Session 2017-19 (HC 312)

Government responses to the Committee

1: PAC conclusion: ***The exact value of the financial settlement agreed between the UK and EU remains uncertain.***

1: PAC recommendation: ***The Treasury should write to the Committee providing an updated estimate of the settlement's value before the Parliamentary summer 2018 recess, and then at least annually following any significant new data becoming available after the UK's withdrawal from the EU.***

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The Permanent Secretary to the Treasury wrote to the Chair of the Committee on 23 July 2018, explaining that the Treasury did not have an updated estimate of the financial settlement, as there was limited new relevant information upon which to base a revised estimate. Since July, the Treasury has updated the estimate to take account of new information made available by the European Commission. This includes the publication of the EU's 2017 accounts and financial report, the EU draft amending budgets for 2018 and the proposals for the 2019 EU budget.

1.3 On this basis, the estimate remains within the previously stated range of £35-39 billion. This does not take account of effects arising from an updated economic forecast. The Government expects that the OBR will update their independent estimate of the settlement in the next Economic and Fiscal Outlook, taking account of their updated economy forecast. The Government has set out proposals for future reporting to Parliament on the financial settlement in its White Paper: *Legislating for the withdrawal agreement between the United Kingdom and the European Union.* This proposes a statutory requirement on the Government to provide regular updates on payments over the past year and on forecast payments and receipts to and from the EU. However, as UK and EU obligations are only paid when they fall due, the final value of the settlement cannot be known definitively until after all obligations have been paid.

2: PAC conclusion: ***The UK could be making settlement payments to the EU for many years.***

2: PAC recommendation: ***In response to this report, the Treasury should set out the factors it will take into account when deciding the value for money of settling the UK's pension and post-employment sickness benefit liability early.***

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Government decision on settling any of the obligations early, where provided for in the withdrawal agreement, will be consistent with the principles normally used to assess value for money. The Treasury will take into account the factors set out in *Managing Public Money* and the *Green Book*, including opportunity cost, discounting, risk and uncertainty.

3: PAC conclusion: ***The Treasury's estimate does not provide Parliament and the taxpayer with a sufficient understanding of the uncertainty attached to the settlement's value.***

3: PAC recommendation: ***In responding to this report, the Treasury should provide the Committee with details of the sensitivity analysis it has performed on the £35 billion to £39 billion settlement value. In subsequent updates to its settlement estimate, the Treasury should also set out details of the sensitivity analysis performed, including how likely it considers the actual settlement value will fall outside its estimated range.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Treasury's sensitivity analysis used a similar approach to that set out in the National Audit Office's report on the financial settlement. It considered the key individual variables within the settlement and the impact that a change in individual variables would have on the overall settlement value. The final value for the settlement, by its nature, cannot be known definitively at present, since the settlement requires the UK and EU to pay only those amounts that fall due, rather than on the basis of a forecast. However, the Treasury considers it unlikely that the final value, which will not be known for some years, will fall outside the estimated range.

3.3 The Government has set out proposals for reporting to Parliament on the financial settlement in its White Paper: *Legislating for the withdrawal agreement between the United Kingdom and the European Union.* For future updates, the Treasury will again explain its sensitivity analysis and the factors that could affect the value of the settlement. If at some future point it considers that the actual settlement value is likely to fall outside its estimated range, the Treasury will set this out, with an explanation of the factors that could lead to this.

4: PAC conclusion: ***The Treasury's estimate of the cost of the financial settlement does not include at least £10 billion of costs to the government associated with the UK's withdrawal from the EU.***

4: PAC recommendation: ***When providing its updated estimate of the settlement's value to Parliament, the Treasury must be clear what the total potential cost of the settlement is to the government, including how much of EU receipts factored into the settlement will not come into the government's accounts, and setting out payments to the European Development Fund.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2018.

4.2 Payment of EU receipts is treated in national and Government accounts in different ways, depending on whether a Government body administers those receipts. Many 'public sector' receipts are in fact destined for the private sector (such as CAP, paid by managing authorities to the private sector). The Government therefore considers this distinction unhelpful in understanding the cost of the settlement. Moreover, were the UK not to receive receipts from EU programmes, whether 'public' or 'private', the Exchequer would meet the cost of these as set out in the Government's announcements on the guarantee for EU programmes.[4]

4.3 In respect of the European Development Fund (EDF), the Government considers this commitment to be outside the financial settlement. It does not expect to meet the cost through powers taken under the EU (Withdrawal Agreement) Bill, so the Government considers the £35-39 billion estimate to be the cost of the financial settlement. Nevertheless, in the interests of transparency, future updates will set out expected future receipts from EU programmes, how these are administered and treated in national accounts, and expected future payments to the EDF.

5: PAC conclusion: ***The Committee is concerned that the Treasury has not set out how it will assure Parliament and the taxpayer that future settlement payments will be made accurately.***

5: PAC recommendation: ***The Treasury should, within four months of our report, set out the assurance arrangements that it has put in place to ensure that the UK does not pay more than it owes, including how and when it will appoint its auditors. The Treasury should ensure that the UK continues to have sufficient input into the key EU institutions responsible for ensuring the accuracy of the EU's financial information, particularly the European Court of Auditors, until the transition period finishes.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2018.

5.2 The draft withdrawal agreement published in March 2018 gives the UK audit rights with respect to the implementation of the financial provisions of the withdrawal agreement. The application of these rights will be a significant source of assurance for Parliament in respect of payments under the financial settlement. The Government is developing the detailed arrangements, and it will require further discussions with the EU to give effect to the rights that we have secured, and to ensure that arrangements are in place for the date of withdrawal. The Treasury will provide details of the finalised arrangements to Parliament in the course of reporting on the settlement.

6: PAC conclusion: ***The Treasury's plans for reporting to Parliament on the wider potential costs and benefits of withdrawal are not sufficiently clear.***

[4] https://www.gov.uk/government/news/funding-from-eu-programmes-guaranteed-until-the-end-of-2020

6: PAC recommendation: ***In responding to this report, the Treasury and the government should set out its arrangements for reporting to Parliament on the wider potential costs and benefits of withdrawal, such as the costs of setting up new institutions to replace services currently provided by EU bodies and participating in EU institutions, and when it will provide Parliament sight of the legal advice it received. These arrangements should seek to provide MPs with as much time as possible to review the information before Parliament's vote on the withdrawal agreement.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2018.

6.2 The additional costs set out in the Committee's recommendation do not form part of the withdrawal agreement, which relates to the settlement of outstanding commitments relating to the UK's membership of the EU. At Autumn Budget 2017 the Chancellor of the Exchequer committed £3bn over the next two financial years to help departments and the devolved administrations prepare for EU exit. The most recent allocations are set out in the Chief Secretary to the Treasury's Written Ministerial Statement of 13 March 2018. Individual departments are accountable to Parliament for the use of these funds.

6.3 Once there is an agreement with the EU the Government will provide Parliament with the appropriate analysis on the wider costs and benefits of withdrawal ahead of the vote on the final agreement. The Government has set out proposals for reporting to Parliament on the financial settlement in its White Paper: *Legislating for the withdrawal agreement between the United Kingdom and the European Union.* The Government gave the National Audit Office access to its legal advice on the financial settlement so they could provide assurance to Parliament. The Government considers it not in the national interest to publish this advice at this stage in the negotiation.

Forty Ninth Report of Session 2017-19

HM Revenue and Customs

Progress in tackling online VAT fraud

Introduction from the Committee

Internet shopping, particularly through online marketplaces like Amazon and eBay, is now commonplace. Online traders on those marketplaces should charge VAT on their sales in the same way that they would on goods bought over the counter. The VAT rules require that all traders based outside the European Union (EU), selling goods online to customers in the UK, should charge VAT if their goods are already in the UK at the point of sale. But too many are not still doing so. HM Revenue and Customs' latest estimate is that online VAT fraud and error cost between £1 billion and £1.5 billion in lost tax revenue in 2016–17. VAT fraud has a wider impact on the market, and creates unfair competition; sellers who do not charge the VAT that they should are able to undercut the prices offered by law-abiding UK businesses by up to 20%, forcing many to lay off staff or even go out of business.

The Committee has raised concerns several times before about how slowly HMRC has responded to this problem, most recently in the Committee's report in October 2017. Since then, several new HMRC compliance measures have come into effect: extended powers to hold online marketplaces jointly and severally liable for unpaid VAT of a business, arising from sales via that online marketplace; a requirement for online marketplaces to display a valid VAT number for their traders, when they are provided with one; a scheme to register fulfilment houses; and a Memorandum of Understanding to promote collaboration between HMRC and online marketplaces and greater sharing of information.

Based on a report by the National Audit Office, the Committee took evidence from the HM Revenue and Customs on 30 April 2018. The Committee published its report on 29 June 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *Investigation into overseas sellers failing to charge VAT on online sales* - Session 2016-17 (HC 1129)
- PAC report: *Progress in Tackling online VAT fraud* – Session 2017-19 (HC 1304)

Government responses to the Committee

1: PAC conclusion: ***HMRC has taken some positive steps to tackle online VAT fraud*.**

1: PAC recommendation: ***HMRC should update the Committee by March 2019 on progress in securing the additional forecast £1 billion VAT revenue through to 2023, including progress and outcomes on investigating non-compliant overseas traders, auditing the compliance of newly registered traders and their repayment of previously unpaid VAT.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2019.

1.2 The Department will update the Committee by March 2019 on progress in securing additional VAT revenue as a result of the new measures to tackle online VAT fraud introduced in September 2016 and March 2018. This will include updated performance results and analysis of the impact it is having in tackling the issue, including amounts declared from newly registered traders.

1.3 There is already considerable evidence that the measures have been effective in tackling online VAT fraud and error. This includes about 43,500 applications to register for VAT from overseas online retail businesses since the measures were announced in March 2016 up to 30 June 2018. This compares with about 1,650 for 2015. The unprompted VAT liability declared on returns from this type of business during the same period is about £150m. The majority of these registrations, and the tax subsequently declared, are likely to have been prompted by the introduction of the measures announced at Budget 2016; and the tax subsequently declared compares well against the expected yield from the measure.

1.4 In addition, the Department's compliance activity covering online overseas sellers has comprised about 3,850 cases, resulting in about 3,200 joint and several liability notices being issued to online marketplaces and £160 million in compliance yield being identified and assessed up to 30 June 2018.

1.5 There will also be additional VAT paid on displaced sales from non-compliant sellers removed from the marketplace to compliant sellers. This is not currently quantifiable.

2: PAC conclusion: ***Despite the new measures to tackle online VAT fraud, there are still limitations in HMRC's approach which hinder its ability to tackle non-compliant businesses.***

2: PAC recommendation: ***HMRC should assess the key constraints and challenges it faces in tackling online VAT fraud and identify any further measures necessary to overcome them, including any further legislative powers. HMRC should update us by March 2019.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2019.

2.2 The Department will update the Committee by March 2019 as it continues to review the risks and actively engages on this issue both in the EU and globally with the OECD.

2.3 The Department received 23 written responses to the '*Alternative method of VAT payment - split payment consultation'* which ended on 29 June 2018. These are now being considered and a summary of responses will be published in due course. The Department has already contacted 450 potential fulfilment houses, and has received around 300 applications to date for the '*Fulfilment House Due Diligence Scheme*' which opens in April 2019. The registration window for existing fulfilment houses closed on 30 June 2018 and any late applications may now be subject to a late registration penalty. The Department is actively pursuing those fulfilments that it believes should have registered for the scheme, but have yet to do so.

2.4 The Department is currently considering responses to the call for evidence on '*The role of online marketplaces in ensuring tax compliance by their users'*. This includes continuing to work collaboratively with international partners to explore how data can be obtained and shared to ensure a level playing field for UK businesses.

Fiftieth Report of Session 2017-19

Ministry for Housing, Communities and Local Government

Financial sustainability of local authorities

Introduction from the Committee

Since 2010–11 successive governments have reduced funding to English local authorities as part of their efforts to reduce the fiscal deficit. By 2017–18 government funding to authorities had fallen by 49.1% in real terms. Over the same period, local authorities have faced growing demand for key services such as adult and children's social care, and housing services, alongside new cost pressures such as the National Living Wage. While local authorities have coped well in absorbing these costs, there is now growing evidence of pressure in the system. Local authorities are increasingly reliant on unsustainable measures such as reducing debt costs or drawing down their reserves. Local authorities with social care responsibilities overspent their service budgets by over £1 billion in 2016–17, and there is evidence of service reductions across a number of areas such as waste collection, libraries and bus services.

The Department is responsible for the financial framework for local government which covers the distribution of government funding alongside other factors such as arrangements for business rates retention, council tax, and commercial investment. The Department also takes the lead on assessing the funding requirements of local authorities as part of Spending Reviews and supporting the financial sustainability of the sector by changing the overall financial framework if required. A number of other government departments are responsible for policies and services that are delivered by local authorities. For instance, the Department for Education has policy responsibility for children's social care services delivered by local authorities.

