



HM Treasury

# Treasury Minutes

**Government responses on the Thirty Fifth to the Forty Fifth Reports from the Committee of Public Accounts: Session 2013-14.**

**This publication includes revisions to the Twenty Eighth and Thirty Second reports.**

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# Treasury Minutes

## Government responses on the Thirty Fifth to the Forty Fifth Reports from the Committee of Public Accounts: Session 2013-14.

**This publication includes revisions to the Twenty Eighth and Thirty Second reports.**

- 28th Report: Fight against Malaria
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Presented to Parliament by the Economic Secretary to the Treasury by Command of Her Majesty

TREASURY MINUTES DATED 10 APRIL 2014 ON THE THIRTY FIFTH TO THE FORTY FIFTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2013-14. THIS PUBLICATION INCLUDES REVISIONS TO THE TWENTY EIGHTH AND THIRTY SECOND REPORTS.

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You can download this publication from [www.gov.uk](http://www.gov.uk)

Print ISBN 9781474102032

Web ISBN 9781474102049

Printed in the UK by Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Printed on paper containing 75% recycled fibre content minimum

ID 2636774 04/14 39796 19585

## Twenty Eighth Report

### Department for International Development

#### Fight against Malaria

#### 1: Committee of Public Accounts conclusion

Malaria is a mosquito-borne infectious disease. It is transmitted by mosquitoes drawing infected blood from one person and transmitting it to others. In 2010 there were around 219 million malaria cases worldwide, leading to some 660,000 deaths. Malaria particularly affects low-income countries with weak public health systems; it is also a significant factor in constraining their economic growth. The department's spending to combat malaria will increase from £138 million in 2008-09 to nearly £500 million by 2014-15. In the absence of a fully effective vaccine, the department's strategy is to reduce new infections through distributing proven malaria controls, such as insecticide treated bed nets, and to reduce deaths and illness through supplying drugs to treat infected people. The department plans to undertake a midterm review of its malaria programme by the end of 2013.

1.1 On the basis a report by the NAO, the Committee took evidence, on 4 September 2013, from the Department for International Development on its work to control malaria. The Committee published its report on 15 November 2013. This is the Government response to the Committees report.

#### Background resources

- NAO report: *Malaria* Session 2013-14 (HC 534)
- PAC report: *Fight against Malaria* - Session 2013-14 (HC 618)

#### 2: Committee of Public Accounts conclusion:

*The department does not presently allocate its resources according to need.*

##### Recommendation:

*Following its mid-term review, the department should improve its prioritisation of funding between countries, so it targets its resources on those countries where the need is greatest and expenditure is most effective.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

2.2 The department is currently running a resource allocation process for 2015-16. A country-level diagnostic is being used, assessing the underlying barriers to poverty reduction on which UK investments need to focus. This is taking into account the UK's comparative advantage and actions of others, including other donors and the domestic government. Where feasible the resource allocation process will compare cost-effectiveness between countries. The department is using the mid-term review of the Malaria Framework for Results to support this process and guide malaria financing to countries in greatest need and where its investments will have most impact.

#### 3: Committee of Public Accounts conclusion:

*The department does not yet understand sufficiently the variations in cost effectiveness between each of its country programmes*

##### Recommendation:

*Before the next Spending Review, the department must be able to compare its cost-effectiveness at country level, to identify scope for further gains in value for money. In low prevalence countries, the department should work with its partners, including the World Health Organisation, to focus on unit cost benchmarks for effective control systems, as well as for treatment.*

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2014.

3.2 The department agrees that assessment of cost-effectiveness and value for money at the country level, and across delivery routes, must guide resource allocation. The department is supporting partner countries to select the optimal mix of interventions and will work with developing country governments to sustain financing for more durable malaria results. The department will disseminate to country offices additional guidance on assessing and securing cost-effectiveness of malaria programmes at the country level. The department is working with World Health Organisation and the Roll Back Malaria partners to identify what works where and to identify measures of cost-effectiveness.

**4: Committee of Public Accounts conclusion:**

*The department has not been sufficiently selective in allocating money to its country offices.*

**Recommendation:**

*The Department should make clear that it expects its country based teams to consider wider options across well-targeted malaria prevention, diagnosis and treatment activities, and it must allow sufficient time for these teams to develop their funding bids.*

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

4.2 The resource allocation process for 2015-16 will identify the gaps in national responses to malaria and determine the most appropriate form of intervention to ensure value for money. The department is working with countries to identify the optimal mix of technical strategies for their national context, which then form the basis for bilateral, multilateral and domestic financing. The department has been raising its capability to undertake appraisals, including through technical guidance for key sectors and collecting better data to allow value for money comparisons of delivery options at the country level.

