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TREASURY MINUTES DATED 11 OCTOBER 2006 ON THE FORTY-SEVENTH TO THE FIFTY-FIRST REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 2005-2006

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Forty-seventh Report

Department of Health

NHS Local Improvement Finance Trusts

1. The Department of Health launched Local Improvement Finance Trusts (LIFT) in 2000 to address long-standing under-investment in primary care facilities. LIFT is a new form of Public-Private Partnership (PPP) that invests in new build primary care premises in order to improve the overall quality of the primary care estate in England and to improve and expand on the services available by co-locating services and offering services traditionally only available in hospitals. A national joint venture, Partnerships for Health (PfH), was established between the Department of Health and Partnerships UK. At local level, each LIFT Company (LIFTCo) is, in turn, a joint venture between PfH, stakeholders in the local health economy and a private sector partner, selected through competition. On the basis of a Report by the Comptroller and Auditor General, *Innovation in the NHS: Local Improvement Finance Trusts* (HC 28, Session 2005-06) the Committee examined the Department, PfH and Partnerships UK on whether LIFT to date had been implemented effectively.

PAC conclusion (i): Primary Care Trusts have limited sources of public funds for developing new premises other than LIFT. Very few new primary care premises are funded through conventional public finance. The Department has, therefore, encouraged new premises to be developed through LIFT, in particular by providing funds to get the programme started. The main alternative is for Primary Care Trusts and GPs to commission a private contractor to develop premises, which they can then lease, which is not always feasible in deprived areas.

2. The Department accepts this conclusion.

3. The Department established the LIFT initiative because it considers that a flexible, long-term agreement between the public and private sectors for the development of new premises that are then leased to the NHS offers better value for money than normal one-off leases; is affordable; and better matches Primary Care Trust (PCT) strategic planning with the development of new infrastructure.

4. The long-term agreement between PCTs, the LIFTCo and, in many cases, the local authority, is a partnering agreement. This enables the public sector to plan facilities across a whole area and to do so while working closely with the LIFTCo, which will be required to deliver these facilities.

5. As facilities are being planned across a whole area, this makes it much easier to plan the services that will be provided from them. LIFT is not simply designed to replace like with like; it asks PCTs and local authorities to plan their premises around their services. One result of this can be seen in the many LIFT facilities that include diagnostics and day surgery — services that many patients would formerly have had to go to hospital for.

PAC conclusion (ii): Providing new, purpose built primary care premises is more expensive than continuing with the existing estate. The higher cost of LIFT mainly reflects the capital cost of new, high quality buildings compared to the cost of existing premises, which are often cheaper but not always suited to the delivery of modern primary care services.

6. The Department accepts this conclusion. The provision of new facilities, whether or not under LIFT, will cost more than continuing with the existing estate. As the Committee has pointed out, this extra cost is to be expected when modern, purpose-built primary care buildings are replacing existing premises, which are often not suited to the delivery of modern primary care services. The extra cost does not simply reflect the fact that the buildings are modern; it also often reflects the fact that extra services are being provided by the primary care sector — diagnostics and day surgery being two examples — which would formerly have been provided in hospitals.

7. LIFT itself has sometimes been wrongly described as an expensive way of procuring new facilities. However, as noted in the Committee s report, it is often difficult to compare LIFT schemes with other schemes because the comparison is not between like and like. Table 1 in the Committee s report compares the costs of two similar facilities — one procured under LIFT and the other procured as a third party development — that is, one built and leased by a contractor outside the LIFT initiative.

8. The figures in Table 1 show what the Department would normally expect — the LIFT facility costs somewhat more per square metre than the third party development. However, as noted in the report, this is due to a variety of causes, one of which is the fact that lease payments for the LIFT facility cover the full maintenance costs across the life of the building. The lease payments for the third party development only cover scheduled maintenance costs under a standard internal repairing and insuring lease.

PAC conclusion (iii): The higher cost of new provision, whether through LIFT or commissioning contractors, could displace other primary care spending. In preparing business cases for LIFT projects, Primary Care Trusts should compare the cost of LIFT to the cost of the alternative procurement routes available, and make the implications for spending on other primary care facilities and services explicit.

9. The Department accepts that the higher cost of new provision may displace other primary care provision to some extent, but it is necessary for each PCT to consider the affordability of a proposed LIFT facility before proceeding with it. The Department accepts that there is no point in providing modern primary care facilities if the PCT cannot afford to provide the services that these facilities are intended to house.

10. At the same time, the Department considers that the improvement of primary care services cannot take place without significant investment in the provision of a modern primary care estate. Spending on facilities is necessary to ensure that services can be improved.

11. Table 3 in the Committee s report makes the point that the lease payments made per patient per annum in LIFT facilities may be much higher than the average lease payments made per patient per annum for all primary care facilities in the areas covered by the PCTs concerned. There are, however, good reasons for this, which are set out below:

- quality of premises: most LIFT facilities are purpose-built, modern facilities, which necessarily cost more than the average set of primary care premises — often old premises converted from other uses;
- range of services: the extra cost of LIFT per patient also reflects the fact that more space is needed per patient. This is because LIFT facilities provide an increasingly wide range of services under one roof, many of which would otherwise be provided in hospitals. A LIFT building may contain not only GP premises, but also diagnostics and day surgery, for the patients registered with the GPs working in that building;

- transfer of services and expenditure to the primary care sector: the provision in LIFT facilities of services formerly provided in hospital may also enable the PCT concerned to spend less money on referring patients to hospital.

12. The Department would expect all business cases to consider the implications a LIFT facility would have for spending on other primary care facilities and services. As regards a comparison between LIFT and other procurement routes: PCTs involved in LIFT have tendered for their partners and have an exclusive arrangement with their LIFTCo in which its supply chain costs will have been compared for value for money against those of other bidders. There is, therefore, a presumption that they will normally use LIFT.

13. However, if a PCT asks the LIFTCo to develop proposals for a particular facility and is not subsequently convinced that the proposals as priced are both affordable and value for money, the PCT has the right to invite other contractors to bid to provide that particular facility.

14. In addition, the Department is revising its business case approval guidance, and as part of the revised guidance, it will, in future, require a business case for any single LIFT facility with a capital value of over £20 million to include a Public Sector Comparator. This will subject LIFT proposals to a rigorous assessment of their value for money — cost being a basic element of the value for money comparison.

PAC conclusion (iv): Primary Care Trusts in some areas subsidise other tenants to take space in buildings to encourage them to participate in LIFT. Where Primary Care Trusts are paying sizeable subsidies to make LIFT affordable for other organizations, there should be a business case to support the value of the subsidy, and the expected benefits should be made transparent. Subsidies should be used as a short-term measure to encourage tenants into the buildings unless there are exceptional reasons that justify continued subsidy.

15. The Department agrees with the Committee s conclusion that subsidies should be used as a short-term measure unless there are good reasons to justify continued subsidy. Any subsidies that a PCT intends to make to another organisation to make a LIFT facility affordable to it should be set out clearly in the business case for that facility. So, too, should the benefits of making the subsidy and the problems that may arise from not making it.

16. The Department is not aware of the widespread use of subsidies by PCTs, and any subsidy made would be to another public sector body- subsidies would not be made to private sector organisations such as commercial pharmacies, for example.

17. A PCT will normally reimburse GPs for the cost to them of their share of the lease payments, but these are not subsidies. They are payments made under the NHS (GMS — Premises Costs) (England) Directions 2004 and may be made to a GP whether or not he or she is working in a LIFT facility.

18. It does remain the responsibility of PCTs and other local public sector bodies to negotiate a lease for a LIFT facility that is affordable and does not, except in unusual circumstances, require the PCT to make significant long-term subsidies to other bodies.

PAC conclusion (v): the Department and Partnerships for Health have not yet developed a mechanism for evaluating LIFT although they have started to do so. They should complete this work quickly and publicise the underlying mechanism and methodologies so that meaningful quantitative evaluation of the value for money of the LIFT programme and its schemes can be made.

19. The Department accepts the need to evaluate value for money in LIFT and to publicise the results of this work. At present, when a LIFTCo is set up, a robust initial competition is carried out by the public sector to select a private sector partner for each LIFT, and overall value for money is the main criterion for their selection.