Based on a report by the National Audit Office, the Committee took evidence from the Ministry of Housing, Communities and Local Government, and local stakeholders on 9 May 2018. The Committee published its report on 4 July 2018. This is the Government response to the Committee's report

NAO and PAC Reports

- NAO report: *Financial sustainability of local authorities* - Session 2017-19 (HC 834)
- PAC report: *Financial sustainability of local authorities* - Session 2017-19 (HC 970)

Government responses to the Committee

1: PAC conclusion: ***Seven years of funding reductions have left an increasing number of local authorities in a worrying financial position.***

1: PAC recommendation: ***The Department should, by the end of September 2018, write to the Committee to explain why it believes that the local authority sector is sustainable in the current spending review period, and detailing what it is doing to minimise the risk of financial failure in authorities currently on its risk register.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018

1.1 The Department wrote to the Committee on 19 June 2018 reiterating the Department's role to ensure that the Government has a thorough overview of the financial risks, pressures and opportunities in local government, including the cost pressures arising from its various statutory and policy delivery responsibilities, to support Ministers' decision-making. This is particularly relevant at fiscal events, such as Spending Reviews, but is also important on an ongoing basis and is a dynamic assessment which reflects emerging analysis of pressures and risks.

1.2 The Department will write setting out in more detail the steps that Government has taken to ensure that the sector is sustainable, and the activity the Department takes to minimise and act on the risk of financial failure.

2: PAC conclusion: ***The Department is overly reliant on the next Spending Review, which is now under greater pressure following the announcement on NHS funding, to address the financial challenges currently facing local authorities.***

2: PAC recommendation: ***The Department should write to the Committee within the next six months setting out how it is planning to work with other departments effectively and make the case to HM Treasury for local authority funding persuasively at the next Spending Review; and in addition to securing funding at the next Spending Review, what steps it will take to support the sector in meeting its funding and demand challenges.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018

2.2 The Department's preparations for Spending Review 2019 are already well advanced. In developing its plans, the Department has built on an analysis of its work on the 2015 Spending Review, and recommendations from the NAO and the Committee, to improve its preparations for this Spending Review. The Department engaged with Departments early, including initiating discussions about the analysis that will be required about the variable quality of returns from Departments;

2.3 The Department has developed an analytical plan to ensure that the interactions between capital spending, borrowing and revenue spending can be fully considered in the spending review process, developed analytical tools to consider the impacts of different funding outcomes across different classes of authority – for example, different tiers of local government, or different geographies, and engaged extensively with the sector – in particular through its work on the Fair Funding Review and Business Rates Retention – to ensure that is has a full understanding of pressures and opportunities.

2.4 When the timetable for the Spending Review has been confirmed, the Department will write to set out its preparations in more detail. It will also set out the additional steps it is taking, in addition to those that relate to funding levels, to help the sector meet future funding and demand challenges. These include the future reforms to business rates and fair funding, as well a close working with other Departments on key issues such as social care and children's' services.

3: PAC conclusion: ***The Department does not have a consistent and transparent method to assess financial risk in local authorities.***

3a: PAC recommendation: ***The Department should within the next 12 months, work with the local authorities and key stakeholder bodies to agree and publish a shared definition of local authority financial sustainability and a methodology for assessing the extent to which local authorities are at risk; and take a more transparent approach to the next spending review and publish its projections for demand and spending by service area once the spending review has concluded, together with its monitoring of outcomes against these projections.***

3.1 The Government disagrees with the Committee's recommendation.

3.2 The Department's approach to assessing financial sustainability is to assess a range of indicators, including governance, leadership and capability within local authorities, and specific local pressures on demand, as well as financial indicators such as levels of reserves, cost pressures, and the strength of the local tax base. These are brought together to judge where risk lies both across groups of local authorities and in individual Councils.

3.3 The Government has no plans to publish a shared definition of local authority financial sustainability or methodology in the next 12 months. However, the Department welcomes CIPFA's recent work on a resilience index. The Department will work with bodies including CIPFA and the LGA, to develop a better shared understanding in the sector of the key financial indicators which may support judgement on financial sustainability in individual local authorities.

3b: PAC recommendation: ***The Department should take a more transparent approach to the next spending review and publish its projections for demand and spending by service area once the spending review has concluded, together with its monitoring of outcomes against these projections.***

3.4 The Government agrees with the Committee's recommendation.

Target implementation date: January 2020.

3.5 In consultation with the Treasury and other Government Departments, the Department will publish data in relation to projections for demand and spending six months after the next Spending Review has concluded.

4: PAC conclusion: ***Increased pressure on funding from social care is limiting spend across other service areas, and the implications of this for service users and taxpayers are unclear.***

4a: PAC recommendation: ***The Department should write to the Committee by the end of September 2018 setting out how it will work with other relevant departments on an ongoing basis to ensure that it properly understands local authorities' performance across the full range of local services they deliver, the extent to which pressures in some service areas are affecting others, and any service areas where departments have any areas of concern.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018

4.2 The Department recognises the importance of close engagement with other departments to understand the pressures facing local government and its performance in the round. The Accounting Officer's letter of 30 May 2018 sets out the detail of the Department's engagement with other Government Departments. The Department will write to set out how it intends to build on that engagement to improve its understanding of local authorities' performance, including to support preparation for the Spending Review.

4b: PAC recommendation: ***The results from this work should be published on a regular basis.***

4.3 The Government disagrees with the Committee's recommendation.

4.4 The Government does not performance manage local authorities, and disclosing the content of these discussions risks undermining local accountability for the delivery of services and management of budgets. However, the outcomes of these discussions, where relevant, will inform future policy development and spending decisions. In addition, the Department will publish information on projections of demand and spending, in discussion with other Departments, following the next Spending Review.

5: PAC conclusion: ***The lack of a long-term funding plan for local authorities is a risk to value for taxpayers' money.***

5a: PAC recommendation: ***In order to support authorities' financial planning the Department should publish a timetable as soon as possible showing when it will have to take key decisions, and when worked examples will be available relating to the Fair Funding Review, the introduction of 75% local retention of business rates and the 2019 Spending Review. The timetable should ensure that the outcomes of the Fair Funding Review and the design of the 75% local business rates retention are known to the sector as early as possible in 2019.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2019.

5.2 The Government has already set out the timetable for implementing the fair funding review and increased business rates retention through a joint LGA and Departmental chaired Steering group.[5] The intermediate milestones for implementation of these reforms are communicated through this group, whose papers and minutes are published online.[6]

5.3 The detailed timetable for implementation of these reforms is kept under review as work progresses, and the Department will continue to explore ways in which it can provide further certainty about the likely outcomes. In particular, the Department recognises that early notification of numbers is helpful to assist authorities' financial planning and service delivery. The Department will therefore aim to publish indicative figures by mid 2019, subject to Treasury decisions with regard to the Spending Review, with final allocations being confirmed later that year in the provisional local government finance settlement for 2020-21.

5b: PAC recommendation: ***In order to support authorities' financial planning ahead of the announcement of the outcome of the Spending Review, the Fair Funding Review and the new business rates scheme, the Department, with HM Treasury, must provide assurance to local authorities that their funding for 2020–21 and 2021–22 will be within a certain margin of change, and that they will put in place transitional arrangements to mitigate the effects of substantial changes in funding levels over the medium term.***

5.4 The Government disagrees with the Committee's recommendation.

5.5 The Government recognises that introducing a new distribution methodology alongside increased business rates retention and the 2019 Spending Review may result in changes to the funding baselines of some local authorities which are hard to manage immediately. It agrees with the Committee that transitional arrangements will be important, and it will look to avoid undue year-on-year changes in funding.

5.6 The Department's current aim is to publish a consultation in autumn 2019 that will seek initial views on the principles governing the approach to transition. It looks forward to representation from the sector on what an acceptable margin of change could look like, recognising that there is likely to be a range of views on this matter.

5.7 However, it is not possible for the Government to commit to the details of any transitional arrangements now. The nature of any arrangements, including the acceptable margin of change, has spending implications and will therefore need to be considered as part of Spending Review 2019, and alongside decisions on the Fair Funding Review.

6: PAC conclusion: ***Arrangements covering accountability for, and scrutiny of, local authority spending may not be sufficiently robust given the level of financial pressure local authorities face.***

6a: PAC recommendation: ***The Department should, by May 2019, review the way audit committees operate in examining and challenging local risks to financial sustainability.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2020.

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[5] The Steering group is a technical group established to provide information and expert advice to support MHCLG's implementation of these reforms. It is supported by a number of technical sub-groups which focus on specific aspects of the system; these include a Needs and Redistribution technical working group and a System Design working group.

[6] https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention

6.2 The Department introduced a new localised audit framework in the Local Audit and Accountability Act 2014. This has changed how audit services are provided in local public bodies. Whilst there is no legal requirement to have an Audit Committee (apart from in combined authorities), the Department does recognise that there is an increased role in the new framework for such committees in supporting good governance.

6.3 Working with the Local Government Association, the Department will explore what more can be done to improve Members' understanding of the importance of Audit and these committees. In addition, the Department is due to undertake a post implementation review of the 2014 Act once the new framework has been in operation for a full year (by April 2020), and will consider the role of audit committees in that process. Finally, the Department is also aware that the NAO is in the process of updating the code of audit practice, is currently looking at governance and financial accountability in local authorities and is planning to undertake a study examining the findings of local auditors of local government bodies, including principal local authorities. The outcomes of these updates and investigations will also inform the future work of the Department in this area.

6b: PAC recommendation: ***The Department should, by May 2019, review the way scrutiny functions operate in examining and challenging local risks to financial sustainability.***

6.4 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

6.5 The Department will be publishing updated guidance for councils by the end of 2018. That guidance will help inform councils of the purpose of scrutiny, what effective scrutiny looks like, how to conduct it effectively and the benefits it can bring.

6.6 The Department will engage with the local government sector before publishing this guidance, and will cover the role overview and how scrutiny committees play with regard to financial sustainability. The guidance will acknowledge that councils are best placed to know which scrutiny arrangements are most appropriate for their own individual circumstances, so each local authority can ultimately decide for itself how to carry out overview and scrutiny in its own area.

7: PAC conclusion: ***The introduction of IFRS nine poses a risk to good financial management and planning in local authorities, including council tax levels.***

7: PAC recommendation: ***The Department should introduce a statutory override for the requirement under IFRS 9 for local authorities to account for gains and losses from investments in their general funds, in order to prevent any distorting effects on local government financial management.***

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2019.

7.2 On 25 July 2018, the Department published the consultation document setting out proposals to introduce a statutory override allowing local authorities to reverse out the gains and losses on pooled investments required by IFRS 9 for a period of three years. The proposals prevent the introduction of IFRS 9 from having a distorting impact on local government financial management, by providing time for local authorities to consider how they plan to manage the risks of holding these investments. The consultation closed on 28 September 2018, which will allow the Department to make the statutory override by the end of the calendar year and in good time for the new financial year.

Fifty First Report of Session 2017-19

BBC

BBC commercial activities

Introduction from the Committee

The BBC's Charter permits it to undertake commercial activities provided these fit with its mission and Public Purposes, are not funded through licence fee income, and are undertaken with a view to generating a profit. In 2016–17, the BBC's total commercial revenue was £1.2 billion, compared to licence fee income of £3.8 billion. The BBC cannot undertake commercial activities directly, but must do so through subsidiaries. In 2017–18, the BBC had four main subsidiaries of varying size and complexity, sat under an umbrella subsidiary, BBC Commercial Holdings: these were BBC Worldwide, BBC Studios, BBC Global News, and BBC Studioworks. In April 2018, Worldwide and Studios merged, creating a new commercial entity, known as BBC Studios, which unites the BBC's commercial production, sales and distribution arms. The BBC's 2016 Royal Charter granted the National Audit Office audit access to the commercial activities for the first time, from April 2017. Our inquiry was, therefore, the Committee's first opportunity to scrutinise the BBC's commercial activities.

Based on a report by the National Audit Office, the Committee took evidence from the BBC on 25 April 2018. The Committee published its report on 6 July 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *BBC's commercial activities: a landscape review* – Session 2017-19 (HC 721)
- PAC report: *BBC commercial activities* – Session 2017-19 (HC 670)

BBC responses to the Committee

The BBC will separately respond to the Committee's recommendations.

Fifty Second Report of Session 2017-19

Department for Education

Converting schools to academies

Introduction from the Committee

As of January 2018, the Department for Education had converted around 7,000 maintained schools to academies; 72% of secondary schools are now academies and 27% of primary schools. Academies are publicly funded but, unlike maintained schools, they are independent of local authorities. They have more freedoms, for example in setting staff pay and conditions and determining their own curriculum. Academy schools are part of academy trusts, which are charitable companies directly funded by, and accountable to, the Department. The Department's underlying objective for academies is that they should improve educational standards in schools. Any school is able to apply for academy status, but the Department has a statutory duty to direct schools that Ofsted has rated as inadequate to become academies with the support of a sponsor. A sponsor is an organisation the Department has approved to support an academy. Most sponsors are groups of schools that have formed multi-academy trusts.