**5: Committee of Public Accounts conclusion:**

*The department's on-going growth in expenditure to combat malaria risks, creating protracted dependency on UK funding.*

**Recommendation:**

*The department should require country-based staff to design programmes that require the government of each country to contribute to the programmes funded, and to seek additional non-UK resources.*

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

5.2 Through its bilateral support, the department will encourage countries to increase the share of government expenditure spent on health. It is also helping to establish evidence-based strategies for sustained malaria funding as part of national health planning. The department is working with regional malaria leaders' groups and through international events to secure more sustainable financing for malaria. In October 2013 it hosted a high-level discussion on malaria financing at the World Bank. The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) now requires all countries to include co-financing (in cash or in-kind) and sustainability in national malaria grant applications.

**6: Committee of Public Accounts conclusion:**

*The mass distribution of free or subsidised bed nets suppresses local commercial markets*

**Recommendation:**

*The Department should develop its programmes to avoid suppressing local commercial markets for "paid-for" bed nets, through targeting its free distributions on those who would not otherwise pay for bed nets.*

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

6.2 The department will provide guidance on market analysis to country offices for the planning and implementation of their malaria programmes. This will include how best to procure and deliver quality-assured malaria commodities and foster local markets. The department will work with the commercial sector to identify where there are opportunities to harness domestic private sector engagement. The department will document and share lessons on market analysis in different contexts and will update its Malaria Evidence Overview Paper to include a review of different strategies to sustain bed net coverage and use.

**7: Committee of Public Accounts conclusion:**

*The Committee also heard evidence that nets secured from western suppliers were often of an unsuitable size despite the availability of more appropriate products within the local market*

**Recommendation:**

*The Department should aim to procure bed nets on a local basis where a failure to do so might have a damaging long term impact upon the objectives of the project being supported.*

7.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

7.2 Sustained malaria control requires sustainable and affordable supplies of quality bed nets. The department's procurement strategy promotes extending choice in purchasing options and ensuring that it drives value for money and effectiveness. The department will continue to assess the costs and benefits of procurement of health commodities through local and international sources. It will procure bed nets on a local basis when value for money and quality can be assured and will encourage GFATM to have a similar aim. The department will continue to assess the potential for domestic manufacturing and retail to benefit from emerging net and insecticide technologies.

**8: Committee of Public Accounts conclusion:**

*The Department has not yet made the most of easy to use rapid diagnostic tests to increase the number of people who can be quickly and correctly diagnosed for malaria.*

**Recommendation:**

*The Department should extend its support for rapid diagnostic tests to the private sector on a national or regional scale as well as using public sector outlets. It should do so in countries where competent private sector vendors exist, to seize the unquestionable benefits this would bring.*

8.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

8.2 The department is supporting the scale-up of diagnosis and treatment in the private and public sector through bilateral programmes and through funding to the GFATM, the Clinton Health Access Initiative to support access to malaria diagnosis and treatment, and to UNITAID to support scale-up of rapid diagnostic tests (RDTs). The department is collecting evidence on the availability, price, acceptance, and adherence to RDTs in the formal and informal private sectors and on the role of the private and public sectors in providing quality-assured RDTs. This will be essential to enabling safe and effective testing.

# Thirty Second Report

## HM Treasury

### Whole of Government Accounts 2011-12

#### 1: Committee of Public Accounts conclusion

The Treasury published the WGA for 2011-12 in July 2013. It presents the combined financial activities of some 3,000 organisations across the public sector (an increase from the 1,500 covered last year) to produce the most comprehensive accounting picture of the public sector across the UK currently available. The WGA 2011-12 reports net expenditure for the year (the current deficit) at some £185 billion compared to £94 billion the previous year (£196 billion before taken into account one-off adjustments that occurred in 2010-11). It also reports net liabilities-the difference between the government's assets and liabilities-of £1.34 trillion compared to £1.19 trillion last year. These figures are at variance with those used by the Chancellor in the National Accounts.

1.1 The Committee took evidence, on 21 October 2013, from the Treasury on the Whole of Government Accounts. The Committee published its report on 12 December 2013. This is the Government response to the Committee's report.

