HM Treasury

Treasury Minutes

Government Response to the Committee of Public Accounts on the Second, and the Fourth to the Eighth reports from Session 2022-23

CP 708

August 2022

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Government Response to the Committee of Public Accounts on the Second, and the Fourth to the Eighth reports from Session 2022-23

Presented to Parliament
by the Exchequer Secretary to the Treasury
by Command of Her Majesty

August 2022

CP 708

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Government Response to the Committee of Public Accounts Session 2022-23

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Second Report of Session 2022-23

HM Revenue and Customs

Lessons from implementing IR35 reforms

Introduction from the Committee

The government originally introduced the IR35 off-payroll working rules in April 2000, with the objective to prevent tax avoidance by 'disguised employees'. These are people who do the same job in the same manner as an employee but avoid income tax and National Insurance contributions (NICs) by providing services through an intermediary such as a personal service company (PSC). The legislation therefore introduced a requirement for workers engaged through intermediaries to assess their employment status for tax purposes. If they are deemed to be a 'disguised employee' they will be subject to income tax and NICs at source in the same way as regular employees.

However, HMRC found that adherence to these rules was low, despite government efforts to improve compliance between 2007 and 2015. In 2016, HMRC estimated that only 10% of PSCs were applying the IR35 rules correctly, costing the exchequer £440 million in the 2016–17 financial year. To improve compliance, the government introduced reforms that shifted responsibility for making status determinations from the worker to the hiring body, which also became liable for any unpaid tax where it had failed to comply. These reforms initially applied to the public sector from April 2017 (affecting around 50,000 PSCs) and were extended to include the private and third sectors in April 2021 (affecting an estimated 180,000 further PSCs).

Based on a report by the National Audit Office, the Committee took evidence on 30 March 2022 from HM Revenue & Customs. The Committee published its report on 25 May 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Investigation into the implementation of IR35 tax reforms - Session 2021-22 (HC 1103)
- PAC report: Lessons from implementing IR35 reforms – Session 2022-23 (HC 60)

Government response to the Committee

1: PAC conclusion: High levels of non-compliance in central government reflect poor implementation by HMRC and other government bodies.

1: PAC recommendation: HMRC should develop robust estimates of non-compliance for the public sector as a whole and use this to identify areas where it can reduce the inherent challenge of complying with the reforms, for example by improving its guidance and tools. It should adopt a similar approach for the private sector as the reforms bed in and write to us with an update in six months' time.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

1.2 Although the government agrees with the Committee's recommendation, it disagrees with the Committee's conclusion.

1.3 HMRC (the department) undertook an extensive programme of customer education and support during the implementation of the reforms, and already provides additional support to address inherent challenges faced by customers where these are identified. For example, in response to customer insight gathered from a range of sources, HMRC has increased communications on contracted out services and international supply chains, including delivering webinars on both, and produced flow charts for those who operate with supply chains that are not wholly within the UK.

1.4 HMRC agrees there is value in building on this foundation and is committed to continuing to support customers with compliance. However, it does not agree that developing an overall estimate of non-compliance is the best way to achieve this outcome.

1.5 Instead, HMRC will expand its work to obtain customer insight, for example by collating outcomes from its existing compliance work to identify common issues, and by building on existing engagement with representative bodies and via the department's network of customer compliance managers. It will consider what additional customer support is required depending on the outcome of this work. This may include, for example, updates to guidance or targeted communications.

2: PAC conclusion: We are concerned that it is too difficult for workers to challenge incorrect status determinations.

2: PAC recommendation: HMRC should ensure there is a fast and independent process for contractors to resolve disputes over status determinations. As part of this, it should assess the extent to which workers are using existing appeals routes, and how well they are working.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

2.2 The best result for workers, engagers and the Exchequer is where employment status is treated correctly from the start. The government remains confident that the reforms to the off-payroll working rules were the best way to achieve this.

2.3 There are established appeal routes for customers who disagree with tax assessments. The legislation creates an additional right for workers to challenge their employment status for tax determination with their client, who is required to respond within 45 days.

2.4 If a worker still disputes the determination, they can file their Self-Assessment return reflecting their own assessment. HMRC has 12 months from the date the return is received to open an enquiry, during which it may consider whether the employment status is correct. These enquiries can vary in length depending on their nature and complexity. HMRC will ensure this process is clearly set out in its guidance. Where HMRC disagrees with a customer's Self-Assessment, all customers have the right to have the decision reviewed, and to appeal to an independent tribunal.

2.5 HMRC's compliance activity already assesses the effectiveness of clients' disagreement processes, and the outcome of any disagreements. HMRC will also monitor the number of customers who dispute their status through their Self-Assessment return and carry out checks to ensure the process is being used appropriately.

2.6 HMRC's external research into the short-term impacts of the 2021 reform will provide details about the number of disputes clients are having with workers regarding their status determinations. This will be published, once completed.

3: PAC conclusion: HMRC is not doing enough to understand the impact of the reforms on workers and labour markets.

3: PAC recommendation: HMRC should conduct and publish specific research into the impacts of the IR35 reforms on contractors and labour markets, to check it is being applied as intended and not adversely affecting employment opportunities.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

3.2 Although the government agrees with the Committee's recommendation, it disagrees with the Committee's conclusion.

3.3 The government has already published research on the short and long-term impacts of the public sector reform and is committed to publishing research on the impacts of the reform in the private and voluntary sectors later this year.

3.4 A central part of the government's research into the impacts of the off-payroll reforms is with client organisations, as they have the best understanding of the overall picture of how they are engaging off-payroll workers. This research gathers data on changes to the way off-payroll workers are engaged, and changes to their rates of pay and to the ease of recruitment.

3.5 The government is also already supplementing this with research with other parts of the supply chain: research with agencies was published in March 2021, and research with off-payroll workers will be published once complete. The research with off-payroll workers will primarily focus on tax information and advice but also gathers insight into the impacts of the off-payroll reforms.

3.6 In addition to research, HMRC is conducting internal analysis to identify off-payroll workers who may have been affected by the reforms, and what changes may have occurred in the labour market following the reforms. This will be published once complete.

4: PAC conclusion: We are not confident that HMRC works proactively to establish whether any sectors have been affected disproportionately by the reforms and why.

4: PAC recommendation: HMRC should proactively identify and work with sectors that have been particularly affected to understand the challenges, establish how to address them and make it easier to comply. HMRC should write to us with an update in six months with the outcome of this public engagement.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

4.2 HMRC undertook an extensive programme of customer education and support during the implementation of the reforms and continues to engage with stakeholders, including through the Employment Status and Intermediaries Forum.

4.3 HMRC has also already provided additional support to address inherent challenges faced by specific sectors where these have been identified. For example, it has produced sector-specific factsheets for the transport and construction sectors and has published guidance on umbrella companies in response to customer insight gathered from a range of sources. HMRC agrees there is value in building on this foundation and is committed to continuing to support customers with compliance – including at sector-specific level.

4.4 In addition, HMRC will develop and implement a stakeholder engagement strategy. This will set out how it will proactively engage with its stakeholders, to develop its understanding of the specific challenges faced by particular sectors. This will build on existing customer insight to inform targeted education and communications with the aim of further supporting customer compliance.

5: PAC conclusion: HMRC has not made a robust assessment of the additional costs of implementing the reforms.

5: PAC recommendation: In light of actual experience, HMRC should produce and present to Parliament a cost-benefit analysis of the reforms that reflects the actual costs of compliance to HMRC itself, hiring organisations, workers, and others in the supply chain.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

5.2 HMRC follows a well-established methodology for estimating administrative burdens, which looks at what organisations are required to spend in order to comply with their tax obligations. HMRC has already revised its initial estimates for the administrative cost of the private sector reform, with the Administrative Burdens Advisory Board (ABAB) commenting that the approach was "sound and reasonable".

5.3 HMRC is also interested in the amount that organisations have spent to comply with the reform in light of actual experience. HMRC is already exploring this through external research with client organisations, which includes insights into the administrative burden of the reforms. The government has already published research into the short and long-term impacts of the reform on public sector client organisations and research with the private and voluntary sectors is currently being conducted.