The Department is accountable for securing value for money from spending on the conversion process and the academies programme in general. In 2016–17, it spent £81 million on converting schools to academies, and has spent £745 million in total since 2010–11. The Department works through eight regional teams, each led by a regional school's commissioner, which coordinate the process of approving applications from maintained schools to become academies.

Based on a report by the National Audit Office, the Committee took evidence from the Department for Education, the National Governance Association, the Devon Association of Primary Heads, and the Northern Education Trust on 16 May 2018. The Committee published its report on 11 July 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *Converting maintained schools to academies* – Session 2017-19 (HC 720)
- PAC report: *Converting schools to academies* – Session 2017-19 (HC 697)

Government responses to the Committee

1: PAC conclusion: ***The checks that the Department carries out before schools convert to academies have not prevented a succession of high-profile academy failures that have been costly to the taxpayer and damaging to children's education.***

1a: PAC recommendation: ***The Department should review academy trust failures to identify lessons for its scrutiny arrangements. It should write to us by October 2018 setting out the main reasons for the failures and how it proposes to strengthen its scrutiny of prospective academies and sponsors to ensure that risks are being well managed before and after conversion.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2018.

1.2 The Department has improved its scrutiny of applicants' financial health, the standards of governance it expects from academy trusts and the assessment of prospective sponsors. The Department continues to review its processes for approving new sponsors and new trusts and monitoring their performance, informed by tools and processes that bring together a range of financial and educational information.

1.3 In addition, the Secretary of State announced, in June 2018, that the Department is going to engage with the education sector and others to develop a transparent and effective assessment of multi-academy trusts. This engagement is going to take place during autumn 2018 and the Department will write to the Committee before the end of 2018 to set out the changes it has made to the conversion and brokerage processes, and how these take on board the lessons from trust failures, as well as how the Department is strengthening scrutiny of multi-academy trusts and sponsors.

1b: PAC recommendation: ***The Department should set out how it plans to improve transparency for parents, to ensure they have access to information and are built into the accountability system. The Department should inform us whether it is still considering whether parents should become members of academy trusts to help with transparency issues.***

1.4 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.5 Multi-academy trust (MAT) performance measures are now part of the "Compare school performance service" which parents can access and review through the GOV.UK website. The Department has expanded the information that parents can view for the most recent MAT performance data. Parents can now review English Baccalaureate entry and attainment, and the performance of disadvantaged pupils. In addition, as mentioned above, the Department is developing a transparent and effective assessment of multi-academy trusts.

1.6 The Department continues to require all academy trusts, through their Articles of Association, to reserve places for parents in their governance structures. This reflects the value the Department places on parents having a meaningful role as part of effective academy trust governance - ensuring robust decision-making and providing views and feedback. The Department does not consider that trusts should be required to recruit parents as trust members. This is because rather than being a representative role, the trust member role is to hold the executive leadership team to account and support the trust's development. This requires trustees with the right skills, experience and importantly, capacity. Academy trusts may well decide that a parent has the appropriate skills for this role, but the trustee's position as a parent would be secondary to the skills and expertise that they bring to the role.

2: PAC conclusion: ***Some schools that are required to or want to become academies find it difficult to attract potential sponsors or find multi-academy trusts to join.***

2: PAC recommendation: ***The Department should set out a clear plan by October 2018 detailing how it will support schools that want to convert to become academies, including how it will overcome barriers faced by small rural schools. The Department needs a clear set of options including an option for schools that cannot secure a sponsor or find a multi-academy trust to join.***

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Department agrees it is important that schools who want to convert can do so quickly and provides funding to support schools to overcome land, contractual or capital barriers - which evidence shows are the most common causes of conversion delays. The Department has reviewed the conversion process and is making improvements to the application process, to reduce the amount of additional questions required to approve an application and to ensure issues are highlighted early to identify possible delays.

2.3 For schools directed to become an academy, the Regional Schools Commissioners (RSCs) prioritise finding a suitable sponsor, providing funding for school improvement support for the sponsor via the Sponsor grant. In circumstances where the issues at the school mean securing a sponsor is difficult, they ensure they commission and identify support, working with the local authority to develop an interim solution whilst they work towards becoming an academy. Additionally, the Department is considering how it can make targeted, timely improvements to address issues at a school, which contribute to disincentives for sponsors to take on the schools.

2.4 The Department recognises the recommendation on barriers faced by rural schools. It has already started a project to better understand what more it can do more to support rural schools and how it can support local authorities, trusts and dioceses to consider reorganisation and closure where these might be the best option to deliver good school places. As part of this, it will identify an evidence base of good practice for small schools and collaborations; and understand how interested parties assess the performance of small rural schools and their local contribution.

2.5 RSCs continue to work with existing sponsors to help them take on more schools, where they can demonstrate the capacity to do so. They are also carrying out some targeted sponsor recruitment and development activity at national level, which includes harnessing the expertise of universities and independent schools with the capacity to be effective sponsors. RSCs are additionally supporting MATs to increase their capacity to support their own and other schools, for example, strengthening governance by funding professional development programmes and matching high-calibre business leaders with trusts through the Academy Ambassadors programme. The MAT Development and Improvement Fund aims to further increase the capacity of strong MATs and sponsors.

3: PAC conclusion: ***Local authorities can incur significant costs when schools become academies, which affects their capacity to support their remaining maintained schools.***

3: PAC recommendation: ***The Department should develop a better, up-to-date understanding of the costs that local authorities incur as part of converting schools to academies, and the extent to which these are accurately reflected in the fees charged to schools. It should use this information to assess whether it should contribute to the costs that local authorities incurs.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Department believes it is right that local authorities should continue to contribute towards the cost of their schools converting to academies. The Department aims to keep the costs of the conversion process to a minimum for all parties, including local authorities, and has published standardised conversion documents to support limiting costs. The Department will continue to investigate and promote best practice in keeping costs down.

3.3 Local authorities cannot charge for any costs related to converting failing schools, which are those rated by Ofsted as 'Inadequate', because this process is a statutory duty for local authorities under sections 5B and 5C of the Academies Act 2010, known as the "duty to facilitate". In cases where a school voluntarily chooses to become an academy, the Department's view is that local authorities, working with their schools, are best placed to assess how conversion costs should be met. The Department provides schools with a £25,000 conversion support grant, to contribute to conversion costs.

4: PAC conclusion: ***Local authorities' ability to fulfil their statutory responsibilities, including their duty to provide school places, is undermined in areas where a high proportion of schools have become academies.***

4: PAC recommendation: ***The Department should require all academy trusts, as part of their funding agreements, to work with local authorities on school place planning and school admissions, including for vulnerable groups of children. The Department should also outline how this will be monitored.***

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 Academies, including free schools, University Technology Colleges and studio schools, are bound by their funding agreements with the Secretary of State to comply with the provisions of the Admissions and Appeals Codes and admissions law as if they were maintained schools. This ensures that they have fair and open admission arrangements, which are subject to local consultation and to objections to the Schools Adjudicator in the same way as maintained schools. Prioritising vulnerable children is an important part of the admissions process, which is why there are requirements in the Code to give highest admission priority in admissions criteria to looked after and previously looked after children and for all schools to work with their local authority to ensure that Fair Access Protocols ensure unplaced children, especially the most vulnerable, are offered a school place as quickly as possible.

4.3 Supporting local authorities to create sufficient school places is one of the Department's top priorities. The system is rising to the challenge of delivering the places that are needed. The latest data shows that 825,000 additional pupil places were created between May 2010 and May 2017, with many more delivered since then and in the pipeline. The Department has committed £7 billion between 2015 and 2021 to deliver new school places, which is on top of investment in the free school's programme.

5: PAC conclusion: ***The Department's arrangements for oversight of schools are fragmented and incoherent, leading to inefficiency for Government and confusion for schools.***

5: PAC recommendation: ***The Department should set out, as part of its consultation on school accountability in autumn 2018, how the Education and Skills Funding Agency and regional schools commissioners will work together more effectively. Its proposals should identify and address unnecessary burdens on schools, and ensure that oversight of schools is made more coordinated and effective.***

5.1 The Government agrees with the Committee's recommendation.

Target Implementation date: March 2019.

5.2 The Department agrees that school leaders need better clarity on how the accountability system operates and that there can be confusion about different actors in the system. The Department has already started implementing improvements here, many of which do not require a formal consultation. RSCs and their teams have worked together with the Education and Skills Funding Agency (ESFA) to develop and publish some principles of effective MATs, established more rigorous controls of MAT growth and developed systems for financial analysis with stronger predictive tools. The Department will also engage with the education sector and others, later in 2018, to develop a transparent and effective assessment of multi-academy trusts.

5.3 The Department has also been working to improve data and systems across both organisations. This includes bringing together data from across the Department and ESFA on educational, financial and governance issues to inform a holistic picture of issues at academy trusts. The Department has kicked off the Academies and Free Schools Integration Programme, working towards the longer-term ambition of a single system across the entire Department covering RSCs, ESFA, and Free Schools that teams use in their work to convert schools and open academies. This will help to manage work more efficiently, produce more reliable data, and provide a more joined-up service to academies.

5.4 The Department set up the Academies and Free Schools Systems Integration Programme in 2017. A discovery phase was completed in autumn 2017, and an alpha phase is now underway and due to complete shortly. A beta (build and test) phase is planned for late 2018-2019.The Department is also undertaking several projects to make it easier for schools to interact with the RSCs and the ESFA, including conducting in-depth user research to make sure the burden on schools is reduced in a way that really works for head teachers and school leaders.

Fifty Third Report of Session 2017-19

Ministry of Defence

Ministry of Defence’s contract with Annington Property Limited

Introduction from the Committee

The Ministry of Defence offers subsidised housing for its service personnel and their families as part of the overall remuneration package. In 1996, the Ministry of Defence sold 999-year head leases on 55,000 houses to Annington Property Limited (Annington) and then rented them back on 200-year underleases. The main purpose of the deal was to transfer ownership of the bulk of the married quarters estate to the private sector; secure funds for upgrading work, and improve the management of the estate. Initially, the Department has received a 58% adjustment to open market rents for the first 25 years of the contract, which reflected among other things that it continued to have responsibility for maintaining the properties. However, the Department is between £2.2 billion and £4.2 billion worse off over the first 21 years of the contract than if it had retained ownership. This is largely because it has missed out on house price rises, which have been substantially higher than it predicted.

Based on a report by the National Audit Office, the Committee took evidence from the Ministry of Defence, Annington Property, and Terra Firma Capital Partners on 14 May 2018. The Committee published its report on 13 July 2018. This is the Government response to the Committee’s report

NAO and PAC Reports

- NAO report: *Ministry of Defence's arrangement with Annington Property Limited* Session 2017-19 (HC 762)
- PAC report: *Ministry of Defence’s contract with Annington Property Limited* – Session 2017-19 (HC 974)

Government responses to the Committee

1: PAC conclusion: The Department’s 1996 deal with Annington Property Limited provided little protection for taxpayers, who have lost billions of pounds, while enabling Annington to make excessive returns.

1: PAC recommendation: ***In its response to this report, the Government should confirm that all its future deals will contain effective protections for the taxpayer that were noticeably absent in this sale. In respect of the Annington deal, the Department must make the most of a bad situation. As well as securing the best possible outcome from the rent negotiations, it should work with Annington to extract the maximum value from the estate, including via estate development opportunities, options to release sites, and agreements around the use of utilities.***

1.1 The Government agrees the Committee’s recommendation.

Target implementation date: 30 November 2018.

1.2 The Government has improved guidance on evaluating such transactions, and on specific protections within contracts. The Treasury’s *Green Book* has sophisticated methodologies for appraising long-term arrangements. There is guidance on discounting over long periods where there is an irreversible transfer of wealth from the future to the present, as was the case in the 1996 deal. Had the discount rates in the current guidance been used to evaluate this deal, the poor value for money would have been more clearly illustrated.

1.3 *Managing Public Money* states that contracts should specify how the financial benefit of any refinancing should be shared with the public sector. The Treasury has produced a standard refinancing protocol to achieve this.

1.4 The Modernising Defence Programme (MDP) has a specific strand reviewing commercial capability and a review across the 2,000 commercial professionals has shown opportunities to improve capability, systems and processes that underpin the Department's commercial work. The Department developed a three-year plan to build on the improvements already being made within the Department, and the Defence Infrastructure Organisation (DIO) published its first Commercial Strategy in 2018.

1.5 The Department will work with Annington to secure maximum value from the estate and has a specialist team in place who are engaging constructively with them. Whilst it would not be appropriate to comment on aspects of the negotiations whilst discussions are ongoing, it should be noted that the Department is bound to work within procurement and state aid legislative frameworks.

1.6 The Department will write to the Committee by 30 November 2018 to update on progress.

2: PAC conclusion: ***The Department has failed over many years to meet the reasonable expectations of service personnel and their families for good quality accommodation.***

2: PAC recommendation: ***The Committee has made a series of recommendations about housing quality, most recently in its July 2016 report. The Department should write to the Committee by 30 November 2018 with a full account of what it is doing to raise satisfaction levels amongst personnel.***

2.1 The Government agrees the Committee's recommendation.

Target implementation date: 30 November 2018.