20. LIFT Companies are supported by a supply chain of private sector providers. These deliver a whole range of services (such as Hard Facilities Management services) according to specific criteria, which are established as part of the LIFT procurement and continually reviewed to maintain their relevance to existing and new facilities. As part of the requirement laid on them to demonstrate value for money, LIFT Companies must benchmark or market-test their supply chain for each New Project (i.e. for each new tranche of facilities). If they choose to use benchmarking, they will, in addition, be required to market-test their supply chain at five-yearly intervals (although any changes in the supply chain will not affect existing facilities). The aim of this process is to ensure that the continued value for money of the non-clinical services that LIFT supply chains deliver is constantly scrutinised and developed as best in class.

21. In addition, the business case review process ensures that all business cases go to the Strategic Health Authority (SHA) for approval if they are above the delegated approval limit of the PCT concerned. They must also go to the Department if the business case is for a facility or tranche of facilities with a capital value of over £25 million.

22. As part of this process, business case approvers check to ensure that the District Valuer (part of the Valuation Office Agency) has tested proposed lease payments against rents for similar buildings in the same area to assess whether or not the proposed LIFT lease payments are fair.

23. As noted above (paragraph 12), the LIFTCo has a duty to offer proposals that are affordable and value for money. If the LIFTCo s proposals and costings for a particular scheme do not meet these criteria, the PCT can still look to other companies to bid to provide that particular scheme.

24. The Department accepts that it is necessary to complete the work that has been started to develop a mechanism for more transparently evaluating the value for money of LIFT. Various strands of work are currently being carried out on different aspects of value for money in LIFT and these will be brought together to provide a single methodology for the evaluation of value for money in LIFT proposals. The timetable for completion of this work is for it to be finished by June 2007.

25. This work is being co-ordinated by a LIFT Value for Money forum, which the Department has now set up and which consists of a number of key stakeholders. These include representatives of DH, PfH, Strategic Health Authorities (SHAs), PCTs, LIFT Companies, the Valuation Office Agency and the Liaison Organisation for Business Investors in LIFT (LIFT LOBI), the representative body for private sector partners in LIFT.

26. The Department has commissioned two principal various strands of work on value for money:

- benchmarking of costs: the Valuation Office Agency has been commissioned for a trial period to take forward work for the Department and PfH to collate and analyse cost data from all existing LIFT schemes, including data on lease, construction, funding, maintenance and lifecycle costs. This data will then be used to develop benchmarks for the various costs of a LIFT scheme, against which future LIFT schemes can be measured. The Department will ensure that the mechanism and methodologies underlying this benchmarking work are published;
- design and costs: the Department and PfH are also working with the Commission for Architecture and the Built Environment (CABE) to measure the design aspects of value for money. The first step will be to undertake a survey of a sample of completed LIFT buildings. This data will then be used to develop a design quality benchmark, which can be linked to a series of costed Key Performance Indicators.

27. The Department is also interested in two workstreams on aspects of value for money in LIFT that have been commissioned by LIFT LOBI. Although these pieces of work have been commissioned by the private sector, the Department will consider how they might feed into work that the Department has commissioned (paragraph 25 above). The workstreams are:

- financial modelling: the accountancy firm Ernst and Young is developing a financial model of the costings involved in LIFT;
- clinical benefits of LIFT: Professor Bosanquet, of Imperial College, London, is carrying out work on the clinical benefits of LIFT as measured by health outcomes.

28. Other work is being taken forward to ensure that LIFT can better demonstrate that it is value for money. Revised LIFT business case approval guidance is due to be issued by December 2006. This will include much more robust value for money approval criteria, to be used in business cases. It will include the requirement noted above (paragraph 13) for a Public Sector Comparator to be used for all individual LIFT facilities with a capital value of over £20 million.

29. The Department and PfH have also revised the standard LIFT contract. The revised contract — Lease Plus Agreement version 5 (LPA5) — was published on the website of PfH in August 2006. The use of this contract should itself help to ensure that maximum value for money for each LIFT facility is achieved and can be demonstrated.

PAC conclusion (vi): There is no explicit provision to target cost reductions over time. Earlier LIFT schemes are expected to cost more than later ones, with costs reducing once the model is rolled out more widely. Strategic Partnering Boards, in consultation with the LIFTCo, should set cost reduction targets for new projects in the light of experience in the local LIFT area. There should be an annual review of progress against the targets, once buildings are operational.

30. The Department accepts that Strategic Partnering Boards should drive down costs as far as possible without compromising on quality or driving private sector partners out of the LIFT market. However, it is unlikely that any Strategic Partnering Board will be able to set cost reduction figures across the board. Some costs can certainly be expected to go down — for instance, the Department looks to the public sector to ensure improved funding arrangements, including a reduction in the internal rate of return enjoyed by shareholders.

31. On the other hand, some costs, such as building costs, are likely to increase at a rate above that of inflation. This is due to various reasons, one of which is the expected demand on the construction industry arising from the need to build new sports facilities in this country for the Olympic Games.

32. While Strategic Partnering Boards cannot ensure that costs are reduced across the board, the Department would expect them to identify areas where cost reductions can be achieved and to secure cost reductions in those areas. Where cost reductions are not possible, the Department would expect Strategic Partnering Boards to identify the likely increase in costs, if any, and to identify ways of minimising that increase. The work the Department is commissioning on the benchmarking of costs (paragraph 25 above) will provide Strategic Partnering Boards with up-to-date information on what may, and may not, be considered an acceptable cost.

PAC conclusion (vii): Under the Lease Plus Agreement, the LIFTCo is responsible for all repairs and maintenance. There is no threshold level in the standard LIFT contract for minor alterations within a building. Some tenants within LIFT buildings are frustrated that they cannot procure minor alterations without prior consent from the LIFTCo and without going through a time consuming and bureaucratic process. Partnerships for Health should consult with the private sector partners and agree levels of expenditure below which any reasonable minor alterations could be carried out promptly and without recourse to the LIFTCo.

33. The Department is aware that some tenants in LIFT properties have expressed a wish to commission minor repair and alteration works without having to obtain the prior consent of the LIFTCo.

34. The process by which repairs and alterations are agreed may seem bureaucratic, but it is there for good reasons. Firstly, the LIFTCo is paid an inclusive rent by the tenants, which covers the costs of all maintenance. It is therefore essential to confirm that the LIFTCo is not already obliged to undertake the maintenance at no additional cost.

35. A second factor is the work itself. Modern health centres are becoming more complex and specialist buildings, some including operating theatres, day surgery suites and the like. It is therefore necessary to establish that what may seem minor to the tenant does not, in some way, compromise any of the systems or fittings in the building.

36. Tenants of smaller, less complex buildings are, of course, allowed to undertake minor repairs to the buildings (subject to checks regarding safety etc.), a benefit that has been in LIFT from the start and that has been retained in the latest contracts.

PAC conclusion (viii): New methods of care leading to centralisation of services can result in access problems for patients. New arrangements sometimes lead to less convenient locations for patients, which can be a particular problem for those with mobility or transport problems. Primary Care Trusts should liaise with other relevant parties on location and access issues and give this priority in Strategic Service Development Plans and the business case for developments.

37. The Department agrees that PCTs should liaise with other relevant parties on location and access issues and should address these as a priority in their Strategic Service Development Plans. However, PCTs must decide exactly how to address these issues at local level.

38. LIFT does aim to improve access to primary care for patients as a whole. The Department accepts that the reprovision of services in a new LIFT facility may leave a few people with less easy access to services. This is not a problem unique to LIFT, however — it may happen whenever services are reprovided in new facilities. The Department expects PCTs to address issues of location and access as part of the business case approval process.

39. In addition, all PCTs have a legal responsibility to involve patients and the public in determining what and where and how services will be delivered and also to consult them on proposals. The results of these consultation processes will be taken into account when the siting of new LIFT facilities is being considered.

PAC conclusion (ix): The effectiveness of Strategic Partnering Boards is crucial to the performance of LIFT. Chairs of Strategic Partnering Boards are appointed and remunerated by Primary Care Trusts. Members come from local stakeholder bodies. There is a risk that the Board can become a forum for discussion rather than a decisive and results-focused body. Partnerships for Health should help Primary Care Trusts, and local authorities, where relevant, to develop a framework for appraising the effectiveness of the Boards.