5.4 HMRC will consider the findings from this research and will share with the Committee and publish analysis setting out the estimated actual amount spent to comply with the reform by client organisations, alongside estimated additional receipts generated from the reform. Based on the data currently available, HMRC does not believe it will be possible to publish a full cost-benefit analysis taking account of all parties in the supply chain.

6: PAC conclusion: Despite years of reforming the IR35 rules, there are still structural problems with how they work in practice.

6: PAC recommendation: HMRC should review how the system is working and whether it can be made more efficient and effective. In particular, it should develop solutions to address problems with how the IR35 rules work in practice, including ensuring that:

- ***HMRC has the data it needs to accurately reflect each worker's tax position in cases of non-compliance; and***
- ***HMRC does not end up taxing the same income twice, or unwittingly contributing to workers not paying their fair share in tax.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: to be confirmed

6.2 HMRC has already implemented a process to reduce the circumstances where it collects tax twice in respect of the same engagement in cases of non-compliance. Where

HMRC has sufficient information to identify them, it will notify the worker and their intermediary if they are entitled to claim a repayment of taxes overpaid in relation to the specific off-payroll working engagement.

6.3 Relevant information is needed from the client organisation to enable HMRC to operate the process, as they are the party who engages the worker. HMRC is seeking the required information from client organisations at the outset of a compliance enquiry to increase the chances of obtaining the relevant data. HMRC will continue to review this process to ensure it works as effectively as possible.

6.4 The legislation does not provide for a set-off for the client or deemed employer of any income tax, NICs or corporation tax paid by the personal service company or worker. However, HMRC has already set up a working group with external stakeholders to consider whether a legislative solution can be found to allow HMRC to take account of taxes that have already been paid by workers and intermediaries, ensuring that HMRC does not tax the same income twice and that workers pay a share of the tax liability. HMRC will continue with this work.

6.5. HMRC will notify the Committee of a target implementation date for meeting this recommendation as soon as this work has concluded.

Fourth Report of Session 2022-23

HM Treasury and Cabinet Office

Use of evaluation and modelling in government

Introduction from the Committee

Evidence-based decision-making is vital for government to secure value for money. Analysis and evaluation are key sources of evidence and should be at the heart of how government runs its business. Government relies on financial models for its day-to-day activities to help test policy options, estimate costs and improve the value for money of government spending. Outputs from models underpin decisions that often have very real impacts on people's lives. Good quality evaluations can help government understand what works, how and why, and support accountability. Departments are expected to undertake comprehensive, robust and proportionate evaluations.

Across government, HM Treasury, the Analysis Function, the Finance Function, the Evaluation Task Force, Cabinet Office and departmental accounting officers all have a role to play in improving evaluation and modelling. Guidance, expectations and standards are set out in documents such as Managing Public Money, the Magenta Book and Aqua Book, and the Analysis Functional Standard.

Based on two reports by the National Audit Office, the Committee took evidence on 9 March 2022 from the Cabinet Office and HM Treasury. The Committee published its report on 27 May 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Evaluating government spending – Session 2021-22 (HC 860)
- NAO report: Financial modelling in government – Session 2021-22 (HC 1015)
- PAC report: Use of evaluation and modelling in government – Session 2022-23 (HC 254)

Government response to the Committee

1: PAC conclusion: Much of government activity is not evaluated robustly or at all, and government does not know what works to improve outcomes in those areas.

1: PAC recommendation: HM Treasury and Cabinet Office should set out their objectives for improving the evaluation system and how they will measure these. The Cabinet Office should publish progress annually against these objectives, including quantifying improvements in the scale and quality of evaluations across government.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: August 2022

1.2 The Evaluation Task Force (ETF) was established in 2021 as a joint HM Treasury and Cabinet Office unit following a commitment made in the June 2021 Declaration on Government Reform. The ETF's aim is to ensure that robust evidence on the effectiveness of policies and programmes sits at the heart of government spending decisions through targeted action on policy areas of highest priority and scaling up evaluation skills and understanding throughout HMG. The ETF's objectives and activities which seek to improve the evaluation system in government are summarised in its Theory of Change, which has been published on its website and will be updated regularly as its work evolves. The ETF will also publish its strategy which will explain how it is working to improve the evaluation system in greater detail. It will also set out the indicators it will be using to measure progress on this. This will help the ETF to track its progress on improving the scale and quality of evaluations across government. These indicators will be published in August 2022 and updated annually.

2: PAC conclusion: HM Treasury is not making full use of the spending levers it has at its disposal to deliver a step change in the use of evaluation across government.

2: PAC recommendation: By November 2022, HM Treasury should set up a formal process for routinely tracking and following up on spending review settlement conditions relating to evaluation. HM Treasury should set out the range of interventions it will use if departments fail to meet the conditions.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: November 2022

2.2 The Evaluation Task Force is working with HM Treasury to ensure that departments respond to and deliver on their settlement conditions relating to evaluation. The ETF has developed a central tracking system that captures updates on departments' delivery of evaluation settlement conditions and is using this to monitor progress against conditions. Updates on these conditions will be summarised and included in the ETF's monthly updates to the Chief Secretary of the Treasury and Minister for Brexit Opportunities and Government Efficiency. Were departments to not meet their conditions of settlement, the Treasury can use a variety of levers; approval for future funding can be withheld, delegated limits can be reduced, funding for specific programmes (particularly where related to specific conditions) can be withheld and the National Audit Office may qualify departmental accounts where conditions of settlement have not been met.

3: PAC conclusion: No single body is responsible for upholding modelling and evaluation standards and monitoring their implementation.

3: PAC recommendation: The Analysis Function, under the responsibility of the UK Statistics Authority, should:

- ***put in place an appropriate assessment framework to monitor departments' implementation of the Analysis Functional Standard;***
- ***act on areas for improvement identified through its assessment framework; and***
- ***agree with HM Treasury the funding it will provide for these roles.***

HM Treasury should set out how it plans to gain confidence that the outputs it uses from departments' business critical models have been quality assured appropriately.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2023

3.2 The Government Analysis Function is currently in the process of piloting the assessment framework which will allow departments to monitor their implementation of the Analysis Functional Standard. Piloting will ensure the framework will help departments to understand what is working well and where changes are needed. The aim is to finalise the framework over the Summer 2022, so that departments will have sufficient time to conduct the assessment during the remainder of the financial year.

3.3 Departments will be asked to identify what changes they are planning to make based on the feedback from the assessment framework by the end of 2022-23, so that the Government Analysis Function can monitor the impact that the Framework is having and understand where further action may be required.

3.4 Working with HM Treasury, and reflecting on the recommendations from the Committee, the ONS is considering the future scope of the Analysis Function and the work it undertakes to support wider government analytical capability.

3.5 HM Treasury will also build on its current training offer and ensure that staff who use outputs from other departments are able to confidently assure that these outputs have been quality assured with modelling standards consistent with the Aqua Book and Analysis Functional Standard.

4: PAC conclusion: Good quality modelling and evaluation is hampered by challenges in sharing data and a lack of common data standards.

4: PAC recommendation: The Cabinet Office should set out its progress in using its national data strategy to address the barriers to better sharing and use of data, including its development of cross-government standards for collecting, storing, recording and managing data.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2025

4.2 The strategy will be completely delivered by April 2025; however, an interim progress report will be produced by December 2023.

4.3 The Central Digital and Data Office (CDDO) in Cabinet Office is responsible for delivery of Mission 3 of the National Data Strategy, and has led the creation of the Government's 2022 to 2025 roadmap for digital and data. In this roadmap the government has outlined how all departments will work towards better use of data through a set of agreed commitments.

4.4 To provide strategic direction and oversee delivery on better use of data, CDDO convenes the Chief Data Officers' Council, attended by data leaders from around 40 government departments, arm's length bodies and the devolved administrations.

4.5 Governance and processes to enable the data standardisation agenda have been established. The Data Standards Authority, convened by CDDO, continues to endorse new data standards to drive convergence across government and work towards interoperability. Recent standards include the Beneficial Ownership standard (March 2022), and the Open Referral UK standard (March 2022).

4.6 To support data sharing across government, CDDO has published the Data Sharing Governance Framework, a set of principles and actions to reduce or remove common non-technical frictions and barriers to data sharing across government. CDDO is also establishing the Data Sharing Playbook, a virtual team to provide impartial support where data sharing and access discussions between departments are blocked with support from other government departments and the Office for National Statistics (ONS). During its discovery phase, the Playbook team has supported 21 cases and identified common blockers to data sharing across government departments.