2.2 It is a condition of service that entitled Service personnel and their families are provided with Single Living Accommodation (SLA) or Service Family Accommodation (SFA) at or close to their normal duty station. The Department has committed to provide SFA for Service personnel and their families that meets the Government Decent Homes Standard (DHS), and will continue to fulfil this obligation.

2.3 In FY 17/18, £68M was spent on improvements to the Department's housing stock. The focus was on improving energy efficiency through the provision of new boilers, doors and windows, roofs, and external wall insulation. Additionally, 2,900 kitchens and 2,800 bathrooms were replaced with the aim of meeting modern housing standards. In the current financial year, c£70M has been allocated to date in support of improvement works. Although the Department's priority is on ensuring that properties meet DHS, current funding levels will also allow further SFA improvement works. Moreover, the Defence housing portfolio continues to evolve, as the Department replaces older stock with new.

2.4 Notwithstanding, the Department recognises that the current accommodation model does not always provide for the varied accommodation needs and preferences of Service personnel and is seeking to address this through initiatives such as the Future Accommodation Model (FAM), which will widen entitlement and increase choice of accommodation type for Service personnel and their families.

2.5 The Department has taken steps to increase engagement with Service families through Continuous Attitudes Surveys, Families' Federations and Service Charities and through the introduction of Customer Engagement Forums to hear at first-hand the concerns of Service families across the UK. Performance standards within the housing maintenance contract are steadily improving and, in addition to now consistently meeting the majority of Key Performance Indicators, achieve the most cost-effective balance between price and service delivery.

2.6 This improvement has been recognised by the Single Services and their Families Federations, who have noted a considerable reduction in their accommodation-related casework. It is also borne out by the 2018 Armed Forces Continuous Attitudes Survey results which demonstrate a 5% increase in satisfaction with the overall standard of SFA in 2018 to 51% compared to 2017, and by DIO's independent Customer Satisfaction Surveys which currently reflect a record 71% customer satisfaction rate. The Department continues to work closely with its contractors to ensure that this improvement is maintained.

2.7 The Department will continue to invest in improving the condition of SFA and will hold its contractors to account for the delivery of an efficient and effective maintenance and repair service. By taking these steps, the ‘lived experience’ for SFA occupants should improve and customer satisfaction levels increase further.

2.8 The Department will write to the Committee by 30 November 2018 to update on progress.

3: PAC conclusion: ***The Department has not drawn its various estates initiatives together into a coherent strategy that maximises opportunities for development and disposal.***

3: PAC recommendation: ***In its response to this report, the Department should report to the Committee how it will align its work on the Annington negotiation, Future Accommodation Model and estates disposal into a coordinated strategy that will bring long overdue improvements to the management of its estate and protect the Department’s position in the rent review negotiations.***

3.1 The Government agrees the Committee’s recommendation.

Target implementation date: 30 November 2018.

3.2 The Department is simultaneously developing and delivering the following modernisation and rationalisation programmes to make the future defence estate fit for purpose; the Defence Estate Optimisation Programme (DEOP), FAM, Army Basing Plan, and the Future Defence Infrastructure Services contracts.

3.3 The Department is satisfied that there is no misalignment between these initiatives and will explain more fully why in its update to the Committee by 30 November 2018.

3.4 The Department continues to work towards an expedited process for the Annington rent review in order to provide a level of certainty on future rental costs that will inform the evaluation of FAM and DEOP. Data generated during the FAM pilot will provide evidence on the long-term costs of FAM compared to the current approach. In all likely future scenarios, there is a significant reliance on accommodation rented from Annington, and therefore the best possible strategy is to seek to eliminate the significant uncertainty over future rental levels, which impairs decision making, and to seek to minimise rental payments.

3.5 The Department will write to the Committee by 30 November 2018 to update on progress.

4: PAC conclusion: ***The Committee is not convinced that the Department and the Defence Infrastructure Organisation currently have the strategy, capability or information required to negotiate effectively with Annington over rent reviews.***

4: PAC recommendation: ***The Department should continue to pursue all options in its rental negotiations, to get the best deal possible for the taxpayer. For this, it needs to finalise its organisational changes as soon as possible, ensure that it has the right people in place, and gather the necessary information it needs to inform its strategy. Without this, the Department’s negotiating position, which is already weak, will be further undermined.***

4.1 The Government agrees the Committee’s recommendation.

Target implementation date: 30 November 2018.

4.2 The Strategic Business Partner (SBP) contract ends in June 2019. The Department is transferring leadership roles filled by the SBP to civil servants directly employed by the Department. This transition provides an opportunity to appoint individuals with the skills and experience to embed the improvements in how DIO operates that have been put in place through its ongoing transformation programme.

4.3 The Department, with UKGI, is conducting a review in order to strengthen the governance and performance management of DIO. It will ensure that the Department is applying best practice governance and is making the best use of the DIO Board Non-Executive Directors in applying their experience and expertise to support the organisation in its transformation, and to drive performance improvements.

4.4 The Department is committed to getting value for public money and have a dedicated team who have been working since 2015 to prepare for the negotiations with Annington. The current focus of the Department is an expedited rent review process, running in parallel to discussions around closer working with Annington. The Department firmly believes it has the right people in place to deliver this. Commercial and transactional support has been sourced from UKGI. External surveyors are working with in-house surveyors, augmenting DIO's knowledge of the estate with further capacity, particularly in modelling, research and commercial valuation. External legal advisers provide ongoing support, and leading Counsel has been engaged. Senior stakeholder input is coordinated via a steering group, which includes representatives from DIO, across the Department, UKGI and the Treasury.

4.5 The Department will write to the Committee by 30 November 2018 to update on progress.

5: PAC conclusion: ***It is scandalous that the Department still holds so many empty properties at a time of a national housing shortage, and has made almost no progress in 20 years in reducing the number.***

5: PAC recommendation: ***The Department should develop a plan and timetable for reducing the number of empty properties to a more acceptable level, with a target of getting down to, at most, 10% voids in three years' time. It should write to the Committee with details of its plan by 30 November 2018.***

5.1 The Government agrees the Committee's recommendation.

Target implementation date: March 2022.

5.2 Although the Government agrees the Committee's recommendation, it is unlikely that the Department will achieve the desired level of reduction in voids in the next 3 years.

5.3 Some stock needs to be void when it is between occupants; for maintenance and to ensure that the Armed Forces can move units around. Recently, the number of moves has varied from 13,500-17,000 per annum. This churn rate of c30% is unlike any other residential estate and goes some way to explaining the high level of voids. However, the Department accepts that the rate is currently too high.

5.4 The Department has previously worked to a planned margin of vacant properties of c10%. At present this margin needs to be higher while the Department holds properties for personnel returning from Germany, and for units to be relocated as part of DEOP. Financial constraints limit the Department's ability to hand surplus properties to Annington where the dilapidations costs need to be funded, and limit the number of lower quality homes that the Department can bring up to DHS before allocating to eligible personnel. The Department intends to address these points in the forthcoming negotiations with Annington.

5.5 The Department has a plan that will see the void rate reduce to c12% by March 2022, through a combination of disposals which will form part of the negotiations with Annington; demolitions, sub-letting, and housing c4,000 personnel returning from Germany.

5.6 There is uncertainty over future housing supply and demand; DEOP will lead to a reduction in the technical estate of c30% over the coming years, with an impact on SFA numbers at each location and FAM could potentially widen the entitlement to SFA. While these projects are ongoing, the Department requires a higher than usual void rate.

5.7 The Department will write to the Committee by 30 November 2018 to update on progress.

6: PAC conclusion: ***Annington made some welcome commitments to us in respect of providing affordable homes, helping first–time buyers, and protecting tenants from excessive rents which the Committee expect them to fulfil.***

6: PAC recommendation: ***The Committee expects Annington to honour the commitments it made to the Committee about affordable housing, and the Committee asks its Chief Executive Officer to write to the Committee on an annual basis to set out progress.***

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Department confirms that Annington is aware of and understands the Committee's request to provide an annual update.

Fifty Fourth Report of Session 2017-19

Public Accounts Committee

Visit to Washington DC

Introduction from the Committee

The Public Accounts Committee (PAC) visited the Washington DC in February 2018 to inform the Committee's future work and engage with our US counterparts. On the visit, we pursued five main themes that reflect the international aspects of the PAC's work and domestic issues where the US experience gave us a new perspective to our work. Our principal objectives for the visit were:

- to understand the impact of recent US tax legislation on the UK and international tax arrangements;
- to improve our understanding of the United States' position on improving global tax transparency. This would build on the Committee's previous work on global tax transparency and public country by country reporting;
- to discuss the UK's defence procurement relationship with the USA, with particular reference to the value for money and delivery of the F-35 lightning aircraft programme;
- to understand the US's views on future trade relationships with the UK; and
- to explore the USA's approach to government financial accountability, at federal and state level.

The Committee met with politicians who sit on equivalent Committees in the Congress and Senate, as well as officials from the Congressional Budget Office and Government Accountability Office, which provide similar services to the UK's Office of Budget Responsibility and National Audit Office respectively. The Congressional Budget Office provides legislative costings and economic and budget projections to committees and individual members of the House and Senate.

PAC Report

- PAC report: *Visit to Washington DC* - Session 2017-19 (HC 1404)

Government response to the Committee

The Government notes the Committee's report.

Fifty Fifth Report of Session 2017-19

Department for Work and Pensions

Employment and Support Allowance

Introduction from the Committee

Employment and Support Allowance (ESA) is a benefit that the Department for Work and Pensions (the Department) pays to people who have limited capability to work owing to disability or illness. In 2016–17, the Department paid out around £15 billion in ESA to approximately 2.4 million people. In 2011, the Department began reassessing people who were claiming older-style benefits such as Incapacity Benefit and transferring those eligible to ESA. In November 2017, the media reported that around 70,000 people who had been transferred to ESA had been underpaid because they had been awarded ESA based on their National Insurance contributions only, when they might also have been entitled to ESA on income grounds and extra premium payments. The Department announced on 14 December 2017 that it had established a special team to contact the people affected and pay back the money they are owed. It expects to pay around £340 million in arrears by April 2019.

Based on a report by the National Audit Office, the Committee took evidence from the Department for Work and Pensions, and the National Association of Welfare Rights Advisers on 21 May 2018. The Committee published its report on 18 July 2018. This is the Government response to the Committee's report.

Background resources

- NAO report: *Errors in Employment and Support Allowance* Session 2016-17 (HC 837)
- PAC report: *Employment and Support Allowance* – Session 2017-19 (HC 975)

Government responses to the Committee

1: PAC conclusion: ***The Department's arrangements for transferring people to ESA were fundamentally flawed and implemented without basic checks.***

1: PAC recommendation: ***The Department should identify lessons learned from this error and write to the Committee by the end of October 2018 with details of the concrete actions it is taking to ensure mistakes in converting benefits are not repeated, especially in the roll out of Universal Credit.***

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The Department has strengthened its governance arrangements for the identification and management of actual or potential errors, so the impact on individuals can be understood and an appropriate response put in place.

1.3 The Department has set up a Board with membership from senior stakeholders covering all of the Department's benefits and products. Its role is to ensure that policies, operational processes and appropriate training are in place to reduce the occurrence of systemic errors and to quickly identify and address them if they do arise. This Board will also review lessons learned from previous errors that required corrective action.

1.4 Lessons learned from Employment and Support Allowance have been shared with the Universal Credit Programme. As a result, the Department has proposed that when migrating existing legacy benefit claims to Universal Credit, claimants will make a fresh claim for Universal Credit. This will ensure that all relevant details are updated and confirmed to establish the claimant's full benefit entitlement when making a claim. To reduce the burden on migrating claimants, clear communications will be provided throughout the process to ensure they are fully aware of what they need to do, support will be provided for people who need additional help.

2: PAC conclusion: ***The Department's lack of urgency in taking six years to start to address the error indicates its culture of indifference to underpayments.***

2: PAC recommendation: ***The Department should, by the end of October 2018, write to update the Committee on the additional changes it has put in place to address a management culture which does not proactively and systematically act on intelligence from its front line and fully address mistakes when they first occur.***

2.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: December 2018.

2.2 The Department's Operational Executive Team has put in place a programme of activities to encourage and support management and staff to raise, and act on, intelligence around operational delivery.

2.3 The Department is implementing a full programme of communications, led on by the Permanent Secretary and Operations Director General, giving all staff the opportunity to raise issues or concerns, which are then logged and acted upon. This includes all staff calls and open staff sessions with senior leaders.

2.4 The Department also runs business groups focusing on quality and governance with reporting routes back to the Operational Executive Team; a robust process to impact the potential changes against legal and policy requirements; and a monthly programme of stakeholder product reviews on all our main benefits.

2.5 The Department's processes are reviewed on an ongoing basis to identify where it can strengthen its approach. The Department will update the committee on actions it is taking in this area in December 2018.