40. The Department agrees that it is important that Strategic Partnering Boards should be decision-making bodies and not simply forums for discussion. However, the Department does not consider that the central development of a framework to appraise the effectiveness of these Boards would necessarily achieve this. The Department does not, therefore, consider that it would be useful to commission PfH to develop such a framework.

41. As noted by the Committee, the Strategic Partnering Boards consist of members of local stakeholder bodies, the Chair of each Board being appointed by the relevant PCT. The appraisal of the effectiveness of each Board is a local responsibility, as is the taking of any action necessary to make a particular Board more effective. The Department would expect PCTs to lead in assessing the effectiveness of their local Strategic Partnering Board as part of their work to ensure good governance and effective decision-making. In doing so, they would naturally work with the other stakeholders represented on the Strategic Partnering Board.

Forty-eighth Report

HM Revenue and Customs

HM Customs and Excise Standard Report 2004-05

1. The Commissioners for Revenue and Customs Act 2005, which received Royal Assent on 7 April 2005, provided the legal basis for the new integrated Department, HM Revenue and Customs, which was launched on 18 April 2005. HM Revenue and Customs exercises the functions previously vested in the Inland Revenue and HM Customs and Excise. References below to the Department cover the functions of both HM Customs and Excise up to 18 April 2005 and the new HM Revenue and Customs.

2. The Department collects some £8bn in tobacco revenue each year. The Department estimated that in 2003—04 the total loss of excise duty and VAT from tobacco fraud was £2.9bn: £2.2bn on cigarettes and £0.7bn on hand rolling tobacco. The Department collects gross VAT receipts of more than £125bn a year. Most businesses remit by the due date but some fall into arrears. At March 2005 the Department reported that overdue VAT amounted to £2.6bn. The VAT debt management team aims to reduce the debt outstanding, maximise revenue collected and encourage improved compliance in future. On the basis of a report by the Comptroller and Auditor General, *HM Customs and Excise Standard Report 2004-05 (HC 447, Session 2005-06)* the Committee examined HMRC on its Tobacco Strategy and its management of VAT debt.

The Tobacco Strategy

PAC conclusion (i): HM Customs and Excise (the Department) has succeeded in reducing the market share for illicit cigarettes from 21% to 16% over four years, and estimates that in 2003-04 it collected an additional £2.1bn in tobacco duty. But tobacco fraud remains significant and the Department estimates that £2.9bn revenue was lost in 2003-04. The additional funding to support the Tobacco Strategy in the three years from 2000-01 to 2002-03 was £209m. The Department and the Treasury should carry out a cost benefit analysis on what could be achieved in reducing further the loss from tobacco fraud by devoting more human and technical resources to the task.

3. HM Revenue and Customs (HMRC) acknowledge the Committee s recommendation. A refreshed strategy for tackling tobacco smuggling was announced in Budget 2006, aimed at reducing the illicit cigarette market still further to 13% and reduce the size of the illicit Hand Rolling Tobacco market by 1200 tonnes by 2008. HMRC continually undertakes analysis of the costs and benefits of different ways of tackling fraud and uses the results in decisions on the allocation of resources.

PAC conclusion (ii): Counterfeit cigarettes represent about one quarter of the illicit cigarette market and account for half the cigarettes seized by the Department. The cigarettes are manufactured in the Far East and Eastern Europe and then distributed in the UK outside normal retail outlets. The Department is working with overseas revenue authorities in an effort to disrupt the supply of counterfeit cigarettes at source and in transit. It should co-ordinate its strategy with local authorities trading standards departments to tackle the distribution networks for this tobacco.

4. HMRC agrees this recommendation and its officers already work regularly and frequently with local Trading Standards officers operationally throughout the country. In order to maximise the effectiveness of this multi-agency approach, HMRC is currently discussing with the national Trading Standards body, LACORS (Local Authorities Coordinators of Regulatory Services), the potential for an overarching protocol.

PAC conclusion (iii): Counterfeit tobacco is of inferior quality and presents an additional health risk to consumers. The Department should seek to reduce the demand for counterfeit cigarettes by working with the Department of Health on a joint publicity campaign to raise public awareness of the particular health risks associated with counterfeit tobacco.

5. Effective communications are central to tackling tobacco smuggling, and a comprehensive media campaign is a key element of the refreshed strategy announced in the Budget.

6. The campaign will raise awareness of HMRC s enforcement action and penalties to increase the strategy s deterrent effect, and encourage the public to pass on information or suspicions to HMRC s confidential hotline. HMRC are also working with the Department of Health on measures to undermine smokers confidence in smuggled cigarettes by increasing awareness of counterfeit and the links to organised crime.

PAC conclusion (iv): The seizures of genuine UK brands have fallen significantly, from 75% of large seizures in 2001 to 35% in 2005. The Department has updated its Memoranda of Understanding with the leading tobacco manufacturers to combat the smuggling of their products. It also proposes to seek statutory backing to the agreements, introducing fines for loss of revenue where manufacturers' brands are being illegally sold in the UK. The Department should set a separate target to achieve a further reduction in genuine cigarettes smuggled into the country.

7. The focus of HMRC s cigarette strategy is to reduce the scale of the illicit market in cigarettes, whether they are counterfeit smuggled cigarettes or genuine smuggled cigarettes. By 2008 HMRC aim to have the illicit cigarette market at no more than 13%. In order to deliver this target, HMRC will need to effectively tackle the smuggling of both counterfeit and genuine cigarettes. HMRC notes the Committee s recommendation, however, it does not believe that the make-up of the illicit market can be quantified so as to disaggregate the genuine and counterfeit shares in a statistically robust enough way to allow targets to be set and performance measured.

PAC conclusion (v): Revenue losses from hand-rolling tobacco are currently estimated to cost the Exchequer £0.7bn a year. Leading brands of hand-rolling tobacco dispatched to other countries in the European Union are being smuggled back into the UK. The Department has now extended its Memoranda of Understanding with leading manufacturers to cover hand-rolling tobacco. The Department's Public Service Agreement target on cigarette smuggling should be extended to include all tobacco products.

8. *New responses to New Challenges: Reinforcing the Tackling Tobacco Smuggling Strategy* , published in Budget 2006, sets HMRC a target of reducing the levels of smuggled Hand Rolling Tobacco in the UK by 1200 tonnes by 2007-2008.

PAC conclusion (vi): Tobacco manufacturers consider that the Department underestimates the non-UK duty paid share of the cigarette market by 3% to 4%. Different data sources are used by the Department and the manufacturers, so assessments on the overall level of tobacco fraud are likely to differ. The Department should work with manufacturers and distributors to achieve a better understanding of the trends in tobacco fraud, to identify emerging threats and therefore deploy its resources more effectively to counter tobacco fraud.

9. HMRC accepts this recommendation. The Department already works closely with tobacco manufacturers through the Memoranda of Understanding, and has a good relationship with the trade associations. It is also actively engaged with tobacco manufacturers to improve understanding of the illicit market and, as a result, on the best ways to counter it.

VAT debt management

PAC conclusion (vii): Debt recorded on the Department's Trader Register, its case management system, increased from £2.0bn in March 2002 to £2.6bn in March 2005. The uncollectable elements, relating to missing traders, ongoing criminal investigations, or debt under dispute by the trader, increased from £822m to £1,641m over the same period. The Department's success in bringing new debt onto the Trader Register is undermined by its inability to bring it into collection. The Department needs to establish clear procedures to review un-collectable debt cases regularly, with targets set for their resolution.

10. The Department accepts the Committee s findings. Collection procedures have been reviewed and improved guidance has been issued. Improvements to the computer system have been implemented to ensure all new debt is brought under the control of Debt Management. These changes will enable the Department better to monitor debt and to proceed with recovery action at the earliest opportunity. Performance measures specifically aimed at supporting more effective management of the uncollectable elements of debt are being developed during 2006/2007.