#### Background resources

- HMT report: *Whole of Government Accounts 2011-12*
- PAC report: *Whole of Government Accounts 2011-12 - Session 2013-14 (HC 667)*

#### 2: Committee of Public Accounts conclusion:

*Despite some progress the public sector is not yet making sufficient use of the information in the WGA.*

##### Recommendation:

*The Treasury should set out how it will ensure that the Government makes much better use of the WGA to inform decisions, particularly in areas that involve long term liabilities, such as the costs of nuclear decommissioning, PFI and pensions.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 31 July 2015.

2.2 The Treasury is already using WGA data to challenge departmental spending and consider the impacts of policy decisions on the long-term financial position. The Treasury increasingly uses WGA as an aid to oversight of both these processes and to set and maintain standards of reporting that enable strategic risks to be identified and managed. A recent example of the WGA information leading to a change is PF2, where a better understanding of the overall picture has led to the implementation of a control total. The OBR continues to use WGA data for the fiscal sustainability report and Treasury will use WGA to inform future spending review planning.

#### 3: Committee of Public Accounts conclusion:

*The accounts need to be simpler to understand.*

##### Recommendation:

*The Treasury should make the differences between the National Accounts and the WGA clearer and provide a more transparent and complete picture in presenting directly controlled expenditure.*

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** June 2014.

3.2 The Treasury will develop the presentation of the National Accounts reconciliation tables for the 2012-13 Whole of Government Accounts publication to ensure the differences between the two measures are more clearly set out and explained. The Treasury will include additional narrative in chapter three to

explain the differences, so that the readers of the accounts can understand why WGA data differs from the National Accounts. The 2013-14 account will also clarify how the directly controlled expenditure figures have been derived.

**4: Committee of Public Accounts conclusion:**

*Taxpayer losses due to fraud and error are worryingly high.*

**Recommendation:**

*The Treasury should develop, publish and implement an action plan setting out a co-ordinated strategy to tackle fraud and error and report cross-government figures within the WGA which can be used to show the impact of the government's counter-loss activities. This work should be clearly prioritised across Government because of the impact on the deficit*

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 31 July 2015

4.2 As already noted at the Committee's hearing, the Taskforce is working with departments to improve the prevention, identification, recovery and reporting of fraud and error losses. The taskforce has completed a review of the capacity of individual departments and their ALBs to identify and reduce fraud and error loss and developed a strategy for the use of data in this space, which will be the key component in significantly reducing the losses the current estimates suggest. The Taskforce are also implementing key performance measures for departments, focussed on reducing fraud, error and debt.

**5: Committee of Public Accounts conclusion:**

*The credibility of the WGA continues to be undermined by the number of issues that have again led the Comptroller and Auditor General to qualify his audit opinion on the accounts*

**Recommendation:**

*The Treasury should reconsider its continued exclusion of publicly owned and controlled bodies.*

5.1 The Government disagrees with the Committee's recommendation.

5.2 The Treasury aligns the coverage of WGA with the classification of bodies to the public sector, as determined by the Office for National Statistics. This is to ensure the scope of WGA better aligns to the National Accounts in order to support long term fiscal decision making. Northern Rock Asset Management (NRAM) and Bradford and Bingley will be consolidated into WGA from 2013-14 and Network Rail will become part of WGA following its recent reclassification to the public sector. The remaining publicly owned banks are excluded because their figures would materially distort the position of the ongoing public sector and the intention is to return them to the private sector.

**6: Committee of Public Accounts conclusion:**

*Poor quality data still affects the usefulness of the WGA*

**Recommendation:**

*The Treasury must, with the Department for Education, take steps to ensure bodies submit complete and accurate data for inclusion in the accounts and set out how they intend to ensure that all relevant schools are included in the WGA.*

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 31 March 2015.

6.2 The Treasury shares the committee's concern regarding the provision of good quality data for the Whole of Government Accounts. The Department for Education has improved the quality and completeness of the information it receives from academies. The Treasury is working to ensure that there is a consistent approach to accounting for schools land and buildings recognising that it will probably not be possible to secure an unqualified audit opinion on this issue in 2012-13, or 2013-14. The situation will be improved when academies switch to International Financial Reporting Standards in 2015, but the ownership of school land and buildings is complex, reflecting the history of state education in England. There is a balance to be struck between the cost of carrying out a comprehensive exercise to value the school estate, and the value of that information for the WGA.