5: PAC conclusion: Departments are not meeting government requirements on publishing evaluation plans and findings, and on transparency of models and their outputs.

5a: PAC recommendation: HM Treasury should work with the Cabinet Office to publish a tracker with details of evaluations including their planned publication date, and explanations from departments where publication is delayed or withheld.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

5.2 The government agrees with the Committee's recommendation to publish and maintain an evaluation registry. As there is currently no centralised place where government departments can publish evaluation evidence, the Evaluation Task Force is developing an online registry of UK government evaluations that will be publicly accessible. It will allow departments to publish evaluation plans/protocols and reports, in line with expectations outlined in the Government Social Research Publication Protocol and Concordat to Support Research Integrity. It will also allow departments to indicate estimated publication dates of evaluation reports.

5.3 The evaluation registry's functionality will enable users in departments to add or update evaluation information, and the government expects that departments will use this functionality to provide explanations where publications are delayed significantly or withheld.

5b: The Analysis Function should update its Functional Standard to include clear principles for departments to follow on the publication of models, their outputs, and registers of business-critical models.

5.4 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

5.5 The Analysis Function is currently reviewing its Functional Standard which incorporates a variety of different quality dimensions with respect to analysis. Included within this standard are the various codes of practice and guidance books which support analytical best practice, of which the Aqua Book, which covers guidance on producing quality analysis for government, is one. As part of this standards piece – and in light of the Committee's recommendation – there is a work programme over summer 2022 to review procedures around the quality assurance of models and to incorporate improved practices across departments by the end of the year.

6: PAC conclusion: Model producers and users do not adequately assess the range of plausible outcomes and are overly reliant on central estimates that do not reflect inherent uncertainty.

6: PAC recommendation: As a key user of outputs from models, HM Treasury should routinely require departments to present the range of plausible outcomes. In its self-assessment tool, the Finance Function, under the responsibility of HM Treasury, should include consideration of how analysis and modelling are applied, including expectations on how accountants should analyse, manage and communicate uncertainty.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2023

6.2 The Finance Function will work with the Analysis Function to identify appropriate analysis and modelling considerations relating to uncertainty and incorporate these into the Finance Standard, which (where appropriate) will be incorporated into the Finance Function's self-assessment tool. Organisations use the tool to assess compliance with the mandatory statements in the Finance Standard.

Fifth Report of Session 2022-23

Department for Levelling Up, Housing and Communities

Local Economic Growth

Introduction from the Committee

In the decade to 2020, government committed £18 billion in domestic funding to local economic growth policies in England. Since 2014, a further £10.3 billion or so has been directed to the UK through EU structural funding. Despite efforts by successive governments to tackle longstanding spatial disparities, the UK remains less productive than its main competitors, shows regional disparities that are among the largest in the OECD and inequality within the UK's regions is even greater than it is between them. The COVID-19 pandemic has hit some of the country's most deprived areas hardest. Government has pledged to level up the country and published its Levelling Up White Paper in February 2022.

The Department for Levelling Up, Housing & Communities (DLUHC), has a coordinating role for Levelling Up and leads on the design and delivery of central government's place-based local growth interventions. At the November 2020 Spending Review, government announced or furthered a series of interventions to support the regeneration of towns and communities across the country. These included the £3.2 billion Towns Fund in England and three UK-wide schemes: the £4.8 billion Levelling Up Fund, the one-year £220 million Community Renewal Fund to replace European Funding in advance of the UK Shared Prosperity Fund, and the creation of Freeports. As at November 2021, and including the £2.6 billion for the UK Shared Prosperity Fund announced at the 2021 Spending review, central government had committed £11 billion through these schemes over the period 2020–21 to 2025–26.

Based on a report by the National Audit Office, the Committee took evidence on 2 March 2022 from the Department for Levelling Up, Housing and Communities, HM Treasury, the Department for Transport and the Department for Business, Energy and Industrial Strategy. The Committee published its report on 8 June 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Supporting local economic growth – Session 2021-22 (HC 957)
- PAC report: Local economic growth – Session 2021-22 (HC 252)

Government response to the Committee

1: PAC conclusion: It is unsatisfactory that Ministers finalised principles for awarding the first round of the Levelling Up Fund only once they knew the identities and scores of shortlisted bidders.

1a: PAC recommendation: The Department should:

- ***Determine principles for awarding funding before the identities of shortlisted bidders are disclosed to ministers.***

1.1 The government disagrees with the Committee's recommendation.

1.2 The Department for Levelling Up, Housing & Communities (the department) followed a robust decision-making process for the first round of the Levelling Up Fund (LUF). This process was set out in the Levelling Up Fund Prospectus and Technical Note, both of which were published prior to the shortlisting of bids, and in a published explanatory note once decisions were taken. As set out in that explanatory note, it was also recorded that all ministers had notified their respective private offices that they had no constituency, personal or pecuniary interests in relation to the Fund.

1.3 At decision making, ministers have discretion to make choices about how to prioritise and apply the 5 wider considerations alongside the outcome of assessment. Those wider considerations include geographic spread within and between regions/ nations and past investments to ensure a fair spread of levelling up funding in places. To weigh these considerations up, ministers need access to information about where the bids are located together with historic investments that have been directed there. When reviewing the location of bids, the identity of the local authority applicants will be clear even if their names are hidden. For this reason, the department does not consider it sensible to hold back the names of local authority applicants whilst minsters agree how to apply the wider considerations.

1b: PAC recommendation: The Department should:

- ***Provide thematic and geographic transparency of successful and unsuccessful bidders in line with other targeted local growth funding.***

1.4 The government agrees with the Committee’s recommendation.

Target implementation date: Autumn 2022

1.5 Building on the full and transparent account of assessment and decision making set out in the Explanatory Note for round one, the department is happy to provide information on the balance of successful and unsuccessful bids by theme and geography.

2: PAC conclusion: The Department does not yet have a strong understanding of what works for local growth, but we welcome its belated commitment to evaluating local growth interventions.

2: PAC recommendation: The Department should update us on progress with its local growth evaluation commitments (including for the Local Growth Fund) and set out how it intends to feed evaluation findings back into its ongoing local growth activity and to the wider levelling up agenda.

2.1 The department agrees with the Committee’s recommendation.

Target implementation date: September 2023

2.2 The department has a strong understanding of what works for local growth, as demonstrated by the literature review within the Levelling Up White Paper.

2.3 What works in local growth is a complex research area and unsurprisingly there remain some evidence gaps. The department is proactively filling these through engagement with academics and learning from forthcoming evaluations of the UK Shared Prosperity Fund (UKSPF), Levelling Up Fund, Towns Fund, Freeports, and Local Growth Fund (LGF). With the exception of UKSPF and LGF, evaluation strategies have already been published. The LGF evaluation is currently being scoped with view to publishing an evaluation next year. The UKSPF strategy will be published later this year.

2.4 In addition, the department has established the Spatial Data Unit, which is improving the subnational data that is needed for effective evaluation. Also, as noted in the Levelling Up White Paper, the government is committed to working with academics and industry experts to test and trial how best to design evaluation of local interventions and introduce more experimentation at the policy design stage.

2.5 Processes to feed evaluation findings into local growth activity and wider levelling up agenda is at the design stage. The government will be pleased to share progress on this and developments on evaluation commitments in a year's time.

3: PAC conclusion: We are concerned that optimism bias has meant realistic bids to the Levelling Up Fund have missed out at the expense of 'shovel-ready' projects that have since been beset with delays.

3: PAC recommendation: The Department should set out:

- ***Spending profiles for the first round of funding, confirming how much have spent in 2021–22 against the £600 million it anticipated paying; and***
- ***Its assessment of optimism bias in authorities' deliverability plans.***

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The Levelling Up Fund is a new funding programme, and the accountable departments – the Department for Levelling Up, Housing and Communities and Department for Transport (DfT) – understand it is important to have robust process in place. The £600 million referred to came from an early planning assumption on what the department expected to spend and was updated at Spending Review 2021 which saw £0.2 billion of spend agreed for 2021-22.