PAC conclusion (viii): In March 2005, some £1.3bn of debt recorded in the Department's VAT Mainframe accounting system had not been transferred on to the Trade Register. £400m was due to timing differences, but some £900m represented debt that should have been transferred to the Trader Register and actively managed. The failure to align the two systems undermines the Department's efforts to improve its recovery of VAT. The Department should promptly notify and record all VAT debt on the Trader Register so that it can actively manage it.

11. The Department accepts the Committee s findings and has substantially resolved the issues that were delaying the identification of some VAT debts. These were complex system issues, which took time to resolve because substantial work was involved in identifying the debts and providing a solution that would prevent a recurrence of the problem. Some minor management information issues remain but these will be resolved by November 2006. However, the majority of VAT debt is now being identified and acted upon at the earliest possible time.

PAC conclusion (ix): As a result of the Department's actions the overall level of recoverable debt has decreased from £1,240m in March 2002 to £913m in March 2005. This improvement in performance followed the introduction of some 150 additional staff on debt management activity. The Department should see how its performance on the collection of VAT debt now compares with that of other EU Member States.

12. The Department notes that the NAO is taking forward an international study of the costs of collecting different kinds of taxes in the UK compared with France, Germany and other European countries. HMRC also participates within the framework of the OECD s Taxation Administration Compliance Sub-Group to share knowledge and best practice with tax authorities in other developed countries.

Forty-ninth Report

HM Revenue and Customs

Corporation Tax: companies managed by HM Revenue and Customs' Area Offices

1. HM Revenue and Customs (the Department) collected around £33 billion in Corporation Tax in 2004—05, and expects receipts to increase to £42 billion in 2005—06. The Department s Large Business Service deals with the tax affairs of the largest businesses operating in the UK. Its network of 68 Areas (Local Compliance) deal with the rest — over a million companies — at a cost of around £220 million a year. These companies paid £15 billion in Corporation Tax in 2004—05. On the basis of a report by the Comptroller and Auditor General, *Corporation Tax: companies managed by HM Revenue and Customs' Area Offices (HC 678 Session 2005-06)* the Committee examined HMRC on its management of Corporation Tax.

PAC conclusion (i): In spite of a 40% error rate in returns, Areas conduct enquiries on only 4% of returns. Yet only 60% of these enquiries succeeded in increasing the tax or profit assessment. The Department needs to improve the targeting of enquiries, and thereby increase the tax yield. It should strengthen the use of risk assessment techniques, particularly in those Areas, which do not make full use of available databases and those with the lowest enquiry success rate.

2. The Department accepts the Committee s findings. The Department is currently re-organising its risk processes. This includes

- constructing a coordinated view of risk on a national basis for all taxes and duties,
- compilation of risk registers for each tax and duty,
- moving towards targeting enquiry work from the emerging national picture of risk
- establishing compliance strategies for customer segments,

This will enable the Department to develop a more nationally focused risk assessment process, concentrating on cases with the highest risk to the Exchequer. The changes in local Area offices will ensure that these changes in risk processes will be applied consistently across HMRC.

3. The Department is currently implementing its Better Data for Corporation Tax initiative to local Area offices. This combines existing databases and makes them more readily accessible and will strengthen risk assessment processes.

PAC conclusion (ii): 70% of the additional revenue secured from the Department's random enquiries was attributable to 5% of the companies examined. The Department should use its random enquiry programme to identify the types of company, which are most likely to be guilty of serious abuse and those that are making genuine errors. It should use the results to focus enquiry work on areas of greater risk and target education campaigns on companies that need help in understanding their obligations.

4. The Department accepts the Committee s findings. It uses a random enquiry programme to provide data about both the incidence of non-compliant taxpayers and the nature of non-compliance. The latest result that 70% of additional revenue comes from 5% of the random cases confirms the need to concentrate risk assessment processes on identifying the riskiest cases. The results from the random enquiry programme are therefore essential to determining where the Department focuses its future enquiry work and educational activity.

PAC conclusion (iii): 'Aspect' enquiries achieve a pay-back four times better than 'full' enquiries because they are much less costly, but a higher proportion achieve no additional tax yield. Most of the enquiries the Department undertake are 'aspect' enquiries, which focus on one or more feature of the tax assessment, but it also undertakes 'full' enquiries, which examine the entire business. To improve the payback from its enquiry work, the Department should identify those types of enquiries, which achieve no additional tax yield.

5. The Department accepts the Committee s findings. Under current legislation a formal enquiry has to be opened to ask about a return, whether the questions are about the entire business (full) or about a particular feature of a return (aspect). In aspect enquiries there are often only technical risks at issue and additional information is needed to check whether the appropriate tax treatment has been applied. If it has the enquiry is closed without adjustment. This, naturally, leads to a greater proportion of cases resulting in no additional yield but also, because of the restricted nature of the enquiry, results in shorter turn-around times, resulting in a higher overall pay back.

6. The performance of all aspects for the Department s CT enquiry programme is continually monitored in order to maximise its effectiveness. The Department devotes significant effort to maximising knowledge from its enquiry activity by identifying best practice, disseminating it and ensuring that it becomes the national standard. The results from this work coupled with the better targeting of casework expected from the strengthened risk processes outlined in paragraphs 2 and 3 will help reduce the proportion of aspect enquiries opened where no additional yield is identified.

PAC conclusion (iv): The Department decides the mix of Areas' full and aspect enquiries, and of Corporation Tax and other tax enquiries, but without a full understanding of their relative marginal effectiveness. It is developing a risk strategy for its compliance work, looking across business taxes. It should establish the marginal payback of the different elements of that work to focus on areas of greatest potential return. It should also set a target to increase the current level of 9% of Corporation Tax full enquiries that also cover other taxes.

7. The Department notes the Committee s findings .The Department has details of the payback (yield/cost ratio) for all of its compliance activities and is working on relating these to specific elements of its compliance work. Payback is an important element of determining compliance priorities, but it is not the sole driver. To ensure consistence for its customers, and confidence in the system, the Department needs to have an adequate deterrence presence across the whole of its customer base. To achieve this, the Department needs to balance its intervention mix across its customer base to optimise its impact in terms of payback, deterrence effect and overall compliance.

8. The Department adopts a risk-based approach to the cases it takes up. One of the aims is to take up those cases, which present the largest potential risk to the

Exchequer. The risk strategy the Department is developing will be used to establish the appropriate resources needed to be employed in the areas of largest potential risk across all heads of duty and ensure coverage.

9. The changes in local Area offices will bring together expertise across all businesses taxes, income tax, corporation tax, capital gains tax, compliance with employers obligations under PAYE and VAT to ensure that all potential risks are considered in any enquiry undertaken, including any CT full enquiries.

10. However, another Departmental aim is to have an enquiry presence in all customer streams for deterrence purposes. This means that potential risk has to be defined within customer streams, so that a large risk in one customer stream may be relatively small in another stream. The Department looks to balance its enquiry presence in these streams to achieve both these aims.

PAC conclusion (v): The Department imposed penalties for negligently inaccurate returns in half of the full enquiries which produced additional tax yield in 2004-05, but it applied penalties in only 5% of aspect enquiries. Aspect enquiries often involve questions of interpretation of accounting and tax rules. To show whether Areas are applying penalties consistently and effectively, the Department should analyse the types of cases that are penalised and those that are not, and the scale of abatements applied.

11. The Department accepts the Committee s findings. The Department has carried out a review of enquiry cases to examine whether penalties have been applied consistently and effectively. The review also looked at the scale of abatements applied. The findings have informed the work of the Review of Powers, Deterrents and Safeguards on penalties for completing incorrect returns. For the future the Department is establishing a rolling programme of enquiry case reviews, one aspect of which will be the consistency and effectiveness with which penalties are applied.

12. The Review of Powers, Deterrents and Safeguards is looking at the potential for aligning the Department s approach to penalties across different taxes, initially income tax, corporation tax, capital gains tax, compliance with employers obligations under PAYE and VAT. Proposals in the Consultation Document issued on 30 March 2006 include ideas for differentiating between mistakes, failures to take reasonable care and deliberate understatements and for enabling a more consistent approach to the level of penalty charged. If these ideas are taken forward guidance will be needed to help the Department, taxpayers and their advisers to identify these categories and distinguish between them more consistently.