**7: Committee of Public Accounts conclusion:**

***Greater transparency of 'off-payroll' arrangements is needed, particularly in the health and local government sector.***

**Recommendation:**

***The Treasury should continue to strengthen its guidance and work with departments to ensure full disclosure of 'off-payroll' arrangements and impose appropriate sanctions where there is evidence of tax avoidance. More needs to be done to establish how widespread the practice is in the health and local authority sectors.***

7.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

7.2 The Treasury has conducted a review into departments' compliance with the new rules governing off-payroll engagements in the public sector. The Chief Secretary to the Treasury (CST) intends to lay a Written Ministerial Statement shortly announcing its findings. The CST has asked the Secretary of State for Health to consider how to take forward the principles of this approach in the NHS. Treasury with DCLG have provided guidance to local government to implement similar practices and to increase transparency over these arrangements.

## Thirty Fifth Report

### Department of Health

#### Access to clinical trial information and the stockpiling of Tamiflu

All new medicines require a licence. UK-only licences are granted by the MHRA. European Union (EU)-wide licences are granted by the European Commission with the licensing process coordinated by the EMA. In England, some medicines are also appraised by NICE to assess the clinical and cost-effectiveness for use in the NHS. Clinical trials on humans are the key source of information used to understand the safety and efficacy of a medicine. The majority of clinical trials are undertaken, or sponsored, by the medicine manufacturer.

The number one risk on the Government's national risk-assessment for civil emergencies, ahead of both coastal flooding and a major terrorist incident, is the risk of pandemic influenza. Antiviral medicines contain an active substance which interferes with the influenza virus, stopping it from spreading. Between 2006-07 and 2012-13, the department spent £560 million on antiviral medicines for use in an influenza pandemic - £424 million on Tamiflu and £136 million on Relenza. Just under 40 million units of Tamiflu were purchased.

On the basis of a report by the NAO, the Committee took evidence, on 17 June 2013, from the Department of Health, MHRA, NICE and the British Medical Journal on the availability of clinical trial results; how the MHRA and NICE share information; and on the stockpiling of Tamiflu. The Committee published its report on 3 January 2014. This is the Government response to the Committee's report.

#### Background resources

- NAO report: *Access to clinical trial information and the stockpiling of Tamiflu* - Session 2013-14 (HC 125)
- PAC report: *Access to clinical trial information and the stockpiling of Tamiflu* – Session 2013-14 (HC 295)

#### **1: Committee of Public Accounts conclusion:**

***The Committee was surprised and concerned to discover that information is routinely withheld from doctors and researchers about the methods and results of clinical trials on treatments currently prescribed in the UK.***

#### **Recommendation**

***The department should take action to ensure that the full methods and results are available to doctors and researchers for all trials on all uses of all treatments currently being prescribed, and should also ensure that there is clear and frequent audit of how much information is available and how much has been withheld.***

1.1 The Government disagrees with the Committee's recommendation.

1.2 It would not be feasible for the full methods and results to be made available for all trials and uses on currently prescribed treatments, and ensure frequent audit of such information. The department believes it is important for patients, researchers and the NHS that clinical trials are transparent, ensuring trial registration and outcome publication.

1.3 The department supports the European Commission's proposal for greater transparency under the new Clinical Trials Regulation, which will provide a clear legal basis for public access to an EU database for trial documentation and results of clinical trials conducted in the EU. If the trial is used to support a Marketing Authorisation application, then the Clinical Study Report must be submitted by the applicant within 30 days of the application's authorisation, rejection or withdrawal. In December 2013, informal agreement was reached on the proposed Regulation endorsed by Member States. The agreed text has to be formally agreed by the Council of Ministers and European Parliament.