3.3 The Prospectus for the first round was clear that projects which are able to demonstrate investment or begin delivery on the ground in 2021-22 financial year would be prioritised. As such, bids were required to be able to defray some funding in 2021-22. To safeguard value for money and ensure deliverability, a robust assessment (as per the published framework) was carried out over the summer following the receipt of applications in June 2021. Deliverability formed 25% of the assessment framework, and each bid was reviewed by trained assessors to identify the best quality and most deliverable projects.

3.4 Following the autumn 2021 Spending Review announcement, the accountable departments have worked with successful applicants to ensure that the necessary baselining was conducted and that places were prepared for delivery. Following this assessment and careful due diligence, funding agreements were issued in February with payments made after.

3.5 This robust process gives the government confidence in the overall deliverability of funded proposals. Nevertheless, the accountable departments did pay out less funding in 2021-22 (£128 million including RDEL) relative to the updated SR figure of £200 million). This reflects the economic climate which continues to shift, with many factors constraining speed of delivery, including contracting issues due to cost inflation, supply chain disruption and fear of recession.

Table 1: Table showing spend for 2021-22 and the current profile of expected spend for LUF Round 1

	2021-22 (£m)	2022-23 (£m)	2023-24 (£m)	2024-25 (£m)	2025-26 (£m)
CDEL	108	449	889	220	27
RDEL	20				
Total	128	449	889	220	27

4: PAC conclusion: There remains considerable uncertainty for Local Authorities around funding, structures and responsibilities for local economic growth.

4: PAC recommendation: In its Treasury Minute response, the Department and HM Treasury should set out how they intend to provide greater certainty to Local Authorities to enable them to plan the integrated capital, skills and community investment needed to drive growth in their areas.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: To be confirmed

4.2 The government has recognised that the local growth funding landscape has previously been complex and fragmented. That is why local growth funding has largely been consolidated into two funds – LUF and UKSPF. The Levelling Up Fund consolidated several others, including the Local Growth Fund and Towns Fund, whilst the UKSPF is the successor to EU structural funds. Each of these funds has set out clear rules, supporting planning for local authorities.

4.3 As announced in the Levelling Up White Paper, the government will set out a plan for streamlining the funding landscape this year which will include a commitment to help local stakeholders navigate funding opportunities. This review, will be guided by the principles of reducing the unnecessary proliferation of funding pots with varied delivery approaches, streamlining bidding, supporting greater alignment between revenue and capital sources, and tailoring investment and delivery to the local institutional landscapes of each place across the UK.

4.4 A new Levelling Up Cabinet Committee has also been established, which will bring in direct input from places to help the government to better understand local challenges and how these are impacted by national policy, including how funding is disbursed.

4.5 More broadly, across all local growth funds, the department maintains close working relationships with local stakeholders to ensure funding is aligned with the broader local economic strategy. One example is the Towns Fund, where the model of Towns Deal Boards offers an open and transparent way of developing and agreeing plans for growth funding in a local area.

5: PAC conclusion: It is unclear how the Department is reconciling tensions between devolved responsibilities and administering local growth funding on a UK-wide basis.

5: PAC recommendation: The Department should set out:

- ***How it will ensure that the processes are awarding funding for the future rounds of Levelling Up Fund and UKSPF will address the prioritisation of devolved nations.***
- ***How it plans to ensure ongoing engagement with the devolved administrations.***

5.1 The department agrees with the Committee's recommendation.

Target implementation date: To be confirmed

5.2 Although the government agrees with the Committee's recommendation, it disagrees with the conclusion it is based on.

5.3 The department's priority is delivering effective investment in all parts of the UK. For LUF, the round two prospectus confirms across both rounds at least 9% of the total allocation will be set aside for Scotland, 5% for Wales, and 3% for Northern Ireland, subject to a suitable number of high-quality bids coming forward. The Prospectus and Technical Note set out how applicants in Scotland, Wales and Northern Ireland should set out how bids align with, or complement, wider public service investments made available by the devolved administrations. Where appropriate, the department will seek input from devolved administrations on projects to be delivered in their geographical areas, including on deliverability and alignment with existing provision.

5.4 UKSPF funding has been fully allocated for 2022-23 to 2024-25. Recognising individual differences between England, Scotland, Wales and Northern Ireland, the allocation method was adapted for each part of the UK. The department set out a methodology note explaining how it ensured funding going to Scotland, Wales, and Northern Ireland meets funding received under European Structural Funds. Future UKSPF funding is a matter for Spending Review 2024.

5.5 The department delegated delivery of UKSPF in Scotland and Wales to local authorities; and working closely with local partners in Northern Ireland. This means local people will play a leading role in prioritising and tailoring UKSPF to local needs.

5.6 To ensure there is a platform to discuss issues of mutual interest within the department's portfolio, officials worked with devolved governments to establish an Interministerial Group, which first met on 24 May. In addition, the inaugural meeting of the Interministerial Standing Committee in late March was chaired by the department's Secretary of State and attended by the First Ministers of Scotland and Wales and intergovernmental relations ministers, to discuss strategic and cross-cutting elements of levelling up.

6: PAC conclusion: Accountability for levelling up outcomes remains unsatisfactory.

6: PAC Recommendation: HM Treasury and the Department should write to the committee alongside the Treasury Minute response to clarify departmental accountabilities for levelling up outcomes and in particular for cross-cutting missions.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

6.2 The Levelling Up White Paper sets out twelve missions that support levelling up outcomes. Missions are a tool to break down silos and encourage collaboration across the public, private and voluntary sectors. To ensure missions deliver these benefits the department have implemented a new architecture across central government to support delivery. The 'mission architecture' provides clear accountability through named individuals taking responsibility for progress and puts in place structures designed to smooth interdepartmental cooperation on a mission-by-mission basis. This includes the Levelling Up Cabinet Sub-Committee, which has been established to embed levelling up across central government policy design and delivery. Once these arrangements have been confirmed with new ministers, the department and HM Treasury will write to the Committee separately with further details.

7: PAC conclusion: The Department does not yet know how it will measure performance on a consistent basis across different geographical areas and timescales.

7: PAC recommendation: The Department should clarify how it intends to provide performance information on a consistent basis (both year on year and across different geographical areas) and how, in the absence of good quality local data, it intends to establish a baseline against which to measure progress.

7.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

7.2 Although the government agrees with the Committee's recommendation it disagrees with the conclusion on which it is based.

7.3 As mentioned in the Levelling Up White Paper's technical annex, we have a good understanding of how we will be measuring progress for most missions on a consistent basis across geographical areas and time scales. For missions that are exploratory, such as pride in place and well-being, or where more granular and timely subnational data is needed, further work is being undertaken to develop these.

7.4 The department has established a Spatial Data Unit to drive forward the data transformation required in central government. The Unit, working together with the Office of National Statistics (ONS) and other government departments, will produce indicators, looking at alternative data sources in absence of good quality local data, address current data gaps and measure progress against the levelling up missions at local level.

7.5 The ONS have published a summary outlining their work plan over the next few years to develop a solid information base with production and dissemination of more timely, granular, and harmonised subnational statistics for regional and local decision-making.

7.6 The department also benefits from a refreshed concordat on statistics (October 2021) between the UK government and the devolved administrations. The concordat sets out how the administrations will work together to deliver an agreed suite of coherent, reliable, consistent and timely statistics about and across the UK.

Sixth Report of Session 2022-23

Department of Health and Social Care

Department of Health and Social Care 2020-21 Annual Report and Accounts

Introduction from the Committee

The Department of Health and Social Care (the Department) leads the health and care system in England. The Departmental Group's accounts show that total operating expenditure increased to £191.9 billion in 2020–21, a 30% increase on 2019–20. This included a £20.5 billion (31%) increase in operating expenditure on the purchase of goods and services primarily related to its response to the COVID-19 pandemic. The Comptroller and Auditor General (C&AG) qualified his audit opinion on the accounts for several reasons. There was insufficient evidence to support: the Core Department inventory balance of £3.6 billion at year-end; £6.1 billion of inventory consumed during the year; £8.7 billion of inventory impairments; and the £1.2 billion onerous contract provision recognised by the Department for inventory purchased but not received at the year-end. There was also insufficient evidence to support the Group accruals balance of £17.2 billion. In addition, £1.3 billion of the Department's COVID-19 spending was spent either without the necessary HM Treasury approvals or in breach of conditions set by HM Treasury, and there was insufficient evidence to show that the Department's spending, particularly on COVID-19 procurement, was not subject to a material level of fraud.