PAC conclusion (vi): Over the last five years, the Department has referred only five agents or advisers to their professional bodies for breach of professional ethics or conduct. Despite assurances to our predecessors in 2004, there appears to be little progress in increasing the number of referrals. As part of its current ‘modernising powers, deterrents and safeguards’ review, the Department should include proposals for dealing more effectively with non-compliance that results from poor professional advice.

13. The Department accepts the Committee s findings. The Department aims to take a more robust and consistent approach to tackling agent misconduct, which will include reference to professional bodies where appropriate. The Department is currently considering whether its powers provide a sufficient framework for disclosure of the information that would support any such reference to professional bodies disciplinary functions.

PAC conclusion (vii): The wide variations in Areas' enquiry coverage, results and efficiency indicate scope for higher yields and cost savings. If all Areas had achieved the national average in 2004-05, yields could have been £60 to £100 million more. The Department is using the National Audit Office's benchmarking analysis to develop its management of Area performance. In so doing, it should track Areas' relative efficiency in securing additional tax yield compared with the size of their local company caseload. It should also apply a similar approach in managing other locally administered taxes.

PAC conclusion (viii): The variation in enquiry coverage – from 2% in some Areas to 9% in others – means that companies of a similar risk are more likely to be subject to an enquiry in some Areas than in others. This uneven coverage stems from imbalances across Areas in the number and experience of staff compared with the size and complexity of the Areas' caseloads. The Department should reassign more work between Areas to even out coverage and workloads.

PAC conclusion (ix): Varying results and efficiency of enquiry work across Areas reflect this mismatch of resources to risk, and differences in risk assessment skills between Areas. The Department's plans to restructure the local office network provide an opportunity to address these factors. In a new network structure, the Department should provide offices of sufficient size to achieve efficient processing and enquiry work, applying the full range of risk-assessment skills. It should also redesign its compliance work to match the risks posed by different business sectors.

14. The Department accepts the Committee s findings. The Department recognises that the distribution of inherently riskier cases is not uniform around the country, nor has it been able to fully match resources to those riskier cases. Deploying resources to risk is a difficult process because risk patterns can change quickly while re-deploying resource necessarily requires greater lead in times. The Department is addressing this by developing a national picture of risk that will inform strategic priorities and drive a deployment model that better balances activities with resource appropriate to the risk posed.

15. Local Compliance is being restructured on customer segment lines with the aim of improving national consistency and increasing productivity. Local Compliance is establishing five streams:

- Large and Complex Businesses;
- Medium Businesses;
- Small Businesses;
- Individuals; and
- Targeted Education, Enabling and Leverage.

16. Local Compliance has also been organised into five geographical Groups to cover the whole of the United Kingdom. This will ensure that Local Compliance is a national business run locally.

17. The re-structuring of Local Compliance in this way will create a smaller number of organisational units covering each customer segments. The Department is using the re-structuring to rebalance that the customer caseload for each unit, and to

resource the units appropriately for its customer base and behavioural characteristics. The Department is using current Area results to inform this rebalancing. The results from the new units will be used to monitor relative efficiencies and to inform any future re-distribution of work between the units.

18. Interventions will be focused on customer segments and customer behaviours. This will enable the Department to identify the appropriate intervention to cover the risk or behavioural characteristic in a segment and to allocate the appropriate resource needed. It will also allow the Department to allocate available resources between the segments to focus on the highest risk areas whilst maintaining compliance across the whole customer base.

19. Local Compliance is also using its Pacesetter programme to improve the quality of its enquiry process by focussing on improved outputs, skills and consistency across the country. The Pacesetter programme is reviewing all of the current enquiry processes to streamline those processes, evaluate any training needs and ensure that a consistent approach is taken nationally on any enquiry. The results from Pacesetter will be introduced on a rolling programme.

20. Coupled with this is the Consultation Document Modernising powers, deterrents and safeguards: A consultation on the developing programme of work . This sets out a number of ideas that might provide a different range of interventions that are more proportionately geared to risk and that could be undertaken at less cost to both taxpayers and the Department. A programme of pilots to test these forms of intervention is in progress and will be evaluated in October 2006.

PAC conclusion (x): The Department's shared workspace project has shown promising results in speeding up enquiries, which often last for a year or more. Subject to the successful extension of the project to London offices during 2006, the Department should extend it to all local offices thereafter. It should also extend to all offices its new system of team working where staff specialise in specific enquiry tasks. The aim should be to achieve at least the 20% reduction in the time taken to complete enquiries that has been achieved in the shared workspace pilot Area.

21. The Department accepts the Committee s findings. The Department is expanding the shared workspace project to London offices during 2006, and is intending to expand to other local offices if the pilot in London is successful.

22. The current re-structuring of the Local Compliance is taking into account the need to ensure that team working is adequately resourced.

PAC conclusion (xi) Electronic filing offers many benefits for the Department and companies, but only 2% of companies are filing their Corporation Tax returns on-line. The Department aims to introduce by Summer 2006 a system for companies to submit their accounts, as well as their returns, in a form that feeds directly into the Department's computers. It plans to require all companies to file their returns online by 2010. The Department has a corresponding responsibility to make the new system reliable and easy to use, so that companies are not forced into a process, which imposes substantial costs on them.

23. The Department accepts the Committee s findings. In his Review of HMRC Online Services published in March 2006, in addition to mandatory e-filing Lord Carter made specific recommendations aimed at improving customer processes and providing a robust, fully tested service. The Government has accepted Lord Carter s

recommendations. HMRC is now working with stakeholders on how these will be implemented.

24. The rate of Company Tax Returns being filed electronically is increasing. At the end of July 2006 the rate was 8.52%.

Fiftieth Report

Ministry of Defence

Major Projects Report 2005

1. The Major Projects Report (MPR) 2005 provides information on the time, cost and performance of the Ministry of Defence s (MOD) 20 largest projects where the main investment decision has been taken and the 10 largest projects in the Assessment Phase. For the approved projects, forecast costs were some £700m lower compared to the previous year. On the basis of a report from the Comptroller and Auditor General, the Committee took evidence from the Department on three main issues: enhancing programme and project management in defence acquisition; the impact of older projects on overall acquisition performance; and value for money from the *Defence Industrial Strategy* (DIS)[1].

PAC conclusion (i): The Department has reduced the forecast costs of its top 19 projects by some £700 million. These reductions in forecast costs were not the result of better project management but were cuts needed to bring the Defence Equipment Plan under control. The Department achieved these reductions by cutting the numbers or capability of equipment, and has yet to demonstrate that it can consistently manage individual projects to deliver the planned operational benefits to the Armed Forces to cost and time.

2. The Department notes the Committee s comments. However, the Committee s conclusion simplifies a complex and dynamic process. Good project and programme management requires trading among all the variables of cost, time, and performance, as was re-emphasised by Smart Acquisition . Many factors influence the MOD s Equipment Plan, including changes to priorities, developments in technology, the impact of operations and project cost pressures. In responding to these factors, the Department must work within the constraints of its overall resource allocation. Where such factors result in additional costs, changes must be made elsewhere in the Plan to maintain overall balance. The Department has a robust planning mechanism in place to ensure that these adjustments are made in such a way that it delivers a balanced and coherent set of equipment capabilities to the front line within the resources available.

PAC conclusion (ii): Some of the latest capability cuts are short-term expediencies which may result in an erosion of core defence capability or in higher costs throughout the life of individual projects. When deciding how to live within its overstretched budget, the Department should not make short-term cuts without first spelling out the longer-term negative impacts in terms of core capability or poor value for money.

3. The Department notes the Committee s recommendation. The Department has a robust planning process that ensures before any decisions are taken in respect of major projects, comprehensive Impact Statements are generated by the Department, which set out the consequences of the proposed action. These are prepared in consultation with stakeholders across the Department, including Front Line Commands. This process ensures that when decisions are taken, it is with full visibility

[1] *Ministry of Defence: Defence Industrial Strategy*: Defence White Paper Cm 6697, December 2005.

of the impact on capability, risk, value for money and other key factors. The changes to the Department s processes and structure being introduced following the Defence Industrial Strategy under the Enabling Acquisition Change initiative will encourage greater consideration of the long term impact of initial acquisition decisions.