3: PAC conclusion: ***The Department's inertia in dealing with ESA payments was compounded by a lack of willingness to listen to experts and stakeholders.***

3: PAC recommendation: ***The Department should, by the end of October 2018, write to the Committee with details of how it will improve its processes for gathering and acting on concerns raised by stakeholders and how it will routinely measure and report its progress on this.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2018.

3.2 The Department has introduced a new Operations-led approach to support closer working with national stakeholder organisations so that their views and those of the claimant groups they represent are used to deliver improved outcomes. This will ensure the Department listens, and acts upon, the concerns raised by stakeholders. This model will be subject to ongoing reviews to ensure that it remains fit for purpose.

3.3 The Department has introduced a new way of collating issues raised by stakeholders. This ensures that concerns identified at a local level are coordinated and escalated, with knowledge shared throughout the Department. The effectiveness of issue resolution will be monitored by the newly established Departmental Stakeholder Board which has senior leaders as its membership.

3.4 The Department engages with a range of national stakeholders via the quarterly Operational Stakeholder Engagement Forum. Membership includes a range of organisations that deliver support to claimants in accessing the services, or those that campaign on their behalf. By engaging with stakeholders at the earliest possible stage, the Department has an opportunity to work collaboratively with them to 'get it right first time'. Membership of the Forum, its terms of reference and forward agenda are continually reviewed to ensure all appropriate customer groups are represented.

3.5 The Department will update the Committee on progress in December 2018.

4: PAC conclusion: ***The Department has not assessed how much money in total claimants have missed out on.***

4a: PAC recommendation: ***The Department should calculate the total amount of money claimants have missed out on and report back to the Committee by end October 2018 on what it will do to ensure claimants receive appropriate remedies in line with Managing Public Money.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2018.

4.2 The Department has assigned 400 staff to correct the underpayments that occurred during this conversion; these staff will be reviewing cases at pace, contacting claimants and correcting claims. The Department has already paid out over £40 million in arrears.

4.3 The Department has further analysed the relationship between "official error" and section 27 of the Social Security Act 1998 in regulating how, and to what extent, arrears can be paid. As a result of the conclusions of this analysis, the Government announced on 18 July 2018 that arrears will now be paid to those affected back to their date of conversion to Employment Support Allowance ensuring remedies are paid in line with *Managing Public Money*. The Department has made an indicative estimate that this could result in a further £150 million paid out in arrears. Departmental analysts are working to refine that estimate.

4.4 The Department is contacting all those identified as potentially affected. A dedicated free phone number is available and those due arrears can expect to receive appropriate payment within 12 weeks of providing all relevant information. The Department will review those cases where a payment has already been made and pay any additional arrears that are due. The Department will update the Committee on actions it is taking in this area in December 2018.

4b: PAC recommendation: ***The Department should calculate the total amount of money claimants have missed out, including passported benefits.***

4.5 The Government disagrees with the Committee's recommendation.

4.6 The Department does not consider it practical to implement this recommendation. Every case will be different, and the Department would need claimants to submit evidence of their eligibility and in some cases evidence of their actual expenditure that might have been covered by relevant benefits. In addition, some of the relevant benefits can be accessed by other routes in addition to passporting from income-related ESA – for example the NHA Low Income Scheme. The Department will be able to check that the claimant had not used alternative routes to access these benefits. This complexity reflects the fact that responsibility for determining eligibility and accountability for passported benefits rests with a range of relevant authorities rather than DWP.

5: PAC conclusion: ***The Department's abysmal communication with claimants exacerbated the scale and impact of its error.***

5: PAC recommendation: ***The Department should review urgently: the clarity; accessibility; simplicity; and ease of reading of all its letters to claimants and report back to the Committee by the end of November 2018 on the results and what steps it has taken to improve them.***

5.1 The Government agrees with the Committee’s recommendation.

Target implementation date: December 2018.

5.2 The Department is committed to making letters clear, understandable and accessible for all customers and has implemented a programme to review and improve its letters on an ongoing basis. The Department tests as many of its letters as possible with customers and stakeholders, and feedback is carefully considered.

5.3 A dedicated communications team, trained in Plain English, leads improvement activity and uses the Flesch Kincaid reading grade test to measure readability of content. All content is drafted with the aim of scoring at least 80 (suitable for 11-12 year olds), using short concise sentences. In the last year, work has been undertaken on more than 1500 products.

5.4 There is still more to do, particularly to improve letters that are automatically generated through the Department’s IT systems as these are more complex to change. The Department is exploring options for alternative IT platforms that will allow improvements to be made to these letters more quickly. The Department will write to the Committee with further information regarding this by December 2018.

5.5 The Department is currently reviewing its products to identify opportunities to offer versions in Easy Read and British Sign Language videos. Following a consultation with stakeholders a decision will be made by autumn 2018 on which Personal Independence Payment and Employment Support Allowance documents should be translated into an Easy Read format. The Department will update the Committee on actions it is taking in relation to its communications in December 2018.

6: PAC conclusion: ***The Committee is still not convinced that the Department is serious about reducing the £1.7 billion underpayments claimants miss out on each year.***

6a: PAC recommendation: ***The Department should, by the end of November 2018 publish statistics on how many claimants are affected by over and under payments.***

6.1 The Government agrees with the Committee’s recommendation.

Target implementation date: December 2018.

6.2 The Department publishes statistics on the levels of fraud and error in the benefit system twice each year. The data includes estimates of the proportion of claims with overpayments and underpayments.

6.3 The Department is running a consultation exercise on the frequency and breakdown of the information for publication, alongside asking stakeholders how they use the statistics. The Department will report back to the Committee after the consultation closes in September 2018, with proposals for change. The Department will update the Committee on actions it is taking in this area in December 2018.

6b: PAC recommendation: ***The Department should, by the end of November 2018 set and publish a realistic and more stretching target to significantly reduce the level of underpayments; and write to the Committee with a plan setting out how it will achieve its new target over the next three years.***

6.4 The Government disagrees with the Committee’s recommendation.

6.5 The Department considers that setting annual targets for reducing levels of underpayment is more appropriate than the three-year timeframe suggested. The Department wrote to the Committee in January 2017 explaining that the Department had developed a target for underpayments for 2017-18 and that targets would be developed for future years. A stretching target of 0.9% has been agreed with the Cabinet Office for 2018-19 and this will be reviewed on a yearly basis. Universal Credit and other welfare reform will bring new opportunities, and reviewing the target yearly allows the Department to be responsive and dynamic in developing plans to reduce underpayments. Efforts will be focused in particular on reducing claimant error which accounts for 65% of underpayments, to help achieve this challenging target.

6.6 The largest cause of underpayments relates to changes in functional needs, where a Personal Independence Payment claimant's daily living and / or mobility needs have deteriorated, but where the claimant has not advised the Department of this change. The Department has developed new communications material, including You Tube videos and revised forms, to ensure claimants know how and when to report changes of circumstances to address this.

6.7 The second largest reason for underpayments relates to 'Premiums', fixed rates of benefit paid in addition to personal and dependant allowances. This is a complex area, with each premium having its own qualifying conditions, but new instructions, training and improved processes are being implemented to tackle errors and improve knowledge.

6.8 Another significant cause of underpayments is earnings related error. The further roll out of Real Time Information alerts will help to address this with Housing Benefit alerts being rolled out to all Local Authorities by the end of September 2018.

Fifty Sixth Report of Session 2017-19

Ministry of Justice

Transforming courts and tribunals

Introduction from the Committee

HM Courts and Tribunals Service (HMCTS) is an executive agency of the Ministry of Justice responsible for the administration of criminal, civil and family courts and tribunals in England and Wales. In 2016 HMCTS established a six-year, £1.2 billion portfolio of change programmes to modernise and upgrade the courts and tribunals system. The reforms aim to improve the way criminal, family and civil courts and tribunals operate by introducing modern technology, new working practices and changing the way HMCTS uses its buildings and staff. By March 2023, HMCTS expects that 2.4 million cases per year will be dealt with outside physical courtrooms and will employ 5,000 fewer staff. HMCTS expects to save £265 million a year from these changes, which will come from lower administration and judicial costs, fewer physical hearings and running a smaller court estate. These savings are expected to contribute around half of the total savings the Ministry of Justice committed to in the 2015 Spending Review.

Based on a report by the National Audit Office, the Committee took evidence from the Ministry of Justice, and HMCTS on 6 June 2018. The Committee published its report on 20 July 2018. This is the Government response to the Committee's report

NAO and PAC Reports

- NAO report: *Early progress in transforming courts and tribunals* – Session 2017-19 (HC 1001)
- PAC report: *Transforming courts and tribunals* – Session 2017-19 (HC 976)

Government responses to the Committee

1: PAC conclusion: ***The Committee has little confidence that HMCTS can successfully deliver this hugely ambitious programme to bring the court system into the modern age.***

1: PAC recommendation: ***HMCTS should write to the Committee, by January 2019, to provide assurance about its updated timetable for delivery. It should update the Committee every six months thereafter in the same format so that the Committee can monitor progress.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

1.2 HMCTS agree that the Reform programme is ambitious and challenging, but is pleased with the early progress that has been made. During the remainder of 2018, HMCTS will continue to expand the scope of the existing digital services, develop new projects and rationalise the estate. HMCTS will also plan for the next stage of the programme, ending in May 2020.

1.3 By January 2019 HMCTS will provide an update on progress and performance against the indicators shared with the Committee in June 2018, and a timeline outlining the key stages of the next phase.

2: PAC conclusion: ***HMCTS has failed to articulate clearly what the transformed justice system would look like, which limits stakeholders' ability to plan for, and influence the changes.***

2: PAC recommendation: ***By January 2019, HMCTS should provide the Committee with a clear and detailed articulation of what the changes will mean in practice for all the users of the justice system, and when users can expect these changes to be in place.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

2.2 HMCTS regularly publish reform updates, information and documentation and uses a range of channels to reach a wide audience. Detailed designs are completed for each project as they are initiated, as well as having an overall design and schedule to which HMCTS are working. HMCTS understand the importance of showing the real-world impact of the Reform Programme and will publish overall designs by January 2019. These will give the outline of what HMCTS will do and how HMCTS will do it and who will be affected. The detail will inevitably be subject to more detailed design work and iteration, but this overview will help people to see how the changes fit together into a whole.

3: PAC conclusion: ***Despite the revised timescale, HMCTS's imperative to deliver at such a fast pace risks not allowing time for meaningful consultation or evaluation and could lead to unintended consequences.***

3: PAC recommendation: ***By November 2018, HMCTS should publish plans on how and when it will engage with stakeholders and be clear about how it will act on the feedback received and adjust plans if necessary.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2018.

3.2 HMCTS aim to actively engage with its stakeholders through a combination of formal consultations, collaborative working groups and user research, evaluation and testing, as appropriate. This ongoing feedback is built into HMCTS's design process and helps to identify user concerns during the early phases of development. HMCTS iterative design process enables it to immediately take on board this feedback and design services around HMCTS users' requirements.

3.3 Whilst HMCTS has made good progress in responding to stakeholders' feedback, HMCTS recognise there is still work to be done to clarify the approach and processes, and to broaden understanding of, and involvement with, the Programme. By November 2018, HMCTS will publish further details[7] about its stakeholder engagement plans, clearly setting out more clearly how the feedback and input gathered through stakeholder engagement is being listened to and acted upon.

4: PAC conclusion: ***HMCTS has not adequately considered how the reforms will impact access to, and the fairness of, the justice system for the people using it, many of whom are vulnerable.***

4: PAC recommendation: ***HMCTS should write to the Committee by January 2019, setting out how it will identify and evaluate the impact of changes on people's access to, and the fairness of, the justice system, particularly in relation to those who are vulnerable.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

4.2 HMCTS will write to the Committee by January 2019 with further information (including scope and timing) on how it will identify and carry out a formal evaluation of the impact of its changes.

4.3 In addition to formal evaluation, HMCTS has adapted an agile methodology and works with users during the design and testing stages of each new service to ensure the process is accessible and as clear and simple as possible. HMCTS use phased implementation of changes so that re-designed services can be tested in practice and any emerging issues rapidly addressed. HMCTS regularly monitor reformed services and use this feedback to make continuous improvements to the services. HMCTS share lessons,

[7] Reform updates: https://www.gov.uk/government/news/hmcts-reform-programme

learning and components with other projects across the programme, to build good straight forward services. Feedback on HMCTS reformed services has been extremely positive and over 90% of users of the new online divorce, civil money claims and probate services are satisfied or very satisfied with the service.

4.4 In terms of vulnerable users, HMCTS also provide 'assisted digital' support by telephone and is piloting face-to-face support with its partner The Good Things Foundation. HMCTS will evaluate how well this will address the needs of its users to inform future plans.