## **2: Committee of Public Accounts conclusion:**

*The results of clinical trials on humans are the key evidence used by regulators, researchers and clinicians to assess whether a medicine works and how safe it is. Medicine manufacturers submit evidence on products they wish to market in the UK to the Medicines and Healthcare Products Regulatory Agency (MHRA) or the European Medicines Agency.*

*The scope for independent scrutiny of a medicine's effectiveness is undermined by the fact that the full methods and results of many clinical trials are not made available to doctors and researchers. The problem of non-publication of clinical trial results has been known since the mid-1980s.*

### **Recommendation**

*The department and the MHRA should ensure, both prospectively and retrospectively, that clinical trials are registered on an appropriate registry and that the full methods and results of all trials should be available for wider independent scrutiny, beyond the work undertaken by regulators during the licensing process.*

2.1 The Government disagrees with the Committee's recommendation.

2.2 The Government supports prospective trial registration. However, it is not feasible to ensure retrospective registration for all trials. The European Medicines Agency (EMA) database (EudraCT) registers all EU-approved clinical trials of investigational medicinal products. Since March 2011, this information has been publicly accessible through the EU Clinical Trials Register (excepting adult Phase 1 trials) - including all EU-conducted trials since May 2004 when the Clinical Trials Directive was implemented.

2.3 Under the proposed Clinical Trials Register, due mid-2016, documentation including the protocol, and a summary of results, will be publically available for all trials in the new EU database (excepting personal or commercially confidential data). Also, for trials supporting Marketing Authorisation, applicants must submit clinical study reports within 30 days of authorisation (rejection or withdrawal). MHRA and EMA have published public assessment reports following approval of new medicines since October 2005. The department supports the EMA's proposed policy on publication and access to clinical trial data.

2.4 From 30 September 2013, the Health Research Authority has required, as a condition of a favourable Ethics Committee approval, that all trials be registered on a publically accessible register.

## **3: Committee of Public Accounts conclusion:**

*NICE and the MHRA do not routinely share information provided by manufacturers during the process for licensing medicines.*

### **Recommendation**

*NICE should ensure that it obtains full methods and results on all trials for all treatments which it reviews, including clinical study reports where necessary; make all this information available to the medical and academic community for independent scrutiny; and routinely audit the completeness of this information. NICE and the MHRA should put in place a formal information sharing agreement to ensure when NICE appraises medicines it has access to all of the information provided to regulators by the manufacturer during the licensing process.*

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** December 2014.

3.2 When applying for marketing authorisation of a new medicine, a company is legally required to provide the relevant regulator with the results of all clinical trials relevant to the evaluation of the product concerned (whether the results are favourable or unfavourable). NICE is currently consulting on changes to its technology appraisal process guidance that requires the medical director of the manufacturer or sponsor of the technology under appraisal to confirm that all the data necessary to the appraisal, within the Company's possession, custody, or control in the UK or elsewhere, has been disclosed to NICE or its authorised agents. The proposed changes also include a requirement on companies to consent to NICE being provided directly by the relevant regulatory authorities all data necessary to the appraisal, where the company is not able or willing to submit this directly to NICE. Revised guidance will be published September 2014.

3.3 NICE and MHRA are currently considering their practical working arrangements on a range of issues including information sharing between both organisations. These arrangements will be made public once agreed and finalised.

**4: Committee of Public Accounts conclusion:**

*The number one risk on the Government's national risk-assessment for civil emergencies, ahead of both coastal flooding and a major terrorist incident, is the risk of pandemic influenza.*

*There remains a lack of consensus over how well Tamiflu works and there is disagreement about whether regulators and NICE received all the information on Tamiflu during the licensing process.*

**Recommendation**

*Once the Cochrane Collaboration has completed its review of Tamiflu using all clinical study report information, the department, MHRA and NICE should consider whether it is necessary to revisit previous judgements about the efficacy of Tamiflu.*

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 2015.

4.2 Tamiflu is a centrally authorised medicinal product (the marketing authorisation was granted by the European Medicines Agency). EMA has regularly reviewed the safety and quality of Tamiflu through the Committee for Medicinal Products for Human Use. MHRA has not seen any new evidence that calls into question the regulatory decisions taken on Tamiflu. Roche is under a legal obligation to share any such information with regulators - if any new information comes to light, it will be carefully considered. Any regulatory action would need to be co-ordinated by the EMA.

4.3 NICE will reconsider the case for reviewing its current guidance on the use of Tamiflu, in the light of an update to the Cochrane Collaboration review, when it is published, together with any new evidence. The decision will be informed by an assessment of the degree to which any new evidence might cast doubt on the current recommendations. NICE guidance does not cover the use of Tamiflu in a pandemic, impending pandemic, or a widespread epidemic of a new strain of influenza to which there is little or no community resistance.