PAC conclusion (iii): The Department's defined levels of capability do not include the quantity of equipment bought. So they can allow quantities to be cut to offset cost overruns, without affecting measured capacity. In defining threshold levels (minimum acceptable capability) and objective levels (full capability desired) for equipment capability on projects coming forward for approval, the Department should reflect quantities as well as performance characteristics.

4. The Department does not accept this recommendation. The July 2004 White Paper *Delivering Security in a Changing World: Future Capabilities* explicitly emphasised the Department s focus on effects based warfare — focusing on the impact our Armed Forces can deliver, rather than the number of platforms that we use. In the process of balancing Defence capability within the Department s resource allocation, it is possible that platform numbers will change. Nevertheless, the fact remains that it is the capability delivered rather than the platform numbers on which we are focussed. Where the required capability can be delivered from fewer platforms, it is appropriate that resources are allocated to other priorities within the Programme.

PAC conclusion (iv): Despite previous assurances that it had restructured many of its older projects, at considerable cost, to address past failures, the Department still attributes much of its historic poor performance to so called "toxic legacy" projects which continue to accumulate considerable time and cost overruns. The Department cannot indefinitely hide behind past deficiencies, while claiming to be taking a proactive approach to addressing the problems. It is time that these projects were put on a firm footing with realistic performance, time and cost estimates against which the Department and industry can be judged.

5. The Department agrees that the older legacy projects need to be put on a firm footing with realistic estimates of time, cost and performance but the Department rejects the assertion that it is hiding behind past deficiencies . The Department has been open about the problems involved with older and larger projects, which remain in the MPR population for several years because of their very long-term nature. Substantial improvements to equipment acquisition practice have been, and continue to be made and have resulted in improvements, and we are determined to build on these; but the fact remains that it is impossible to alter retrospectively the terms of approvals which did not fully reflect current best practice for projects where approvals were given and contracts were let many years ago, to reflect the standard which would now apply.

6. The Department can evidence a proactive approach to the problems. In July of this year the Department signed a production contract with BAE Systems for 12 Nimrod MRA4 aircraft, one of the older and most problematic projects. On the Astute programme the Department is currently working with BAE Systems and other critical suppliers in pursuit of the DIS to achieve an affordable and sustainable submarine programme. In support of this MoD has ordered four packages of long lead items with BAE Systems, Rolls Royce and their suppliers, which will ensure the long-term viability of the supply chain and the maritime industrial base.

PAC conclusion (v): The Department has improved its practice in setting meaningful in-service dates, but still not all future in-service dates represent the delivery of useable capability to the frontline. In defining these dates it needs to incorporate areas such as logistic support and training to enable the Armed Forces to use the equipment effectively.

7. The Department agrees with the Committee s recommendation. It plans to deliver effective military capability to the Front Line Commands, which requires the eight Lines of Development (LoD) — Training, Equipment, Personnel, Infrastructure, Logistics, Concepts and Doctrine, Organisation — associated with each project to be in a mature enough state to support and maintain the equipment that delivers the capability effect. LoD are intended to apply coherence to the evolution of Defence capability. The choice of In Service Date (ISD) is therefore now made with this requirement in mind and after wide consultation with stakeholders. It is already part of the routine project management process within the Department to monitor and deliver the equipment, with its associated LoD, at ISD.

PAC conclusion (vi): In co-operating with the United States on defence projects, the United Kingdom is the junior partner, which reduces our influence over the project's direction. Conversely, a lack of focused leadership has stymied progress on many European collaborative projects. The Department should routinely analyse co-operative projects to see how far the expected benefits are delivered, so that it can make better-informed decisions before committing to future co-operative acquisitions.

8. The Department notes the Committee s conclusions about cooperation with the US and within Europe. While the US s far larger defence budget and requirements inevitably constrain the influence we can exert, we are able to ensure our operational capability requirements are met. For European collaborative programmes, Organisation Conjointe de Coop ration en mati re d Armement (OCCAR) was established in 1996 to improve project management and build a centre of expertise using best procurement practice; greater empowerment by nations and the abandonment of juste retour are two of the many improvements over previous arrangements.

9. The Department agrees with the Committee s recommendation that routine analysis of co-operative projects should help inform future acquisition decisions. The Department requires all projects to be subject to evaluation as set out in *Joint Services Publication (JSP) 507: MOD guide to Investment Appraisal and Evaluation*. The evaluation can range from a basic lessons learned paper through to formal Post Project Evaluations depending upon the nature of the project. The Department is currently reviewing JSP 507, which is expected to be reissued in the autumn; the revised guidance will embed project evaluation as a continuous through life process, with evaluations conducted at key stages throughout the project lifecycle. The lessons learned could then be fed back into in the decision making process for future acquisitions.

PAC conclusion (vii): The Department has introduced key supplier management to assess the performance of its 18 largest suppliers, but much of the innovation which will drive better acquisition performance comes from the second and third tiers of the supply chain. The Department considers that these arrangements have already had a beneficial impact by focusing suppliers on areas for improvement, but to maximise the benefits the Department should progressively extend the principles of key supplier management through its supply chain.

10. The Department agrees with this conclusion and recommendation, which echoes one of the themes of the DIS (referred to specifically at paragraph C1.16 of the white paper). The Department is examining with industry ways to improve the process of bringing innovation to bear, for example by identifying specific initiatives to improve visibility and access for Small and Medium Sized Enterprises seeking opportunities to market new ideas and solutions to defence needs. We are also looking to extend the principles of key supplier management by working with our key suppliers to understand and manage better their respective supply chains with a view to improving performance, value for money and competitiveness in world markets. We are encouraged by evidence that industry is responding to the challenge of developing and improving supply chains. As an example, the Society of British Aerospace Companies has launched an initiative known as 21st Century Supply Chains with founding signatories representing nineteen defence and aerospace companies. The initiative includes the introduction of standardised key performance indicators and definitions to measure performance, applicable to both supplier and customer, to benchmark performance and set targets for future improvement. It will also establish common selection rules, criteria and auditing requirements to reduce the overhead burden for supply chain companies and their customers. The Department will consider with industry further ways to improve relationships and performance across the supply chain to ensure that we capture and promote best practice.

PAC conclusion (viii): The DIS aims to promote a sustainable and globally competitive defence manufacturing sector but the Department has not traditionally quantified or measured these wider benefits. The Department should more accurately quantify what these wider beneficial outcomes might be at the time defence acquisition decisions are made, and should monitor their achievement throughout the life of the project.

11. The Department agrees with this recommendation. The creation of a sustainable and globally competitive defence manufacturing sector will benefit defence acquisition by ensuring that the capability requirements of the Armed Forces can be met, now and in the future, and that we retain in the UK those industrial capabilities needed to ensure appropriate sovereignty and/or contribute to collaborative efforts.

12. The DIS emphasises the need for a Through Life Capability Management approach to acquisition, taking account of all available factors at the key decision points and monitoring performance throughout the life cycle of the individual equipment or service contract. Wider factors will continue to be considered in acquisition decisions where appropriate.

13. The Department acknowledges that further work on quantifying those wider benefits could be advantageous and work currently in hand in MOD on the Defence supply chain, together with wider discussions between MOD and the Defence Industries Council may offer scope to develop quantification of the kind that the committee advocates.

Fifty-first Report

Department of Health

A safer place for patients: learning to improve patient safety

1. The NHS Patient Safety Programme was established in 2001. It included the creation of the National Patient Safety Agency (NPSA), which was charged with developing and maintaining a reporting system and analysing adverse events and near misses so that the sources of risk could be addressed. This work has been underpinned by a national standard and assessment process for safety, a clinical governance initiative and the establishment of local reporting and risk management systems in the NHS. In response to the National Audit Office s assessment of the patient safety programme[2], the Department has commissioned a review of the organisational arrangements in place that support patient safety. The report is due shortly and preliminary findings indicate that whilst there remains broad support for the patient safety programme there are areas where improvements should be made. Specifically, the review is likely to focus on areas that help to ensure that patient safety is owned at all levels of the healthcare system. It will consider ways that make it easier to engage clinicians and other frontline staff in reporting patient safety incidents and focus on actionable learning and quicker responses to serious adverse events. It will also look at the types of measures needed to promote the sharing of lessons locally and enhance the engagement of patients.