Based on a report by the National Audit Office, the Committee took evidence on Monday 7 March 2022 from the Department of Health and Social Care. The Committee published its report on 10 June 2022. This is the government's response to the Committee's report.

Relevant reports

- DHSC report: Department of Health and Social Care Annual Report and Accounts 2020-21 - (HC 1053)
- PAC report: DHSC Annual Reports and Accounts 2020-21 (Parliament.uk) – Session 2022-23 (HC 253)
- Treasury Minutes, September 2020, Thirteenth Report of Session 2019-21, pages 32-36 (CP 291)

Government response to the Committee

1: PAC conclusion: Having spent £12bn on PPE, the Department has £4bn of PPE in storage that will not be used in the NHS and now faces the challenges and costs of its disposal.

1a: PAC recommendation: Alongside its Treasury Minute response, the Department should write to us setting out full details on how it plans to dispose of unusable and excess PPE, the volumes and cost (of the PPE disposed of and the related storage and disposal costs) and impacts (environmental or otherwise) this may have.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

1.2 In order to reduce the costs associated with storing personal protective equipment (PPE) that will not be used, the Department of Health and Social Care (the department or DHSC) is focusing efforts on accelerating the disposal programme. While the priority remains to keep selling, repurposing and donating the stock, the department will maintain a pragmatic approach to managing stock and develop solutions that make sense economically and environmentally.

1.3 In March 2022, two Lead Waste Providers (LWPs), Suez and Veolia, were appointed to assess the options for disposal. The LWPs have completed assessments on the first set of products and, in May, began work on recovery. During the first month, the LWPs recovered 4,000 pallets, though it is expected that this will have increased to 15,000 pallets per month in the next few months.

1.4 Work to establish detailed operating plans from the pathfinding work is underway and is expected to be finalised in the coming weeks. These plans will provide details, by product, through to the end of December 2022 and will give a clear indication of what rate of recovery can be achieved and by when. Accordingly, the department will write to the Committee over the Summer to set out the detail in full.

1b: PAC recommendation: In addition, we ask that the Department now include an update on the progress of PPE disposal in the quarterly update they already provide the Committee following our Initial lessons from the government's response to the COVID-19 pandemic report (Thirteenth report Session 2021–22).

1.5 The government agrees with the Committee's recommendation**.**

Target implementation date: August 2023

1.6 The department will provide the Committee with regular updates on the volume of PPE that has been disposed of and the associated costs and benefits.

1.7 This information will be shared through the existing reporting mechanism established through Treasury Minute 13. The department originally committed to providing these reports to the Committee until August 2022 but will continue to do so until August 2023 to allow the Committee to track progress on the efforts around disposals.

2: PAC conclusion: The procurement of PPE in response to the COVID-19 pandemic overwhelmed existing systems and has exposed weaknesses in the Department's commercial contracting capability.

2a: PAC recommendation: In its Treasury Minute response the Department should set out its 'commercial reset' plan and the timeline for scaling up its commercial capability across the Departmental Group to ensure sufficient support is in place to procure and manage existing and future contracts.

2.1 The government agrees with the Committee's recommendation

Target implementation date: Spring 2023

2.2 The department has undertaken a commercial reset with new structures implemented on 1 April 2022 and a six-month transition period is now underway. The process was designed to bring about a range of benefits, including:

- clearer lines of responsibility and accountability
- strengthened commercial governance and clear escalation processes
- reinforcement of best practice behaviours and compliance with procurement policy and process
- increased commercial awareness across the department, Health Family and Health System.

2.3 The department discharges its commercial capability responsibilities through the Health Family Commercial Head of Profession (HOP) plan. This is part of the Best Practice Framework for professions in the Civil Service.

2.4 The department is aligned to the Government Commercial Function (GCF) standards; 96% of DHSC staff at Grade 7 or above in operational commercial roles having achieved GCF accreditation or are working towards this.

2.5 Following a skills review, a range of priority commercial capability activity is being implemented for 2022-23. This includes a bespoke procurement capability programme that will increase commercial capability for staff undertaking commercial activity and increase commercial awareness for all staff.

2b: PAC recommendation: The Department should also keep us informed of cases where it is has been both successful and unsuccessful in reclaiming money spent on sub-standard PPE or recovering money paid to suppliers where no goods were received.

2.6 The government agrees with the Committee's recommendation

Target implementation date: August 2023

2.7 The department has established a Dissolution Team to work through the contracts in dispute to maximise the value obtained from taxpayer's money. The Dissolution Team is expected to be in place until at least March 2023.

2.8 The department will provide regular updates to the Committee as part of quarterly reporting as laid out in Treasury Minute 13. This will include information about the amount that has been reclaimed against the 'value at risk'. There will be some instances where the information is commercially sensitive and could impact the department's ability to successfully pursue cases to completion. Where this is the case, the department will consult with the Parliamentary Clerk to determine how best to provide the information to the Committee in confidence. The information will be made publicly available in due course.

3: PAC conclusion: There is no clear plan for how big the PPE stockpile needs to be and how the Department will build greater resilience into the NHS supply chain so that it can respond at pace to future urgent needs.

3: PAC recommendation: The Department should develop a clear plan to increase the resilience of the NHS supply chain to be able to respond at speed if there is another pandemic or variant of concern and needs to explain in detail to the Committee how it intends to work out what items and how much PPE it needs to hold as a national stockpile going forward.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2023

3.2 The department is undertaking a fundamental review of the clinical countermeasures, including PPE, that need to be readily accessible in event of a future pandemic or emerging infectious disease. This review factors in lessons learnt from COVID-19 pandemic, the updated analysis of risks undertaken for the next iteration of the National Risk Register and the department's new approach to pandemic preparedness.

3.3 Informed by expert advice and modelling, the department is working closely with the UK Health Security Agency (UKHSA) and NHS Supply Chain on the product mix and amounts of PPE that need to be held to support resilience and response to a future pandemic or emerging infectious disease. The department expects to be able to offer more information on the results of this work to the Committee in early 2023.

3.4 Any potential PPE demand increases that may occur during the rest of this financial year as a result of possible COVID-19 variants of concern have been factored into amounts held in the existing provision to the end of March 2023. The amount of stock that needs to be held for a new pandemic or variant concern beyond this period is being considered as part of the wider work on stockpiling.

4: PAC conclusion: The Department has regularly failed to follow public spending rules and across the Departmental Group there is a track record of failing to comply with the requirements of Managing Public Money.

4: PAC recommendation: The Department should write to us by October 2022 setting out the systems and processes it has established as part of its 'financial reset' to ensure the regularity of expenditure and compliance with spending controls across the Departmental Group going forward.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: October 2022

4.2 The department is undertaking a finance reset programme, which is establishing robust financial controls and governance across the department and its arms' length bodies (ALBs). The department is making good progress in this area, with the programme of activity continuing through to the end of this calendar year.

4.3 The programme has put in place a proportionate, risk-based financial control framework that ensures that areas of spend subject to external controls (for example, by HM Treasury and Cabinet Office) are reviewed and approved as required by Managing Public Money. Internal delegations ensure that spending proposals below those subject to external controls are also subject to appropriate review and approval and maximise value for money.

4.4 To date, the department has:

- implemented updated financial delegations across the department and its ALBs, taking account of internal and external controls;
- developed a training programme which will be mandatory for all senior civil servants, aimed at increasing their awareness and understanding of their roles as budget holders; and
- re-developed internal business case guidance, to improve the quality of business cases going forward.

The department will provide a further update to the Committee by October 2022.

5: PAC conclusion: The Department's COVID-19 pandemic procurement highlighted the importance of achieving transparency in respect of how it identifies and manages declarations of interests.

5: PAC recommendation: The Department should maintain and improve accountability by embedding their revised processes so that these are undertaken on a timely basis each and every year and normalise the transparency of the results by inclusion of the full list of interests identified in every Annual Report and Accounts.

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 As part of the preparation of the 2021-22 Annual Report and Accounts, the department has implemented the agreed revised process for identifying and disclosing interests and related parties, incorporating all lessons learned from the 2020-21 process and recommendations from the National Audit Office (NAO).