**5: Committee of Public Accounts conclusion:**

*The case for stockpiling antiviral medicines at the current levels is based on judgement rather than evidence of their effectiveness during an influenza pandemic.*

**Recommendation**

*Before spending the £49 million to maintain a stockpile at 50% population coverage, scheduled for 2013-14, the department should review the appropriate level of population coverage; the level of stockpiling in other countries; and take into consideration the fact that the patent for Tamiflu expires in 2016.*

5.1 The Government disagrees with the Committee's recommendation.

5.2 The 2013-14 exchange programme was already in place. The process is time-critical - outbound stock must be shipped when it has a one month plus shelf life left. If the department had not exchanged the stock, this would have been written off. The decision to exchange the current stocks of Tamiflu for new stocks with a 7-year shelf life supports the department's commitment to be ready for a more severe influenza pandemic and to pay the prices agreed in the current contract. Future stockpile decisions will take account of the latest scientific evidence and international comparisons, which will help to inform the department's policy for the desired population coverage levels and commercial factors, including the patent situation from 2016, which will inform the options available to meet the needs at that time.

**6: Committee of Public Accounts conclusion:**

*The department wrote off £74 million of Tamiflu as a result of poor record-keeping by the NHS on how the medicine had been stored during the 2009 influenza pandemic.*

**Recommendation**

*The department should seek assurances that bodies involved in the distribution of antiviral medicines during a pandemic follow the department's revised guidance and have robust storage and quality-control systems in place.*

6.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

6.2 NHS England and Public Health England (PHE) are involved in the arrangements for the distribution of antiviral medicines for an influenza pandemic. The Department of Health seeks assurances from NHS England and PHE through the Pandemic Influenza Preparedness Programme Board chaired by the Chief Medical Officer for the UK Government.

6.3 PHE maintains the Antiviral Distribution guidance and has met with NHS England officials to ensure that these requirements continue to be included as part of pandemic flu preparedness planning. This is built into the department's mobilisation plans for a pandemic response. NHS England continues its work through the Chief Pharmacist and his team to ensure that the distribution of antivirals during a pandemic is in line with the Department's guidance. This includes ensuring that providers of antiviral distribution have storage and quality control systems in place in line with regulatory and industry requirements.

## Thirty Sixth Report

### HM Treasury and Cabinet Office

#### Confidentiality clauses and special severance payments

##### 1 and 2: Committee of Public Accounts conclusion

**1:** It is not uncommon for public and private sector bodies to use compromise (or settlement) agreements to terminate an employment contract and there is usually an associated special severance payment. Departments and their arm's-length bodies must seek the Treasury's approval in advance of making a special severance payment. According to Treasury's data, in the three years to March 2013, the Treasury approved 1,053 special severance payments totalling £28.4 million. But the true number and value of payments across the public sector is unknown and likely to be higher as the Treasury does not approve payments by, for example, local government, the police, the BBC, and private sector providers of public services.

**2:** Following the Committee's initial hearing in July, which highlighted the lack of any meaningful central oversight, the Committee asked the Treasury and Cabinet Office to return with proposals for a framework which would allow Parliament to hold Government properly to account. The Committee held its second hearing in October. The Cabinet Office is now preparing guidance for the civil service on the appropriate use of compromise agreements and confidentiality clauses. It plans to introduce improved monitoring processes and is committed to publishing annually a consolidated report on the number and value of special severance payments made by the civil service. The Treasury committed to changing the civil service financial reporting requirements to improve transparency around special severance payments, and it plans to 'encourage' wider public sector bodies to comply with the revised requirements.

1.1 On the basis of two reports by the NAO, the Committee took evidence, on 3 July 2013 and 10 October 2013, from HM Treasury, the Cabinet Office, the Department of Health, the Department for Culture, Media and Sport, the Ministry of Defence and the National Health Service on the use of compromise agreements in the public sector. The Committee published its report on 24 January 2014. This is the Government response to the Committee's report.

#### Background resources

- NAO report: *Confidentiality clauses and special severance payments* - Session 2013-14 (HC 130)
- NAO report: *Confidentiality clauses and special severance payments* - Session 2013-14 (HC 684)
- PAC report: *Confidentiality clauses and special severance payments* - Session 2013-14 (HC 477)

##### 3: Committee of Public Accounts conclusion:

***There has been a worrying lack of proper accountability and oversight around the use of compromise agreements and special severance payments by the public sector.***

##### **Recommendation:**

***The Cabinet Office should issue guidance on the appropriate use of compromise agreements and special severance payments, the governance arrangements that should be in place to approve them, and who is accountable for their use.***

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 1 April 2014.