PAC conclusion (i): Insufficient progress has been made in achieving the Department's plans in Building a Safer NHS for Patients. In particular the National Patient Safety Agency was very late in delivering the National Reporting and Learning System and has provided only limited feedback to NHS trusts on solutions to reduce serious incidents. The National Patient Safety Agency has also failed to evaluate and promulgate solutions that have been developed at trust level. As a result the Agency has yet to demonstrate good value for money.

2. The Department agrees that in some areas progress in taking forward the agenda for patient safety has been slower than it would have wished.

3. The Department notes that the implementation plan for the establishment and roll out of the National Reporting and Learning System (NRLS) included an evaluation of a pilot reporting system in 2001. This is in line with best practice. The National Patient Safety Agency (NPSA) decided on the basis of this evaluation that the pilot system was not suitable for national roll out. This resulted in a reassessment of the implementation timetable for the NRLS. During 2003, the NPSA built a new reporting and learning system, which it regarded as more suitable and began to roll it out to the NHS. At the end of 2004, all NHS trusts were in a position to provide information to the NRLS. Despite the delayed implementation of the NRLS, 100% of trusts are reporting to the NRLS and the majority are doing so through their local risk management system. The NPSA has also contributed significantly to developments in patient safety. In particular, it has issued 16 national patient safety solutions, of which seven have been patient safety alerts addressing high-risk patient safety issues. It has published other tools, including the *Seven Steps to Patient Safety*, the Incident Decision Tree

[2] National Audit Office, A Safer Place for Patients: Learning to improve patient safety, November 2005.

and the Root Cause Analysis toolkit. These have encouraged the NHS to take a systematic approach to delivering safer care.

4. Out of the 16 national solutions the NPSA has produced, a significant number were either originated locally or were based on existing local solutions. These included solutions on handling infusion devices, the *cleanyourhands* campaign, guidance for inserting nasogastric-feeding tubes, correct site surgery and ensuring patients wear wristbands. The NPSA will now need to ensure that it focuses on delivering a programme of safety solutions that is based on the best available evidence and that will have the greatest impact on safety.

PAC conclusion (ii): Trusts estimated that on average around 22% of incidents and 39% of near misses go un-reported, and that medication errors and incidents leading to serious harm are the least likely to be reported. The National Patient Safety Agency should compare its own data with the incident reporting data collected by the National Audit Office. It should bring together trusts with low levels of reporting and those that have achieved high reporting rates to help improve incident and near miss reporting. The Healthcare Commission should evaluate compliance with reporting requirements as part of its performance assessment process.

5. The Department is aware of the problems of under-reporting that the Committee has outlined and accepts its recommendations. Health care staff work in complex environments and what constitutes a near miss can be open to a range of interpretations. The NPSA s guide for the NHS — *Seven Steps to Patient Safety* (2004) — helps staff by setting out a definition of a near miss and emphasising the importance of reporting these types of incidents.

6. The NPSA has now put in place a secure extranet site, which allows trusts to view quarterly analytical reports and benchmark themselves against similar organisations. Through the work of its Patient Safety Managers, the NPSA will be supporting trusts that are experiencing low reporting rates to help identify appropriate ways of dealing with this problem.

7. The Healthcare Commission is already evaluating compliance with reporting requirements as part of its performance assessment process. Safety comprises one of seven core standards against which the Healthcare Commission assesses all trusts. The national core standard for safety specifies that all healthcare organisations should have a defined reporting process and that incidents should be reported at a local level and also at a national level to the National Patient Safety Agency.

PAC conclusion (iii): The lack of accurate information on serious incidents and deaths makes it difficult for the NHS to evaluate risk or get a grip on reducing high-risk incidents. The National Patient Safety Agency needs to obtain a more precise understanding of the extent and causes of death and serious harm. To do so, it needs to collect information on the contributory factors and develop a more targeted, risk based, approach to solutions aimed at reducing such incidents.

8. The Department recognises the importance of having complete and accurate information about patient safety incidents. It is important to improve national data but not to a level where the demand for detail increases the complexity and time taken for frontline staff to report and thereby reduces reporting rates. The NPSA recognises the limitations of the NRLS data and this is why it set up the Patient Safety Observatory. The Observatory brings together NRLS data with other data and information from

sources such as hospital episode statistics, litigation and complaints. This approach helps to validate data from the NRLS and to develop an understanding of the contributory factors that lead to patient safety incidents.

9. It is also important to improve understanding of patient safety incidents at a local level. It is essential that the outcomes of investigations and the contributory factors that lead to an incident facilitate local learning. Root cause analyses conducted locally are a rich potential source of learning for healthcare organisations and can help reveal the contributory factors including system failings that led to an incident occurring. The NPSA has trained over 8000 NHS staff in root cause analysis (an accident investigation technique). A key objective for the NPSA in 2006-07 is to develop a formal mechanism to capture the outcomes of local investigations carried out by this method and any local solutions work to help inform the development of its national safety solutions.

PAC conclusions (iv): Doctors are less likely to report an incident than other staff groups. The National Patient Safety Agency has run a national initiative to encourage reporting by junior doctors, and should promulgate the lessons from this initiative across the NHS. Trusts should evaluate their own levels of under-reporting and target specific training and feedback at those groups of staff that are less likely to report.

10. The Department agrees that there should be concerted efforts to tackle underreporting where this occurs amongst all staff groups. Trusts should be using the tools and guidance produced by the NPSA including those produced as part of its Junior Doctors campaign.

11. The Department accepts the Committee s assertion that doctors are less likely to report an incident than other staff groups and that this is a problem with both cultural and educational solutions. Efforts have been made to address this through targeting doctors in training. The curriculum for Foundation Years in Postgraduate Education and Training for doctors launched in 2005 includes formal teaching sessions that emphasise patient safety and accountability through clinical governance. Patient safety is further emphasised by the inclusion as a specific competence on quality and patient safety against which junior doctors are assessed.

12. In conjunction with the Royal College of General Practitioners, the NPSA are planning to launch new guidance for GP registrars on promoting reporting in general practice.

PAC conclusion (v): Although most trusts stated their safety culture had become more open and fair, less than half of trusts had conducted a formal assessment of progress. In 2004, 23% of trusts felt they had an open and fair culture throughout their organisation, and another 72% felt their safety culture was predominantly open and fair. By 2005, the percentage of trusts rating themselves as having an open and fair culture throughout had increased to 32%, while those judging their culture only predominantly open and fair had reduced to 65%. All trusts should assess their safety culture using one of the established tools, such as those listed in the National Patient Safety Agency's guidance *Seven steps to patient safety*, and implement action plans to address the issues identified.

13. The Department recognises the importance of the safety culture, which, in operational terms, is a complex construct. The key components are open reporting, fair treatment for staff together with personal responsibility, leadership, involving

patients, learning from error and sharing the lessons. The role of the NPSA is to set out the core requirements of a safety culture and to provide tools to help NHS organisations develop these. *Seven Steps to Patient Safety* is one of the practical guides the NPSA has provided to help the NHS assess and develop safety cultures within their own organisations. It is the role of the NHS, using a range of strategies to make a tangible difference on the ground.

14. The Healthcare Commission has already assessed all NHS organisations against the national core standard for safety this year. It is also finalising its consultation on the proposed approach to the annual health check, which includes assessment against the developmental standards. Under the developmental standard for safety, it is proposing the introduction of a trust self-assessment tool based on the NPSA s *Seven Steps for Patient Safety*. In 2006-07, the NPSA will also be evaluating the implementation of *Seven Steps to Patient Safety*. The outcomes of the NPSA s evaluation of *Seven Steps* and the Healthcare Commission s consultation will inform any future work that is needed to support the NHS in its development of these aspects of safety culture.

PAC conclusion (vi): Disciplinary action may be an appropriate response when patient safety is at risk, but the perception amongst nursing and other non-medical staff is that they risk suspicion if they report a serious incident. Our predecessors' Report on the management of suspensions (HC 296, 2003–04) identified an over-reliance on disciplinary measures. The Department still does not monitor the nature and length of non-medical staff suspensions, or the management action taken on them. The Department and NHS trusts should act on the previous Committee's recommendation to extend the role of the National Clinical Assessment Service to cover all staff.