5: PAC conclusion: ***One third of the way through the programme, the Ministry of Justice still does not understand the financial implications of its planned changes on the wider justice system.***

5: PAC recommendation: ***The Ministry should work with the Treasury to quantify the likely financial implications of the reforms on the wider justice system. They should involve affected parties to address the implications of any cost-shunting and ensure future funding settlements reflect the cost of delivering services in the transformed system.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

5.2 Changes to the Criminal Justice System (CJS) aim to make the overall system more efficient, rather than just save money for HMCTS. On that basis, HMCTS have already analysed existing assessments but have agreed the need for a more joined-up model, which is well under way. The model will provide a view of impacts across CJS agencies and will enable the Department to understand the implementation costs and benefits required by each agency split by fiscal year. In turn, this will allow the Department, working with the Treasury, to determine the best funding model to ensure that costs are properly distributed and to prevent 'cost shunting'. The Department recognises that costs and benefits may fall unevenly, and so this is a collaborative approach with the involvement of all agencies.

6: PAC conclusion: ***The Committee remains concerned that the Ministry of Justice is taking on significant amount of change, without a clear sense of its priorities, at a time when it is facing severe financial and demand pressures.***

6: PAC recommendation: ***The Ministry should write to the Committee in advance of the next Spending Review to explain how it plans to ensure its portfolio of change is well-balanced and appropriately prioritised to enable it respond to financial pressures. This should include setting out those elements of reform that are essential and those which could be put on hold.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2018**.**

6.2 The Department will write to the Committee in advance of the Spending Review setting out how it has prioritised its change agenda and is managing a balanced portfolio. This will build on processes already in place to prioritise the Departments investment in change, including the use of a 'scorecard', which ranks projects based on an assessment of strategic importance, cost, anticipated benefits and risk, and a portfolio performance report, which tracks confidence in delivering projects and risks to delivery at the portfolio level. Investment decisions and portfolio performance are governed by the Departments Investment Committee, which meets monthly and will reconsider the scorecard and portfolio risk in advance of the SR.

Fifty Seventh Report of Session 2017-19

Department of Health and Social Care

Supporting Primary Care Services: NHS England's contract with Capita

Introduction from the Committee

Primary care support services provide a range of administrative and back-office functions to around 39,000 GPs, dentists, opticians and pharmacists. The services provided include: administering payments to GP practices, opticians and pharmacies; administering the pensions of GPs; administering confirmation that GPs, dentists and opticians in the NHS are suitably qualified; sending out letters for those eligible for cervical screening; processing patient registrations and de-registrations; and validating and processing pharmacy market entry applications.

In August 2015, NHS England entered into a seven-year, £330 million contract with Capita to deliver primary care support services, now known as Primary Care Support England. NHS England aimed to reduce its costs by 35% from the first year of the contract and create better quality support services that were more efficient, and easy to use. Capita's bid depended on it closing local primary care support offices and delivering a major transformation of services to meet NHS England's objective to reduce its costs, such as introducing a single customer support centre and an online service for submitting GP payments and ordering medical supplies.

Based on a report by the National Audit Office, the Committee took evidence from NHS England and Capita on 18 June 2018. The Committee published its report on 25 July 2018. This is the Government response to the Committee's report.

NAO and PAC Reports

- NAO report: *NHS England's management of the primary care support services contract with Capita* – Session 2017-19 (HC 632)
- PAC report: *Supporting primary care services: NHS England's contract with Capita inquiry* Session 2017-19 (HC 698)

Government responses to the Committee

1: PAC conclusion: ***NHS England's outsourcing strategy led to a short-sighted rush to achieve savings, heedless of the impact on patients or practitioners.***

1: PAC recommendation: ***NHS England should assess the likely impact on users of a service before outsourcing and should update the Committee by July 2019 on how it is involving stakeholders at an earlier stage in changes to the service, for example by seeking and responding to their views on transformation plans and getting them involved in pilots.***

1.1 The Government agrees with the Committee's recommendation

Target implementation date: July 2019.

1.2 From the outset of the primary care support services contract, NHS England had governance arrangements in place, which involved stakeholders in the oversight of the operational service delivery and transformational changes. The oversight arrangements have been strengthened and NHS England has engaged stakeholders in a review of the remaining service changes and is working with them to agree revised transformation plans.

1.3 NHS England is reviewing its live contracts and current service delivery models. Should any of these services be subjected to any outsourcing then NHS England will undertake this under the Cabinet Office best practice guidelines, as it did with the original PCSE outsourcing.

2: PAC conclusion: ***Neither NHS England nor Capita properly understood the scale of the challenge before agreeing the contract.***

2: PAC recommendation: ***NHS England should report back to the Committee by January 2019 on how it will improve its future contracting, including, for example, by understanding what is already working well locally, collecting sufficient data on the services being outsourced, setting appropriate performance measures and ensuring that service changes are sufficiently piloted.***

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

2.2 A review of internal procurement and contracting arrangements will be undertaken to identify any potential changes to NHS England contracting processes. This will include looking at arrangements for collecting data on volume, cost and performance requirements going forward.

3: PAC conclusion: ***NHS England incentivised Capita to close offices as quickly as possible but did not have the mechanisms to stop the office closure programme when it proved to be a costly mistake.***

3: PAC recommendation: ***NHS England and wider Government contractors must ensure that basics, such as appropriate mechanisms to intervene in service changes if they do not go as planned, are part of any contract.***

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Contracting authorities must ensure that contracts they enter into contain adequate rights and remedies. For more complex services procurements, the Government has published, and has recently updated, a Model Services Contract, which is available for use by all public sector procurers, together with a number of other standard documents, which are a deed of novation; a parent company guarantee; assignment of copyright; ethical walls agreement; non-disclosure agreement (unilateral); and non-disclosure agreement (mutual).

3.3 NHS England generally uses model Government contracts as the basis for service contracts. These contracts do contain provisions to remediate poor performance by the supplier, although the timescales around the contractual intervention process typically mean that formal mechanisms such as Remedial Advisers, Rectification Plans and Step-In Rights, need to be complemented by other more pragmatic approaches to curtailing emergent issues promptly, for example service improvement plans.

3.4 NHS England will review the contract form chosen for any future procurements to ensure that NHS England rights around poor performance are commensurate with the scale of the service changes required under the contract.

4: PAC conclusion: ***Failure to deliver services led to disruptions and extra costs for doctors, dentists, opticians and pharmacists.***

4: PAC recommendation: ***NHS England should write to the Committee by January 2019 setting out what they have done to compensate primary care practitioners for the disruption to the service.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2019.

4.2 In January 2017, NHS England established a process, run jointly with Capita, to consider claims from primary care contractors detrimentally affected by the service issues. The majority of the claims raised through this process are expected to have been considered by the end of March 2019.

5: PAC conclusion: ***Service failures following the outsourcing put patients at risk of serious harm.***

5: PAC recommendation: ***NHS England should, by January 2019, update the Committee on whether there is evidence of any harm to patients.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

5.2 NHS England is fully committed to patient safety and has instigated an approach to work with Capita to identify all sources of evidence that could help identify if there was any actual patient harm.

6: PAC conclusion: ***A lack of collaboration between NHS England and Capita resulted in them taking too long to address the issues with the service.***

5: PAC recommendation: ***NHS England and Capita should write back to the Committee by January 2019, showing whether changes to their partnership working has improved the relationship, and whether they have agreed outstanding areas of difference.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019.

6.2 NHS England and Capita will continue to build a more productive relationship, with a change in the way both parties approach the contract. A renewed contract management focus by NHS England, along with the removal of the embedded team, is intended to provide Capita with a clear path to focus on delivery.

6.3 NHS England will continue to work with Capita to strengthen this partnership in respect of the primary care support service and work to address outstanding areas of difference. Specifically, good progress has been made on resolving differences of view on the reporting of performance indicators.

Fifty Eighth Report of Session 2017-19

Cabinet Office

Strategic Suppliers

Introduction from the Committee

Carillion, a major supplier to the public sector, collapsed on 15 January 2018. Nine days later, the House of Commons debated and agreed a Resolution that required the Government to release confidential risk assessments of its main suppliers to this Committee. The risk assessments relate to companies with contracts across several Government Departments worth more than £100 million per year, or deemed significant to a sector - designated as Strategic Suppliers by Government. There are currently 27 Strategic Suppliers providing services across the public sector. The risk assessments, compiled every six weeks by Crown Representatives in the Cabinet Office, highlight significant concerns about performance against contracts; summarise financial and market information; and assign a Red-Amber-Green (RAG) risk rating.

The risk assessments provided to this Committee offer an assessment of each company's financial status and performance against contracts, which are encapsulated in a Red-Amber-Green (RAG) rating, augmented by a Black 'High Risk' or exemplary Platinum rating. The documents are compiled by each company's Crown Representative. The Cabinet Office considers publication of the documents could affect market confidence and harm companies. The Committee published a report on the Government risk assessments relating to Carillion on 23 May 2018.

The Committee took evidence from the Cabinet Office, Alexander Mann Solutions, G4S, Interserve, Serco, Atos, Sodexo, and Capita throughout June 2018. The Committee published two reports on 23 May 2018 and 24 July 2018. This is the Government response to the Committee's 58th report.

PAC Reports

- PAC report: *Government risk assessments relating to Carillion* – Session 2017-19 (HC 1045)
- PAC report: *Strategic Suppliers* – Session 2017-19 (HC 1031)

Government responses to the Committee

Competition in the market

1: PAC conclusion: ***The Government has allowed a culture to develop in which a small number of large companies believe that they are too big to fail pursued new business with little apparent consideration of their ability to deliver the right service at the right price.***

Encouraging and managing competition

2: PAC conclusion: ***The Committee welcomes the Minister's announcement that the Government will be issuing a 'playbook' to encourage new entrants and look forward to seeing the details of the proposal. However, the language used in the announcement suggests that the Cabinet Office does not intend to take the opportunity to equip itself with powers to enforce its 'playbook'.***

1-2: PAC recommendation: ***The Committee recommends that the Cabinet Office upgrade its 'playbook' and other guidance to the status of mandatory requirements.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

1.2 The Government is currently developing a 'playbook' which will be used in conjunction with the existing Treasury Green and Orange Books.[8] The playbook will both specify a methodology for simple and complex outsourcing and a set of standards which will apply across Government. It will be concise and easy to use so that Departments apply it consistently across Government, and it will be designed to help commercial professionals make better informed Make versus Buy decisions to deliver public services.

1.3 The playbook will support contracting authorities by providing a series of questions which they should consider as the commercial lifecycle progresses. These questions will enable contracting authorities to define more effectively, for example, what they want to deliver and how they want to deliver it; what existing processes they are aiming to build upon; what the options are for taking the requirement to market; whether there is an existing market for their requirement and how they will engage that market to encourage appropriate levels of competition; what their contracting and procurement strategies will be; what data and baselines exist or need to be generated for a successful 'Payment By Results' regime; whether a pilot implementation period is required; and how to be better prepared for the potential impacts of corporate failure on the continuity of public services.

1.4 The playbook is currently being developed through iterative discussions with industry and central government departments.

Information about the market

3: PAC conclusion: ***The Government has created a merry-go-round procurement culture that encouraged a small number of companies to bid for contracts that they knew they would be unable to deliver for the agreed price.***

The Government's procurement process incentivised both Government and companies to focus more on the process of tendering and winning bids than on ensuring the right supplier could provide the right service at the right price.

The Government has failed to use its unique position in the market to encourage competition in the market; and appears to have no plan or targets for the development of the markets in which it operates; nor does it have the underlying data necessary to develop such a plan.

The Government is a uniquely powerful player in these markets but has failed to understand or manage the market. Public sector contracts cover a wide range of activities and are provided by a wide range of companies. Government has little understanding about how it influences the market and displays little strategic thinking into how it could, or should, be examining or influencing those markets.

3: PAC recommendation: ***The Committee recommends that the Cabinet Office develop an approach to examining the market to provide it with better intelligence on the motivations and intentions of companies currently bidding for central Government work.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

3.2 The Government Commercial Function in the Cabinet Office coordinates the work of commercial professionals across Government to engage with and manage work with third party suppliers. The Cabinet Office provides supplier, market and sector intelligence to Departments on the motivations and intentions, and increasingly, on performance of the strategic suppliers.

3.3 The Crown Representatives and Strategic Partnership Managers are experienced business professionals and industry experts who provide advice to Government about the commercial relationship between strategic suppliers and Government. They work across Departments to ensure a single strategic view of the Government's needs are communicated to the market. This includes an analysis of sector specific issues, engagement with the investor community to analyse risk, and engagement with strategic suppliers to understand their Government bid pipeline.

[8] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent and https://www.gov.uk/government/publications/orange-book

3.4 The Cabinet Office will continue to develop this approach to examining the market to provide better intelligence and coordination of the Government pipeline, and the motivations and intentions of companies currently bidding for central Government work.