3.2 The Cabinet Office will issue guidance for use by all Civil Service departments and their arm's length bodies. The guidance will explain the principles and process to be followed when considering the use of settlement agreements when terminating employment. It will align with both the Treasury's guidance in *Managing Public Money* and the ACAS<sup>1</sup> Code of Practice on Settlement Agreements. It establishes principles of strong governance, value for money, transparency and effective monitoring of sensitive cases and cross government expenditure.

<sup>1</sup> The Advisory, Conciliation and Arbitration Service

3.3 Accounting Officers are accountable for ensuring that any special severance payment demonstrates value for money and that expenditure is used efficiently, economically and effectively. It is also their responsibility to ensure that prior Treasury approval is obtained in all cases.

#### **4: Committee of Public Accounts conclusion:**

***Confidentiality clauses have been used in compromise agreements to cover up failure.***

##### **Recommendation:**

***In its revised guidance, the Cabinet Office should explicitly:***

- ***Require public sector organisations to secure approval from the Cabinet Office for all special severance payments and associated compromise agreements where they relate to cases of whistleblowing.***
- ***Set out standard terms and conditions to be used in compromise agreements, including a provision in all compromise agreements stating that nothing within the agreement shall prejudice employees' rights under the Public Interest Disclosure Act.***
- ***Require public sector organisations to secure approval from the Cabinet Office before departing from these standard terms.***

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** 1 April 2014.

4.2 The Cabinet Office guidance will make it clear that confidentiality clauses should not seek to stifle or discourage any obligation the employee may have to raise concerns with a regulatory or other statutory body about wrongdoing or poor practice in their department. Nor should settlement agreements be used to terminate a person's employment because they have made a protected disclosure under the Employment Rights Act 1996 (whistle blowing). The guidance will include standard wording on confidentiality clauses making it clear that no provision in the agreement or undertaking can prevent the individual from making a protected disclosure.

4.3 Departments will be required to consult the Cabinet Office if, in connection with the termination of employment, they propose to use a confidentiality clause that deviates, in respect of whistle blowing or protected disclosures, from the standard wording.

#### **5: Committee of Public Accounts conclusion:**

***No one, either within departments or across Government, has taken any responsibility for monitoring trends that might provide an early warning of service failure or for learning lessons across Government.***

##### **Recommendations:**

- ***The Cabinet Office guidance should set out how lessons are going to be learnt across government to prevent reoccurrence where a failure of process has occurred within an organisation.***
- ***The Treasury should be responsible for monitoring activity across the wider public sector, and for defining what action will be taken where significant patterns or trends are identified.***

5.1 The Government agrees with the Committee's recommendation. However, it is more appropriate for those departments that have responsibility for wider public sector bodies to monitor activity in their areas.

**Target implementation date:** 1 April 2014.

5.2 The Cabinet Office will monitor the use of special severance payments made on termination of employment across the Civil Service, and will publish this Civil Service-wide data on an annual basis. The Cabinet Office will analyse data on payments made quarterly, enabling further investigation to take place if there are any patterns of concern. The analysis will be shared with a Cabinet Office committee that has cross departmental membership.

5.3 It is more appropriate for those departments that have responsibility for wider public sector bodies to monitor activity in their areas in line with the Cabinet Office approach and guidance. When the Cabinet Office guidance has been issued, the Treasury will contact those departments to establish what their approach will be and report back to the Committee in writing.

**6: Committee of Public Accounts conclusion:**

*The Treasury's criteria for approving special severance payments are too narrow, focusing on cost alone and ignoring wider value for money issues.*

**Recommendation:**

*When the Treasury does approve special severance payments, it should ensure that its decisions are based on the principles of economy, efficiency and effectiveness, not simply on cost alone.*

6.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

6.2 The Treasury agree with the proposed approach and consider that they were already focussed on achieving value for money, which is always about more than just cost. However, the standard template has been reviewed to ensure that the relevant information is requested and the guidance has been checked to ensure that the principles are clear. These processes and principles will be used when assessing cases.