5.3 As in 2020-21, the department will continue to include a full list of interests in each and every annual report and accounts.

6: PAC conclusion: There have been inappropriate unauthorised payoffs made to staff by health bodies, and the planned large-scale NHS restructuring increases the risk of this happening again.

6: PAC recommendation: The Department should write to us alongside its Treasury Minute response setting out how it will monitor and control the approval of all redundancy payments made by entities within the Departmental Group to ensure such payments are properly authorised in advance and are not irregular.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

6.2 The department has processes in place for monitoring and controlling the approval of exit payments.

6.3 ALBs are required to comply with schedules of delegation issued by the department, including approvals required in respect of special severance and redundancy payments. Updated ALB delegations were issued on 4 May 2022. Details regarding arrangements for commissioners and providers are set out below.

6.4 Longstanding published Clinical Commissioning Groups (CCGs) guidance on losses and special payments specified special severance payments must be approved by HM Treasury.

6.5 Guidance to Integrated Care Boards (ICBs) was issued on losses and special payments including severance payments through the ICB programme on 31 May 2022. Additionally, the importance of due process relating to exit payments was further emphasised to commissioners and providers at a series of roadshows and workshops over the last six months.

6.6 In April 2022, detailed written guidance relating to exit payment processes and approvals was circulated to CCGs and the proposed ICBs.

6.7 Special severance payments which occurred in CCGs were submitted via the Region to the NHS England Executive Human Resources Sub Group (EHRSG). The EHRSG is chaired by a National Director and reviews and scrutinises the appropriateness of such payments. Any CCG case which was approved was then submitted by NHS England to Treasury via the Department of Health and Social Care. The same process is to be applied for Integrated Care Boards (ICBs) with enhanced assurance reporting from regions over such payments

6.8 For NHS Trusts, NHS England has an internal process whereby the Trust Appointments and Approvals Committee (TAAC) scrutinises and approves certain proposed severance cases and contractual payments over £100,000 to all NHS Trust staff to ensure they are properly authorised in advance and are not irregular.

6.9 Regarding foundation trusts, NHS England conduct a due diligence check on all non-contractual severance payments to ensure probity and compliance with Managing Public Money.

6.10 All the above cases are reported quarterly to the NHS England Board to provide additional governance at senior level.

7: PAC conclusion: With 23 days to go until the financial year end the UK Health Security Agency did not have an agreed budget for the new financial year.

7: PAC recommendation: The Department should not get into this position again and should write to the Committee to set out what steps it has put in place to ensure that all organisations it sponsors have a budget in place to allow sufficient time for financial planning for the year ahead.

7.1 The government agrees with the Committee's recommendation**.**

Target implementation date: March 2023

7.2 The Department has written to the Committee setting out the steps implemented to ensure the department's Financial Planning and Budgeting process allows its Arm's Length Bodies sufficient time to plan for the year ahead.

8: PAC conclusion: There is no clear plan as to how the Department will bring forward the publication date of its annual report and accounts.

8: PAC recommendation: The Department should develop a detailed and realistic plan for bringing forward the preparation and publication of its annual report and to improve timeliness of its accountability for the use of taxpayers' money.

8.1 The government agrees with the Committee's recommendation

Target implementation date: December 2023

8.2 The department has a plan to bring forward its accounts preparation process to allow pre-summer recess laying of its annual report and accounts (ARA). This has been communicated to national and local auditors.

8.3 The department will not be able to support pre-recess laying of the ARA for 2022-23 due to the significant accounting complexities associated with International Financial Reporting Standard 16 - Leases, the residual impact of the delays to laying prior year accounts due to the pandemic and the impact of the Health and Care Act 2022.

8.4 The department is working to return to pre-recess laying of the ARA from 2023-24 onwards and is working with the NAO to enable this. However, this ambition is dependent upon the capacity of the national and local audit markets. Significant work is underway, in conjunction with the Department for Levelling Up, Housing and Communities and others, to relieve the current pressures in the local audit market and further work will be required in the coming months to establish whether it is possible for a group with such reliance on this market to return to pre-recess laying in 2023-24.

Seventh Report of Session 2022–23

Ministry of Defence

Armoured Vehicles: the Ajax programme

Introduction from the Committee

Ajax is an armoured fighting vehicle which should provide the Army with its first fully digitised platform. It will be based on new technologically advanced sensors and communication systems which should transform the Army's surveillance and reconnaissance capability. The vehicles form an integral part of the Ministry of Defence's (the Department's) vision for digital integration across land, air and sea domains, allowing real-time information-sharing and connectivity with other capabilities, such as Lightning II jets.

Ajax represents the biggest single order for a UK armoured vehicle in more than 20 years. The programme began in 2010, and the Department has a £5.5 billion firm-priced contract with General Dynamics Land Systems UK for the design, manufacture, and initial in-service support of 589 vehicles. The programme is supposed to deliver six types of vehicle which will perform different roles. By December 2021, the Department had paid General Dynamics £3.2 billion, and General Dynamics had designed the vehicles, built 324 hulls and assembled and tested 143 vehicles. The Department had received 26 Ajax vehicles, together with training systems and some logistics support and spares. In 2014, the Department extended its expected in-service date by three years to July 2020, and the programme subsequently missed a revised target date of June 2021. In 2021, the Department acknowledged publicly concerns about excessive levels of noise and vibration on the Ajax vehicles. These issues remain unresolved, and the Department does not know when Ajax will enter service.

Based on a report by the National Audit Office, the Committee took evidence on 30 March 2022 from the Ministry of Defence. The Committee published its report on 3 June 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: The Ajax Programme – Session 2021-22 (HC 1142)
- PAC report: Armoured Vehicles: Ajax Programme – Session 2022-23 (HC 259)
- HS & EP Ajax Noise and Vibration Review (The King Review) – December 2021
- Ajax Update - Hansard - UK Parliament Volume 714 - 19 May 2022
- The Ajax Lessons Learned Review – Lead appointed – 23 May 2022

Government response to the Committee

1: PAC conclusion: The Department is failing to deliver the enhanced armoured vehicles capability that the Army needs to better protect the nation and meet its NATO commitments.

1: PAC recommendation: The Department must assess the longer-term implications of delays for the Army's transformation programme and investigate alternative options to Ajax now so that it can act quickly if the contract with General Dynamics collapses. We will expect an update on this when we next take evidence from the Department and answers by December 2022.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

1.2 The Ministry of Defence, (the department) recognises the importance of limiting any longer-term effects from the delays experienced under the Ajax programme. The department is focused on delivering Ajax to meet the needs of the Army and is actively taking steps to address the challenges the programme faces. The department expects to decide the way ahead on the programme by the end of 2022.

1.3 The government's commitment to NATO will continue to be met through flexing the range of Defence and Army capabilities. Notwithstanding, the department will continue to monitor the position as part of its regular reviews of capabilities to meet future threats.

2: PAC conclusion: The Department has once again made fundamental mistakes in its planning and management of a major equipment programme.

2: PAC recommendation: Once the Ajax Lessons Learned Review has reported, the Department should write to the Committee setting out how it will incorporate the recommendations into its future management of equipment programmes – considering the findings and recommendations of our and the NAO's reports – to prevent this familiar list of mistakes being repeated yet again.

2.1 The government agrees with the Committee's recommendation

Target implementation date: Spring 2023

2.2 The department is actively taking the actions recommended by the National Audit Office to improve the effectiveness of the Ajax programme and has accepted the recommendations made in the King Report and in this Committee report. The independent Ajax Lessons Learned Review is intended to provide insights that will help the department deliver major programmes more effectively in future. Recommendations will be considered alongside the implementation of other Ajax and wider programme management improvements underway.

3: PAC conclusion: The failure to escalate and address noise and vibration issues in a timely manner shows that the Department must simplify its over-complex safety processes and change behaviours.

3: PAC recommendation: The Department should set out the changes to its safety processes that it is making in response to the King Report and how it is monitoring the effectiveness of these initiatives. This should include the steps it is taking to improve openness and communication, including the use of the new web-based application. The Department should provide us with an update on progress when we next take evidence.