Publicly available information

4: PAC conclusion: ***Parliament and the public do not have access to straight forward, comprehensive and comprehensible information about government contracting. Transparency is key but still too many contracts are secretive or opaque. Quite frankly the taxpayer deserves better. A standard set of contract information should be made publicly available after a contract has been agreed. That information must include the contract value, length and KPIs, together with a list of other public sector contracts won by the successful company. The Government should consider more "open book" methods of running contracts.***

Small and medium sized enterprises

5: PAC conclusion: ***The Government has committed to greater use of SMEs as direct contractors and announced measures to improve treatment of SMEs in the supply chain. The Committee has, however, seen little evidence of action. The Committee recommends that when the Government publishes details of its proposals to support SMEs it includes an assessment of the wider benefits of increasing the pool of potential suppliers to Government.***

4-5: PAC recommendations: ***There is no excuse for small and medium supplier businesses not being paid on time. The Committee recommends that the Government considers a project bank account approach and reviews the impact on small business.***

The Committee expects the Government's proposals for supporting SMEs to include measures to address: delays in payment, retention payments, preferred supplier discounts, increasing the use of Project Bank Accounts, reducing the barriers to the direct bidding to Government, and supporting consortia bidding.

The Committee recommends that the Government consult with SMEs on the most appropriate way to incorporate these measures into contracts.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2018**.**

4.2 Central Government is committed to paying 80% of undisputed invoices in 5 days and the remainder in 30 days. The Public Contracts Regulations 2015 already require 30-day payment terms to be included in all public contracts and passed down through the public sector supply chain.[9]

4.3 The Government published a consultation on prompt payment by Government suppliers on 10 April 2018, which included investigating options for excluding suppliers from major central government procurements if they cannot demonstrate fair payment practices.[10] The results of this consultation will be published in autumn 2018.

4.4 Project Bank Accounts (PBAs) are recognised as an effective mechanism for facilitating fair payment to the construction supply chain, but have limitations to their universal application, as they essentially have trust status. Current policy on PBAs states that Government Departments should use them on construction projects unless there are compelling reasons not to - for example: if the subcontractor contract is very small, paid more frequently than monthly or the supply chain is short, meaning it is not always cost effective or efficient for Departments to use them.

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[9] http://www.legislation.gov.uk/uksi/2015/102/contents/made

[10] https://www.gov.uk/government/consultations/prompt-payment-by-government-suppliers

4.5 The Department for Business Energy and Industrial Strategy is currently reviewing responses to a consultation conducted in March 2018, which sought views on improvements to corporate governance within companies that are in or are approaching insolvency.[11] Cabinet Office will work with BEIS to deliver any measures developed through the consultation.

Outsourcing

6: PAC conclusion: ***The Committee's evidence has highlighted a concern that contracting bodies do not always have a sufficiently clear understanding of the service that they are outsourcing. Public bodies can consider outsourcing to be an opportunity to transfer problems to a private company. Transferring risk is illusory in most cases as the Government retains the ultimate risk of failure to deliver certain services.***

Improving contracts

7: PAC conclusion: ***Poor contract specification leads to uncertainty, which can cause cost increases, delay and failures to deliver. Imprecise scoping and poor information at the tendering phase can also lead to an adversarial environment that makes it more difficult to reach resolution. The Government needs to ensure that contracting bodies balance front line understanding of a service, project management skills and commercial and financial considerations when designing contracts. The Cabinet Office has a role in ensuring that this balance is achieved.***

Poor-quality Government data is a perennial concern for the Committee. The Government needs to be clearer about the problem it is outsourcing and clear when its own data is flawed or incomplete.

6-7: PAC recommendation: ***The Committee recommends that Government set out how it will improve the reciprocal due diligence between the Government and its suppliers. Government has a right to assure itself that a company is competent and capable of delivering the contracted service. The company also has a right to expect the Government to specify accurately what service it is contracting.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

6.2 The Cabinet Office is reviewing what financial information it should seek and what processes it should undertake in order to assess suppliers' financial health both at the time of procurement and on an ongoing basis. While such assessments rarely provide complete assurance, as they have to be based on the latest published information, this work will enable the Government to assess the level of risk that should be accepted, the extent to which we rely on historical financial information as an indicator of future financial health, and whether it is appropriate to seek and rely on forecast information.

6.3 Playbook guidance will improve due diligence between the Government and its suppliers by ensuring that contracting authorities and suppliers are more transparent with each other throughout the commercial lifecycle. The playbook will include guidance on how government can make better Make versus Buy decisions, through strengthened approvals processes for outsourcing decisions, opportunities for piloting before contracts are let, and how best to specify Government requirements to potential suppliers. The Government is currently engaging constructively with suppliers to shape the detail of the playbook.

8: PAC conclusion: ***The introduction of a standard contract is welcome and appropriate for the majority of typical procurements. When the Government procurements are more complex, a more flexible and intelligent approach to contracting is required.***

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[11] https://www.gov.uk/government/consultations/insolvency-and-corporate-governance

8a: PAC recommendation: ***Standard contracts, which are beginning to be used by Government, should be used widely. Standard contracts should be designed to make it easier for SMEs to bid and make it clearer where variance occurs.***

8.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

8.2 The Crown Commercial Service has launched a new, standardised contract which is now the default for all new procurements for common goods and services. It has a simple structure comprising a set of unchanging core terms plus a suite of schedules that enable customisation. It is written in plain English and is much shorter than previous contracts, so that suppliers, including SMEs, regularly tendering for work will recognise the format and spend less of their time bidding. For more complex service procurements, the Government has published, and has recently updated, a Model Services Contract which is available for use by all public sector procurers, together with a number of other standard documents, which include a deed of novation; a parent company guarantee; assignment of copyright; ethical walls agreement; non-disclosure agreement (unilateral); and non-disclosure agreement (mutual)[12].

8b: PAC recommendation: ***The Government must ensure that the procurement process for more complicated projects includes a comprehensive sensitivity analysis and scenario planning.***

8.3 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

8.4 Recognised guidance and methods are available, for example through consideration and use of the Treasury Green Book (updated in 2018), to assist in creating objective and evidence-based options[13]. The available Business Case Guidance is in the process of being updated by the Treasury with the Government Commercial Function, to specifically update guidance regarding the "commercial dimension" of the well understood five-case model used in Government. The update and associated guidance for the commercial dimension will be available by the end of FY 2018/19.

8.5 The playbook will build upon and complement the principles established in the Treasury Green and Orange Books, which already require contracting authorities to undertake a full assessment of project risks. Compliance with the playbook will be tested through a strengthened central approval process for complex outsourcing.

8c: PAC recommendation: ***Government should look at the lifetime cost and value of a contract, not just the bottom line at the point the contract is commissioned. Government needs to get better at managing contracts through their life. To do this it needs to facilitate significant uplift in skills.***

8.6 The Government agrees with the Committee's recommendation.

Target implementation date: December 2019.

8.7 The Government's response to upskilling was announced by the Chancellor of the Duchy of Lancaster at his speech to Reform in June 2018.[14] The Cabinet Office is looking to ensure that all 30,000 Contract Managers across central Government receive high quality training enabling them to manage contracts and suppliers more effectively. Subject to funding, the Cabinet Office aims to ensure the top 500 'gold' contracts are managed by accredited contract managers by December 2019.

[12] https://www.gov.uk/government/publications/model-services-contract

[13] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

[14] https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform

8d: PAC recommendation: ***Government should consider using a partnering model, as used in construction to create co-dependent relationships, for major, risky contracts to incentivise suppliers to deliver effectively alongside Government, and to ensure Government has proper oversight and skin in the game on vital public services.***

8.8 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019**.**

8.9 When assessing options for the delivery of public services the Government will examine a variety of potential commercial vehicles, which may include partnering, joint ventures and mutuals, and whether they are the best way to ensure delivery and value for money in the circumstances. Specific examples of successful partnering with the private sector include the West Midlands Police transformation partnership with Accenture and a joint venture between Capita and Defra to operate the Food and Environment Research Agency (Fera). In both sets of circumstances, a partnering approach allows for more appropriate joint risk allocation, shared oversight of delivery, and greater innovation.

8.10 The Cabinet Office aims to ensure that risk is placed with the party best able to manage it. This means requiring prime contractors not to flow risk inappropriately to subcontractors, and not to assert that they can manage risk that is in fact better managed by Government. All parties should also be prepared to share intelligence of supply chain risks, so that material commercial and operational risks, for example the impact of losing a key supplier, can be mitigated.

8.11 The questions set out in the playbook will enable contracting authorities more effectively to assess the suitability of using a partnering model to deliver services.

9: PAC conclusion: ***In certain sectors, technical, social or legislative change may lead to contracts containing perverse incentives or illogical performance measures. The speed of technological change means that IT contracts are susceptible to changes in the external environment.***

13: PAC conclusion: The Government needs to develop more robust challenge and scrutiny of contracts before they are let. The Committee recognises there is progress here, but there are still too many contracts which do not collapse but still deliver poor services to the user. The Cabinet Office lacks sufficient leverage with other Departments. Departments continue to act in separate silos, failing to share information or adopt the appropriate multidisciplinary teams that combine frontline knowledge, commercial skills and project management.

9: PAC recommendation: ***Departments should provide the Cabinet Office with a request to enable extensions for contracts. That request should set out the reasons for requiring the extension, the analysis of the benefits of extending rather than rebidding, and an analysis of the performance over the course of the contract and record of performance across all of the company's public-sector contracts.***

13: PAC recommendation: ***Cabinet Office should ensure Departments adhere to Cabinet Office guidance and are required to respond to Cabinet Office challenge for large procurements. Where Departments want to deviate from Cabinet Office guidance, they should write to Cabinet Office ahead of opening a tender, setting out their justifications for that deviation.***

9.1 The Government agrees with the Committee's recommendations.

Recommendations implemented.

9.2 The Cabinet Office maintains and administers spending controls regarding commercial transactions. This includes any new contract, contract change / variation and contract extensions that have a transaction value of £10 million or more (excluding VAT).

9.3 The Cabinet Office Commercial Control applies at a minimum of 2 points in the commercial and business case lifecycle: Outline Business Case (OBC) - when an organisation has formed a view on the approach to market (or current supplier for a change / variation or extension) but has not yet formally engaged in tendering activity or, for a contract extension or contract change, in negotiation with the supplier; and Full Business Case (FBC) - when an organisation has concluded the market activity (agreed the contractual change or secured agreement on extension conditions following negotiation/engagement), evaluation and identified a preferred bidder but has not yet announced (or formalised) this to the bidders/supplier.

Price, quality and value

10: PAC conclusion: ***The current procurement environment encourages Government and suppliers to place too much emphasis on price at the expense of quality. Tendering exercises must have an appropriate quality threshold and contracting bodies need to have sufficient understanding of the market to identify bids that are too low to enable the supplier to sustainably deliver to the required standard.***

The Committee's evidence suggests that some companies have bid at a price that provides little or no margin with the expectation that subsequent variations will enable them to make a reasonable return.

The Committee has real concerns about a race to the bottom in pricing. A number of suppliers are now going through corporate cleansing and refusing to bid for contracts where the profit margins are low. Such cleansing has not stopped them doing this in the past. Too often suppliers will also pass cost-cutting down the supplier chain without due regard for long-term implications. Government has to be an intelligent customer and be clearer about the impact of pricing models on the long-term delivery of a project. A saving today can simply shunt costs into the future.

11: PAC conclusion: ***Cabinet Office is obliged to consider wider social benefits of procurements under Section 3 of the Public Services (Social Value) Act. The underuse of the Act could be taken as further evidence that cost overrides any other consideration Government makes in awarding contracts. The enthusiasm of suppliers to see the Act better used gives Government an open goal to achieve more social value.***

10-11: PAC recommendation: ***The Committee recommends that there be an expectation of including a social value evaluation in Government procurements and that contracting bodies provide the Cabinet Office with an explanation if they wish to remove the provisions. Government should, as part of every procurement tender, require plans to add social value and ensure social value is a weighted criterion for contract awards. Government should enshrine winning bidders' social value commitments into contracts and agree appropriate KPIs for monitoring delivery. The Committee recommends the Government include terms in their standard contracts that provide assurance that the company has appropriate corporate governance and corporate social responsibility policies in place.***

10.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2019.

10.2 The Government announced a package of measures on social value on 25 June 2018 including extending the requirements of the Public Services (Social Value) Act 2012 in central Government to ensure all major procurements explicitly evaluate social value where appropriate[15]. All Departments will be required to report on the social impact of major new procurements and the Cabinet Office will train all 4,000 of the Government's commercial buyers in how to evaluate social value and procure successfully from social enterprises. In addition, the Government will develop proposals for its major suppliers to provide action plans on how they are addressing key corporate social responsibility policies such as ethnic minority representation in their workforce, the gender pay gap throughout the company and what they are doing to tackle modern slavery.

[15] http://www.legislation.gov.uk/ukpga/2012/3/enacted

Skills and oversight

> **12a: PAC recommendation:** ***Government needs to step up its skill development within Departments so that contracts are specified better from the outset.***

12.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2019**.**

12.2 The Government's response to upskilling was announced by the Chancellor of the Duchy of Lancaster at his speech to Reform in June 2018. The Cabinet Office is looking to ensure that all 30,000 Contract Managers across central Government receive high quality training enabling them to manage contracts and suppliers more effectively.