15. The Department agrees that trusts should be promoting an open and fair reporting culture and all staff should feel able to report a patient safety incident without fear of blame or retribution. The Department will work further with the National Clinical Assessment Service (NCAS) during 2006-07, to explore the feasibility of extending NCAS s remit to cover other healthcare professions.

16. In the meantime, a multi-agency working group set up under the auspices of the Chief Nursing Officer and in collaboration with the NCAS, has developed a set of principles for handling concerns about professional performance. The document, which will be available this autumn, is intended for use in all healthcare settings and for all practitioners, and will help generate consistency and fairness for staff while maintaining patient safety. Particular attention is paid to exclusion from the workplace and it draws on the work of NCAS and the support it has provided to doctors and dentists.

PAC conclusion (vii): Patient safety alerts and other solutions are not always complied with though trusts self-certify that they have implemented them. For example, the Chief Medical Officer's 2004 report found that 50 days after the deadline for implementing a safety alert on oral methotrexate, only 54% of organisations had completed the actions required to reduce harm. In evaluating trusts' self assessments the Healthcare Commission with the Standards for Better Health should require trusts to provide evidence on the extent of compliance. During inspection visits they should evaluate and report on how well alerts and other solutions have been put into practice.

17. The Department accepts the Committee s recommendation and agrees that this is a significant problem although, essentially, an inspectorial and regulatory issue. Where the *Standards for Better Health* require particular outcomes as in the standard for safety, trusts declarations of compliance should reflect assurances relating not only to those structures and processes that are intended to promote safer care, but also to their effectiveness. In the course of a selective inspection, the Healthcare Commission judges the adequacy of both aspects of the trust s assurance. The Healthcare Commission is using a number of data sources to corroborate and crosscheck the accuracy of trusts self-assessments. The implementation of safety alerts is included in the Healthcare Commission s inspection guide. Where there is evidence that trusts are failing to comply, the Commission will undertake an inspection visit.

18. Strategic Health Authorities are already responsible for making sure local health services are of high quality, safe and are performing well. This role will continue as part of their new functions, including the responsibility to monitor compliance with safety alerts issued by the Safety Alert Broadcast system.

19. The Department also wants to understand the reasons why trusts might not be complying with safety alerts. It is funding the University of York to evaluate the uptake by the NHS of alerts issued by the Safety Alert Broadcast System, the cases of non-compliance and the potential barriers involved. This will be completed in spring 2007.

PAC conclusion (viii): Only 24% of trusts routinely inform patients involved in a reported incident and 6% do not involve patients at all. Only 69% of trusts had criteria for staff to follow. Using the National Patient Safety Agency guidance on *Being Open*, all trusts should as a matter of course inform patients and their carers if they have been involved in an incident, even if they suffered no harm. Patients and carers should also be consulted to help identify solutions.

20. The Department accepts the Committee s recommendations. The NPSA issued its guidance, *Being open: communicating patient safety incidents with patients and their carers* in September 2005. The policy advises healthcare staff to inform and apologise to patients, their families or carers if an unintentional mistake or error is made that leads to patient harm. The guidance recommends that staff clearly explain what went wrong and what will be done to stop the problem happening again. Alongside this policy, the NPSA issued a safer practice notice outlining the actions that NHS trusts in England and Wales should take to implement the guidance. Trusts were required to develop local *Being open* policies by the end of June 2006, to make sure that staff know about the policy and provide the necessary support to put it into practice. Full implementation of the *Being open* policy, as required by the national core standard for safety, should ensure that patients are informed when the trust has received a report of a patient safety incident in which they were involved.

21. The NHS Redress Scheme will also help to create a cultural shift within the NHS, moving the emphasis from attributing blame towards preventing harm. The scheme will place a duty on providers and commissioners of hospital services to ensure patients receive a more consistent, speedy and appropriate response to clinical negligence. This will provide redress in its widest form, including apologies, explanations, investigations and learning and for the first time, it will place patients at the heart of the process of responding when things go wrong.

22. The NPSA has a public and patient engagement strategy, which already includes the active participation of patients in developing safety solutions for the NHS.

PAC conclusion (ix): It took until July 2005, for the National Patient Safety Agency to produce its first feedback report to trusts on the number of incidents reported and some specific solutions to particular types of incidents. The Department should hold the National Patient Safety Agency to their commitment to produce feedback reports at least quarterly. These feedback reports should include illustrative business cases to demonstrate the cost-effectiveness of implementing solutions to specific problems.

23. The Department accepts the Committee s recommendation. The NPSA plans to publish quarterly patient safety data on its website. The Department is currently reviewing the NPSA s overall publication programme timetable with the aim of ensuring that the analysis and interpretation of data collected by the NRLS yields a strong flow of actionable findings on risk and patient safety. The Department will also consider with the NPSA how best to provide feedback that includes an analysis of the costs and benefits of implementing NPSA safety solutions.

PAC conclusion (x): The National Reporting and Learning System has not, as hoped, helped simplify the complexity for trusts in reporting incidents. The Department, NHS Connecting for Health and the National Patient Safety Agency should agree a plan and timetable for rationalising the reporting routes so that within the next two to three years trusts need make only one report of an incident, which is then automatically distributed to the relevant organisation.

24. The Department agrees that work should be done to reduce the reporting burden on trusts. However, there are a number of organisations with different statutory responsibilities. They have different information requirements that might not be compatible with the introduction of a single reporting route.

PAC conclusion (xi): To choose between hospitals under the NHS Choice agenda, patients will need access to robust information on patient safety, including comparable information from independent sector providers. The National Patient Safety Agency anonymises the data it collects and was not tooled up to provide comparable information. The Department needs to agree whether and how such information will now be provided and who will be responsible for publishing the data.

25. The Department does not accept this recommendation. The Department s position is that patients should not have to choose between safe and unsafe healthcare services. We would expect all providers delivering healthcare to be safe. For this reason, DH is considering how safety as a core standard can be assured at the point before healthcare organisations should be allowed to provide NHS services. Moreover, the Department would expect healthcare providers to demonstrate continuous improvement in their approach to patient safety, through learning from adverse events and through implementing risk reduction procedures and practices. Careful consideration is needed as to what the most useful information on patient safety should be to inform patient choice. For example, using the number of incident reports as an indicator of performance would not be appropriate, as it is not possible to judge the right level of reporting, or, using data that shows a decline in the most severe incidents, might have the perverse consequence of encouraging staff not to report those patient safety incidents that lead to serious harm.

26. The Department has established an Information Taskforce, which is chaired by Professor Sir Bruce Keogh, President of the Society for Cardiothoracic Surgeons and

Professor of Cardiac Surgery at University College London Hospitals NHS Foundation Trust. The Taskforce has been asked to develop measures of clinical quality to help patients make more informed choices about their healthcare and services. It aims to publish its recommendations about the first set of clinical indicators in Spring 2007. These indicators will, as far as is possible, be comparable across the NHS and independent sector. As work progresses, more comparability across both sectors will be achieved. Proposals will be discussed with appropriate Royal Colleges and patient groups to support the development of these indicators.

27. In addition to the Taskforce s work to develop information to support choice, the Healthcare Commission also publishes the results of its annual health check, which includes an assessment against the core standard for safety. Whilst the principle aim of the assessment process and the information gained is to promote improvements in healthcare, it will also help promote the sharing of information and give clearer expectations on standards of performance, including those relating to safety.

28. The Department is also planning to align the regulations governing the private and voluntary healthcare sector with Standards for Better Health. This progress towards a common basis for assessment will help create a fairer playing field for healthcare providers.

PAC conclusion (xii): The taxonomy of the National Reporting and Learning System differs from many local trust descriptions and classifications of incidents and also from taxonomies used by other countries. The World Health Organisation is developing an international taxonomy. The National Patient Safety Agency should either adopt this taxonomy or align its taxonomy fully to it, though with scope to meet additional requirements that the Agency may deem necessary.

29. During 2006-07, the World Alliance for Patient Safety will continue to develop an international patient safety classification and test the framework with interested member states. The NPSA is a member of the Steering Group overseeing this project. The Department will want to ensure that the taxonomy used in the UK is aligned with the international taxonomy once this has been developed.

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