3.1 The government agrees with the Committee's recommendation

Target implementation date: December 2022

3.2 The department has accepted all the recommendations in the King Report relating to safety and armoured vehicle procurement. Some have already been implemented and the remainder are being progressed. The independent Ajax Lessons Learned Review is looking specifically at the escalation of safety and other issues on acquisition programmes.

4: PAC conclusion: Nearly two years after identifying injuries to soldiers, the Department still does not know how to fix the noise and vibration problems.

4: PAC recommendation: As a matter of the utmost urgency, the Department must establish whether noise and vibration issues can be addressed by modifications or whether they require a fundamental redesign of the vehicle. If the latter, the Department must decide whether the right course is to proceed with General Dynamics or if it should opt for an alternative. We will expect an update on this when we next take evidence and an answer by December 2022.

4.1 The government agrees with the Committee's recommendation

Target implementation date: December 2022

4.2 The department is focussed on identifying the root causes of the noise and vibration issues to develop long-term solutions to ensure Ajax operates as required by the Army. The Written Ministerial Statement laid out in Parliament on 19 May 2022 sets out the assessments underway to determine the efficacy of the modifications proposed by General Dynamics, in particularly the user trials that will provide additional data for the independent assessment on the effectiveness of the modifications and develop a safe system of work to protect personnel in future tests and trials. An update on progress will be provided to the Committee at the next Ajax evidence session.

5: PAC conclusion: We are doubtful that the Department can recover the programme within existing costs and commercial arrangements.

5: PAC recommendation: Whether or not the Department concludes that it should continue with the current Ajax contract, it must review its commercial arrangements to ensure these are appropriate to incentivise its prime contractor to deliver the programme and agree a recovery plan.

5.1 The government agrees with the Committee's recommendation

Target implementation date: December 2022

5.2 The department has in place a robust firm price contract of £5.5 billion that protects the taxpayer from any increase in costs. The contract has a number of mechanisms to incentivise contractor performance to meet performance, cost and time requirements, including incentivised critical milestones, liquidated damages and default and dispute resolution processes. The department continues to protect its contractual and commercial rights under the contract with General Dynamics to deliver a value for money outcome.

6: PAC conclusion: The Department's plans for using Ajax are at risk because of uncertainty about what constitutes full operating capability, when this will be achieved and how Ajax vehicles will be enhanced in the future.

6: PAC recommendation: Once the Department has reached agreement on solutions to the noise and vibration problems, it must agree a revised schedule and critical path for initial operating capability and full operating capability, covering all enabling programmes. This should include clear definitions of what will be delivered at each stage, without reducing requirements just to achieve these milestones.

6.1 The government agrees with the Committee's recommendation

Target implementation date: December 2022

6.2 The department acknowledges the need to establish realistic dates for initial and full operating capability as quickly as feasibly possible once a suitable technical solution to the noise and vibration issues has been agreed. The programme's Senior Responsible Owner continues to bring the programme back on a sure footing, having put in place effective programme management and governance that takes account of enabling programmes, and has noted the recommendation set out in the King Report that it is important that a revised delivery schedule is realistic and includes sufficient contingency for other issues.

Eighth Report of Session 2022-23

Department for Education

Financial sustainability of the higher education sector in England

Introduction from the Committee

Universities and other higher education providers are autonomous institutions with a high degree of financial as well as academic independence. They are free to conduct commercial activities in addition to teaching and research. For a provider to access government funding for research or teaching, however, or for its students to receive government tuition fee and maintenance loans, it must be registered by the Office for Students (the OfS), the sector regulator. The Department for Education (the Department) is responsible for setting higher education policy and for the overall regulatory framework for the sector and sponsors the OfS. In July 2021, there were 254 higher education providers in England registered with the OfS, excluding further education and sixth-form colleges, educating an estimated 2.3 million students. Of these, 1.8 million were from the UK, and 1.6 million were undergraduates. The total income of higher education providers in 2019/20 was £36.1 billion, 36% of which came from public sources.

Based on a report by the National Audit Office, the Committee took evidence on 21 March 2022 from the Department for Education and the Office for Students. The Committee published its report on 15 June 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Regulating the financial sustainability of higher education providers in England – Session 2021-22 (HC 1141)
- PAC report: Financial sustainability of the higher education sector in England – Session 2022-23 (HC 257)

Government response to the Committee

1: PAC conclusion: We are not convinced that the OfS has made sufficient progress in getting a grip on the long-term systematic challenges facing the sector and individual providers, meaning that financial pressures risk harming students' experience of university.

1: PAC recommendation: The OfS should write to us by the end of 31 July 2022, in line with the academic year-end, setting out the actions it will take to increase its understanding of the sector and pressures on providers – and how it will demonstrate to universities and students that it has done so.

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The Office for Students (OfS) wrote to the Chair of the Committee on 27 July 2022 outlining its current approach to monitoring financial risks facing the HE sector and setting out the actions it is taking to better understand these issues and risks.

2: PAC conclusion: Despite a background of deteriorating financial health of an increasing number of providers, the Department is not effectively holding the OfS to account.

2: PAC recommendation: Working with the OfS, the Department should establish a complete set of robust, published performance measures and targets, including structured feedback from providers, and use these to hold the OfS to account for its effectiveness.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: September 2022

2.2 The OfS is in the process of concluding the review of its key performance measures, with a view to these being published by September 2022.

2.3 These revised measures will ensure alignment with the OfS's strategy for 2022-2025 and the strategic priorities of the Secretary of State for Education, as well as providing strengthened performance reporting for the departmental Board.

2.4 In addition, the Department for Education (the department) is working with the OfS to agree an aligned suite of internal performance measures which will help the department to hold the OfS to account better.

2.5 The OfS already consults the sector on its activity, including regular meetings with sector bodies, organising events for the sector and participating in their events, as well as engaging them through round tables and training sessions on regulatory issues. In response to the sector, the OfS has improved its regular communications with providers through regular mailings, pulling together information and resources, an approach welcomed by sector bodies.

2.6 The OfS has commissioned qualitative research with a wide range of providers to collate and assess the impact and understanding of its communication and interactions with individual universities and colleges. In all these interactions, the OfS aims to work in the interests of students whilst taking a risk based, proportionate approach.

3: PAC conclusion: Protection for student, in the event of providers facing financial distress, are not strong enough.

3: PAC recommendation: The OfS should prioritise ensuring that all providers' published student protection plans are fit for purpose and sufficiently clear for students to make confident, well-informed decisions about the protections universities are promising them.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2023

3.2 The OfS's focus has been ensuring that protections are as robust as possible in those providers which might face financial distress. This reflects the OfS's risk-based approach by ensuring that regulatory action is proportionate and targeted where it is most needed, while also ensuring there is not unnecessary burden on providers with robust financial health. For this reason, the OfS introduced a new ongoing registration condition on 1 April 2021 (Registration condition C4 of the regulatory framework for higher education in England). This substantially strengthened its ability to ensure the rigour of a provider's plans to protect students against the risk of the provider ceasing to deliver higher education.

3.3 Registration condition C4 means that where the OfS reasonably considers that there is a material risk of such a market exit, it can put in place a Student Protection Direction, with which the provider must comply, setting out detailed and rigorous planning and measures to protect its student body. These go far beyond what would be covered in a student protection plan.

3.4 The OfS also intends to begin discussions with the sector about its regulatory approach to protecting the interests of students, with a view to updating and revising the requirements where appropriate.

4: PAC conclusion: We are concerned that the financial sustainability of some providers is being put at risk by their heavy dependence on their ability to continue growing overseas student numbers.

4: PAC recommendation: The Department, drawing on OfS analysis as appropriate, should set out what it considers to be the risks to achieving the continued forecast growth in overseas student numbers universities are relying on for their future financial security, and explain how it is mitigating those risks.

4.1 The government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The department recognises that the financial sustainability of the higher education sector depends on the continuing contribution made by income from overseas students, if not necessarily on the growth trend as currently forecast. Many factors affect overseas students' decisions about where to pursue higher education, ranging from geopolitical developments, through public health issues, to students' behavioural changes. No government could mitigate the full risk of such factors, but through the International Education Strategy (IES) and the 2021 update, the government has established a thorough approach to promoting higher education to overseas students and mitigating risks associated with providers' dependence on overseas fee income.