> **12b: PAC recommendation:** ***The Committee concurs with the Public Administration and Constitutional Affairs Committee recommendation that the Cabinet Office establish a contracting centre of excellence that can collect best practice and learning and disseminate it across the wider public sector including the NHS and local government.***

12.3 The Government agrees with the Committee's recommendation

Recommendations implemented.

12.4 Cabinet Office is already building commercial excellence across government. The dissemination of best practice and learnings is already fundamental to the improvement of the Government Commercial Function. The Commercial Operating Standards and related Masterclasses provide opportunities for those departments who are demonstrating best practice to share the methods behind their success with their peers.[16] Contracting and Contract Management are two of the Commercial Operating Standards with their respective masterclasses receiving the highest attendance. Attendance at these masterclasses is not limited to Departmental representatives; various organisations including ALBs, councils and other Government bodies also participate. This is an area for further expansion as we aim to broaden the participation of the Operating Standards into the wider public sector, NHS and local Government. Our target is to add ten more organisations to the benchmark by Spring 2019.

12.5 The Commercial Continuous Improvement Team engages with all Departments and associated Arms-Length Bodies to assess performance using the Functional Operating Standards on an annual basis, leveraging the expertise of those departments demonstrating best practice to share their learnings and ways of working for the benefit of the wider community to drive Continuous Improvement collaboratively.

Crown representatives and risk assessments

> **14: PAC conclusion:** ***The Government's RAG rating system is not working, either as a carrot, or as a stick. The RAG rating system is a management tool that provides civil servants with a shorthand assessment of a supplier's performance. A decline in a company's RAG status appears to have no material impact, other than to trigger closer scrutiny from the Cabinet Office as set out in the Strategic Supplier Risk Management Policy.***
>
> ***The Committee does not accept Cabinet Office's rationale for failing to give Carillion a High-Risk rating. Given the caution with which Government treats risk assessments the Committee believe it is highly improbable that a High-Risk rating would become public. The Cabinet Office's decision not to do this undermines its own Strategic Supplier Risk Management***

> **14: PAC recommendation:** ***The Committee recommends that the Cabinet Office review the Strategic Supplier Management Policy and its application. If RAG ratings are to be of use they need to be applied consistently and based on objective assessment. The Cabinet Office should consider whether it is appropriate that a supplier can appeal against a rating.***

[16] https://www.gov.uk/government/publications/commercial-operating-standards-for-government

14.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2019**.**

14.2 The process works as regards notifying colleagues of potential risks with vendors, but we accept that if RAG ratings are to be of use they need to be applied consistently and based on objective assessment. Cabinet Office are in the process of reviewing the policy, and the review will be complete by the end of 2018.

15: PAC conclusion: ***The Committee considers that the Cabinet Office overstated the potential impact of publishing the past risk assessments relating to the Government's remaining Strategic Suppliers. However, the Committee accepts that some material risk of damage exists and particularly to smaller supply chain businesses and their employees, and have therefore decided not to publish the documents in full at this time.***

15: PAC recommendation: ***The Crown Representative system is at risk of under-resource and high staff turnover. The Cabinet Office should consider how to make the role sufficiently attractive to attract and keep individuals of an appropriate calibre.***

15.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

15.2 The Government agrees that it should continue to make the role attractive and keep individuals of an appropriate calibre.

15.3 In its present form the Crown Representative programme is adequately funded for the 19 Crown Representatives currently in post, but the Government agrees that to expand the programme any further would require further resource. Crown Representatives are a key strategic role for Government. The role is the subject of regular review, and since the start of the programme in 2012 the Government has consistently attracted high calibre individuals to fulfil Crown Representative roles.

15.4 The Government has also recruited individuals with specific areas of expertise such as Small and Medium-sized Enterprises (SMEs), Voluntary, Community and Social Enterprise (VCSE) and the Banking and Energy sectors.

15.5 Crown Representatives are part time, experienced executives who are contracted with Cabinet Office to provide their advice and a conduit between Government and board level executives in the strategic suppliers. Crown Representatives are complemented by full time civil servants. The Strategic Partnership Managers focus on specific strategic suppliers and work across government together with the Crown Representatives to ensure that there is a coordinated approach towards each strategic supplier.

16: PAC conclusion: ***The circle of civil servants working closely with Strategic Suppliers is small. It is important that in the cut and thrust of commercial discussions, undertaken on behalf of taxpayers, Crown Representatives do not get too close to suppliers. Without effective oversight of these relationships there is a risk that Strategic Suppliers become secretive 'sub departments' of Whitehall.***

16: PAC recommendation: ***The Government should consider appointing an independent commissioner to provide independent assurance that suppliers are being held to the same standards across Government.***

16.1 The Government disagrees with the Committee's recommendation.

16.2 Cabinet Office does not accept that there are any systemic reasons why Crown Representatives would become unduly close to suppliers. The Crown Representatives must declare their interests every 6 months and take the same steps to avoid a conflict of interest, using the same processes, as all other civil servants.

16.3 While having large single suppliers servicing multiple clients across Government produces economies of scale which are beneficial to the Government, Cabinet Office has a range of measures in place to encourage a diverse supply base and to avoid any preferential treatment of certain suppliers. In procurements, Government already, for instance, uses market-tested standard form contracts for public service contracts, which give bidders and their stakeholders confidence in the risk profile associated with contracts; maintains openness and transparency in procurements to give all bidders confidence that they have a realistic chance of successfully tendering; or phases information asks of bidders through tender stages to reduce the bid costs and burden on bidders looking to take part. These measures are designed to ensure that the tendering process is as accessible and fair as possible to all prospective suppliers to government, regardless of size.

16.4 The Mystery Shopper service allows current and potential Government suppliers to raise concerns of poor practice and unfair treatment in government supply chains anonymously. Since its launch in February 2011, the Mystery Shopper service has received over 1350 cases, and, of the total cases closed during 2017-18, 99% resulted in positive change. Statutory powers introduced in March 2015 now require contracting authorities to co-operate with the service.

16.5 Trade associations, most notably the Business Services Association and Confederation of British Industry, also already highlight concerns around unfair treatment to government officials.

16.6 In April and June 2018 Cabinet Office announced a range of new measures which will improve government's ability to strengthen, diversify, challenge and protect the market, to clarify the role of industry in public outsourcing, to help SMEs bid successfully for public contracts, and to hold suppliers to the same standards across government.[17]

16.7 These current and forthcoming measures, along with the work which the National Audit Office already undertakes in scrutinising public spending, would mean that adding another independent review body could unnecessarily duplicate work.

17: PAC conclusion: ***The Joint Report from the Business, Enterprise and Industrial Strategy and Work and Pensions Select Committees sets out the key facts about Carillion's business approach, corporate governance and financial performance and reporting. The Committees' conclusions and recommendations are a damning litany of incompetence and self-delusion at the top of the company. Several aspects of the company's, and its advisers', activities continue to be investigated by outside regulators, including The Pensions Regulator and the Financial Reporting Council.***

The net loss to Government of carrying out the liquidation is currently estimated at £148 million, but the final sum is uncertain. The wider costs to former Carillion workers, pensioners, investors, the supply chain, and other creditors remain unclear. Carillion's shareholders and lenders bore the brunt of much of financial penalty for the company's failure. Many of Carillion's subcontractors and suppliers took a very large penalty as Carillion had accrued significant credit through late payments which, even if the contract had been taken over, were unlikely to be paid.

The Committee welcomes the Government's intention to introduce a requirement for suppliers to produce 'Living Will' contingency documents.

17a: PAC recommendation: ***In response to this report, the Committee expects the Government to provide more detail about how the policy will be implemented; what the documents would contain; and how their contents would be scrutinised, assured and kept up to date.***

17.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

[17] https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform; https://www.gov.uk/government/news/new-changes-to-encourage-small-businesses-to-apply-for-government-contracts

17.2 The Government continues to work with suppliers to create the policy. The policy will need to be proportionate and contain the relevant details, which will allow the Government to enact contingency plans at pace and protect continuity of services in the event of insolvency of the supplier.

17.3 The proposals will require suppliers to put plans in place for what happens if they become insolvent. The suppliers who will need to develop living wills will be those delivering critical public services, or those whose corporate failure would seriously affect government's ability to deliver key public services. While the living wills will relate to suppliers and not individual contracts, it is the criticality of contracts which will determine what data suppliers need to include in the will. The contracting authority would hold corresponding contingency plans to guard against the supplier becoming insolvent.

17.4 The Cabinet Office will review the living wills annually to make sure they are assured and kept up to date.

17b: PAC recommendation: ***More complex contracts are more likely to go wrong. The Committee would expect the Cabinet Office to consider the burden of creating and maintaining the living wills and balancing that burden with the complexity of the project and the risk and impact of contract failure.***

17.5 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2019.

17.6 The Cabinet Office recognises that the creation and maintenance of Living Wills could be burdensome and should be balanced against the benefit. The Cabinet Office would not necessarily expect to require Living Wills because of the complexity of a contract. However, the Cabinet Office would expect the criticality of the public services provided and the impact of corporate failure (i.e. supplier insolvency) on the continuity of such services to inform which suppliers should create and maintain Living Wills. The Cabinet Office would then expect the depth of those Living Wills to reflect the ongoing risk of corporate failure of that supplier.

Treasury Minutes Archive[18]

Treasury Minutes are the Government's response to reports from the Committee of Public Accounts. Treasury Minutes are Command Papers laid in Parliament.

Session 2017-19

Committee Recommendations: 362
Recommendations agreed: 330 (91%)
Recommendations disagreed: 32 (9%)

Publication Date	PAC Reports	Ref Number
December 2017	Government response to PAC report 1	Cm 9549
January 2018	Government responses to PAC reports 2 and 3	Cm 9565
March 2018	Government responses to PAC reports 4-11	Cm 9575
March 2018	Government responses to PAC reports 12-19	Cm 9596
May 2018	Government responses to PAC reports 20-30	Cm 9618
June 2018	Government responses to PAC reports 31-37	Cm 9643
July 2018	Government responses to PAC reports 38-42	Cm 9667
October 2018	Government responses to PAC reports 43-58	Cm 9702

Session 2016-17

Committee Recommendations: 393
Recommendations agreed: 356 (91%)
Recommendations disagreed: 37 (9%)

Publication Date	PAC Reports	Ref Number
November 2016	Government responses to PAC reports 1-13	Cm 9351
December 2016	Government responses to PAC reports 14-21	Cm 9389
February 2017	Government responses to PAC reports 22-25 and 28	Cm 9413
March 2017	Government responses to PAC reports 26-27 and 29-34[19]	Cm 9429
March 2017	Government responses to PAC reports 35-41	Cm 9433
October 2017	Government responses to PAC reports 42-44 and 46-64	Cm 9505

Session 2015-16

Committee Recommendations: 262
Recommendations agreed: 225 (86%)
Recommendations disagreed: 37 (14%)

Publication Date	PAC Reports	Ref Number
December 2015	Government responses to PAC reports 1 to 3	Cm 9170
January 2016	Government responses to PAC reports 4 to 8	Cm 9190
March 2016	Government responses to PAC reports 9 to 14	Cm 9220
March 2016	Government responses to PAC reports 15-20	Cm 9237
April 2016	Government responses to PAC reports 21-26	Cm 9260
May 2016	Government responses to PAC reports 27-33	Cm 9270
July 2016	Government responses to PAC reports 34-36; 38; and 40-42	Cm 9323
November 2016	Government responses to PAC reports 37 and 39 (part 1)	Cm 9351
December 2016	Government response to PAC report 39 (part 2)	Cm 9389

[18] List of Treasury Minutes responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52
[19] Report 32 contains 6 conclusions only.

Treasury Minutes Progress Reports Archive

Treasury Minutes Progress Reports are the Government's response on the implementation of recommendations from the Committee of Public Accounts. Treasury Minutes Progress Reports are Command Papers laid in Parliament.

Publication Date	PAC Reports	Ref Number
January 2012	Session 2010-12: updates on 13 PAC reports	Cm 8271
July 2012	Session 2010-12: updates on 28 PAC reports	Cm 8387
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2014-15: updates on 27 PAC reports	Cm 9202
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 15 PAC reports Session 2014-15: updates on 22 PAC reports Session 2015-16: updates on 6 PAC reports	Cm 9320
January 2017	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 7 PAC reports Session 2015-16: updates on 18 PAC reports	Cm 9407
October 2017	Session 2010-12: updates on 3 PAC reports Session 2013-14: updates on 7 PAC reports Session 2014-15: updates on 12 PAC reports Session 2015-16: updates on 26 PAC reports Session 2016-17: updates on 39 PAC reports	Cm 9506
January 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 4 PAC reports Session 2015-16: updates on 14 PAC reports Session 2016-17: updates on 52 PAC reports	Cm 9566
July 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 4 PAC reports Session 2014-15: updates on 2 PAC reports Session 2015-16: updates on 9 PAC reports Session 2016-17: updates on 38 PAC reports Session 2017-19: updates on 17 PAC reports[20]	Cm 9668

[20] Contains updates on Treasury Minutes - Session 2017-19 - up to March 2018.

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