4.3 The IES is committed to growing the value of education exports to £35 billion and to hosting at least 600,000 international higher education students in the UK per year by 2030. The international students ambition of 600,000 was met for the first time in 2020-21, with over 605,000 international students studying in the UK.

4.4 The IES sets out the government's ambition to enhance the entire international student experience, from application to employment. It also makes clear that the diversification and sustainable recruitment of international students remains a key strategic priority for the sector.

4.5 It is a matter for higher education providers, as autonomous bodies, to forecast sensibly when planning for their financial sustainability. The OfS monitors this, including reviewing forecasts for optimism bias amongst providers. The department and the OfS continue to work closely together in considering financial risks facing the sector. Updated analysis of those risks will continue to inform departmental strategy.

5: PAC conclusion: Student satisfaction with the value for money of their courses is at a worryingly low level.

5: PAC recommendation: The Department and the OfS should set out what action the OfS is taking to improve students' satisfaction with value for money, including the OfS's assessment of the impact of hybrid teaching on students' experience and what progress has been made in addressing the causes of dissatisfaction.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

5.2 Both the department and the OfS are committed to improving the quality of higher education provision. Ensuring that students are satisfied with the value for money offered by their courses is a government priority.

5.3 The OfS is introducing an enhanced quality regulatory regime which will enable it, through robust investigation and enforcement action, to tackle the pockets of low-quality provision. This will include the introduction in September 2022 of detailed student outcome thresholds, by level and mode of study, covering continuation and completion rates and progression to managerial and professional employment or further study. In May 2022 the OfS also introduced new registration conditions covering students' academic experience including course design and delivery, the provision of resources and support for students, reliable and effective course assessment and degree awards, and the use of sector-recognised standards.

5.4 The OfS is also considering how it measures value for money through its key performance measures and is considering the use of student surveys and the use of student outcomes data, described earlier, as part of this measure.

5.5 The OfS review of blended learning, which is supported by a panel of expert academic reviewers, will set out where approaches represent high quality teaching and learning, as well as approaches that are likely to fall short of OfS's requirements. The review will report in September 2022. The OfS also recently announced investigations into the business and management courses of eight providers, which will include examining whether online learning has replaced face-to-face teaching to the detriment of students' academic experience.

6: PAC conclusion: The Department failed to adequately assess the current and future financial impacts on providers of disruption to A-level assessments.

6.: PAC recommendation: Learning from the disruption to the higher education market during the COVID-19 pandemic, the Department and the OfS should model and review the financial impacts on providers of changes to the number and profile of domestic students over the short, medium and longer terms.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: September 2022

6.2 The department has undertaken careful monitoring of applications and providers' offer-making in the 2022 admissions cycle. Ahead of the 2022 cycle, the department engaged extensively with key higher education stakeholders, including undertaking scenario planning around the interaction between A-level grades and higher education capacity. Planning early in the cycle and building resilience into offer-making strategies is a vital part of contingency planning for higher education providers. The department has encouraged providers to be thoughtful when setting offer requirements and to consider any additional measures which would allow them to plan as effectively as possible, communicating openly with students in the process.

6.3 The impact of changes in student recruitment on the finances of higher education providers is a key feature of the OfS's regular monitoring of provider financial sustainability. It closely monitors the data from the University and Colleges Admissions Service (UCAS), along with other information, through the recruitment cycle. It models the potential implications on income to guide its understanding of the capacity of providers to manage such change in the short term.

6.4 The OfS, the department and other interested government departments meet regularly to discuss risk factors and trends related to the medium- and long-term financial sustainability of the higher education sector. Additional data sharing, analysis and scenario planning is undertaken as appropriate.

Treasury Minutes Archive[1]

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

Session 2022-23

Committee Recommendations:	59	
Recommendations agreed:	57	(97%)
Recommendations disagreed:	2	

Publication Date	PAC Reports	Ref Number
July 2022	Government response to PAC reports [49-52] 1, 3 & [10]	CP 722
August 2022	Government response to PAC reports 2, 4-8	CP 708

Session 2021-22

Committee Recommendations:	362	
Recommendations agreed:	333	(92%)
Recommendations disagreed:	29	

Publication Date	PAC Reports	Ref Number
August 2021	Government response to PAC reports 1-6	CP 510
September 2021	Government response to PAC reports 8-11	CP 520
November 2021	Government response to PAC reports 7,13-16 (and TM2 BBC)	CP 550
December 2021	Government response to PAC reports 12, 17-21	CP 583
January 2022	Government response to PAC reports 22-26	CP 603
February 2022	Government response to PAC reports 27-31	CP 631
April 2022	Government response to PAC reports 32-35	CP 649
April 2022	Government response to PAC reports 36-42	CP 667
July 2022	Government response to PAC reports 49-52, [1, 3 & 10]	CP 722

Session 2019-21

Committee Recommendations:	233	
Recommendations agreed:	208	(89%)
Recommendations disagreed:	25	

Publication Date	PAC Reports	Ref Number
July 2020	Government responses to PAC reports 1-6	CP 270
September 2020	Government responses to PAC reports 7-13	CP 291
November 2020	Government responses to PAC reports 14-17 and 19	CP 316
January 2021	Government responses to PAC reports 18, 20-24	CP 363
February 2021	Government responses to PAC reports 25-29	CP 376
February 2021	Government responses to PAC reports 30-34	CP 389
March 2021	Government responses to PAC reports 35-39	CP 409
April 2021	Government responses to PAC reports 40- 44	CP 420
May 2021	Government responses to PAC reports 45-51	CP 434
June 2021	Government responses to PAC reports 52-56	CP 456

[1] List of Treasury Minutes responses for Sessions 2010-15 are annexed in the government's response to PAC Report 52

Session 2019

Committee Recommendations: 11
Recommendations agreed: 11 (100%)
Recommendations disagreed: 0

Publication Date	PAC Reports	Ref Number
January 2020	Government response to PAC report [112-119] 1 and 2	CP 210

Session 2017-19

Committee Recommendations: 747
Recommendations agreed: 675 (90%)
Recommendations disagreed: 72 (10%)

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
December 2018	Government responses to PAC reports 59-63	Cm 9740
January 2019	Government responses to PAC reports 64-68	CP 18
March 2019	Government responses to PAC reports 69-71	CP 56
April 2019	Government responses to PAC reports 72-77	CP 79
May 2019	Government responses to PAC reports 78-81 and 83-85	CP 97
June 2019	Government responses to PAC reports 82, 86-92	CP 113
July 2019	Government responses to PAC reports 93-94 and 96-98	CP 151
October 2019	Government responses to PAC reports 95, 99-111	CP 176
January 2020	Government response to PAC reports 112-119 [1 and 2]	CP 210

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	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

Treasury Minutes Progress Reports Archive

Treasury Minutes Progress Reports provide updates on the implementation of recommendations from the Committee of Public Accounts. These reports are Command Papers laid in Parliament.

Publication Date	PAC Reports	Ref Number
June 2022	Session 2013-14: updates on 1 PAC report Session 2017-19: updates on 27 PAC reports Session 2019-21: updates on 34 PAC reports Session 2021-22: updates on 30 PAC reports	CP 691
November 2021	Session 2013-14: updates on 1 PAC report Session 2016-17: updates on 3 PAC reports Session 2017-19: updates on 33 PAC reports Session 2019: updates on 2 PAC reports Session 2019-21: updates on 47 PAC reports Session 2021-22: updates on 5 PAC reports	CP 549
May 2021	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 0 PAC reports Session 2016-17: updates on 4 PAC reports Session 2017-19: updates on 47 PAC reports Session 2019: updates on 2 PAC reports Session 2019-21: updates on 28 PAC reports	CP 424
November 2020	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 0 PAC reports Session 2016-17: updates on 7 PAC reports Session 2017-19: updates on 73 PAC reports Session 2019: updates on 2 reports	CP 313
February 2020	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 3 PAC reports Session 2016-17: updates on 14 PAC reports Session 2017-19: updates on 71 PAC reports	CP 221
March 2019	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 7 PAC reports Session 2016-17: updates on 22 PAC reports Session 2017-19: updates on 46 PAC reports	CP 70
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	Cm 9668

Publication Date	PAC Reports	Ref Number
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
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 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
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
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
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
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539

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