**7: Committee of Public Accounts conclusion:**

*The lack of transparency over the extent and cost of compromise agreements entered into by public sector bodies means there is no proper accountability.*

**Recommendation:**

*The Treasury should revise the reporting requirements in the Financial Reporting Manual to ensure the mandatory and consistent disclosure of special severance payments in public sector annual accounts. This should include disclosure of the number of individual payments, the size of payment and the requirement for individual payments for members of the Senior Civil Service or equivalent to be publically disclosed. The guidance should include explicit criteria for where non-disclosure is allowable - but such instances must be the exception and subject to the Treasury's approval.*

7.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

7.2 The Treasury has revised the reporting requirements in the Financial Reporting Manual to ensure the mandatory and consistent disclosure of special severance payments in public sector annual accounts. This includes disclosure of the number of individual payments and the size of payment. It does not include the requirement for individual payments for members of the Senior Civil Service or equivalent to be publically disclosed. The Data Protection Act often makes such disclosures difficult.

**8: Committee of Public Accounts conclusion:**

*The Treasury informs the Committee of its proposals to 'encourage' wider public sector bodies to comply with the guidance will be effective in controlling the use of compromise agreements across the public sector.*

**Recommendation:**

*The Treasury should write to the Committee setting out what steps it will take to ensure wider public sector adoption of the guidance, including full consideration of making compliance a condition of funding.*

8.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** June 2014.

8.2 The Treasury will send the Cabinet Office guidance on Settlement Agreements to relevant departments and ask them to confirm what action they will take to encourage similar action in the wider public sector. The Treasury will be clear that the Committee expects full compliance and appropriate

monitoring to be put in place. The Treasury will report back to the Committee in writing and, depending on the departmental responses, consider whether further action needs to be taken.

**9: Committee of Public Accounts conclusion:**

*With the increasing role of private sector providers delivering services on behalf of government, it is important that the Committee can follow the taxpayer's pound and have confidence that employees feel able to raise matters of public interest.*

**Recommendation:**

- *The Treasury should make clear what it expects from private sector employers when they enter into contracts to deliver publically funded services. This should include the expectation that staff working for private sector contractors are encouraged to raise matters of public interest, ensuring whistleblowing policies include the option to raise issues directly with government, and public reporting requirements such as the requirement to disclose special severance payments related to public services.*
- *Effective safeguards should be introduced ensuring that the employees of private sector providers of public services, who use compromise agreements, feel protected when raising matters of public interest.*

9.1 The Government is considering the Committee's recommendation further. It is committed to promoting transparency in public services.

9.2 The Government is looking at how its record on transparency can be extended to cover public services that are contracted out to private sector companies. The Cabinet Office is responsible for procurement and is currently reviewing the case for transparency in government contracts. The Government response to the Committee's 47th report (Session 2013-14) on Contracting out public services to the private sector will discuss this further.

9.3 With regard to ensuring that the employees of private sector providers of public services feel protected when raising matters of public interest, the relevant legislation is already specific (Section 43(j) of the Employment Rights Act says that any provision in an agreement is void in so far as it purports to preclude the worker from making a protected disclosure). The Department for Business, Innovation and Skills is currently reviewing the whistleblowing framework and is looking to strengthen the text in the guidance on this section. The call for evidence was completed in November 2013.

## Thirty Seventh Report

### Foreign and Commonwealth Office and Department for Business, Innovation and Skills

#### Supporting UK exporters overseas

#### 1-2: Committee of Public Accounts conclusion

1: In March 2011, the Government published its *Plan for Growth*. This set out its strategy to encourage economic growth and included a focus on increasing investment and exports. In 2012, the Chancellor set a very challenging ambition of doubling UK exports to £1 trillion a year by 2020. Achieving this ambition will depend on, at least, maintaining the current market share in advanced markets and securing greater exports to new, faster-growing emerging markets.

2: In 2012-13, UK Trade and Investment (UKTI) and the Foreign and Commonwealth Office (FCO) spent £420 million on promoting UK economic growth through supporting UK businesses overseas. In general terms, the FCO tries to create the conditions overseas for growth, and UKTI works directly with UK businesses to help them make the most of these market conditions. The FCO estimates that 1,000 of its 14,000 staff spend at least a quarter of their time promoting economic growth, across its international network of 270 embassies, high commissions and consulates. UKTI is a non-ministerial department of both the Department for Business, Innovation and Skills (BIS) and the FCO and nearly 1,000 UKTI staff in 160 international locations work on export-related activities.

1.1 On the basis of a report by the NAO, the Committee took evidence on 6 November 2013 from the Foreign and Commonwealth Office (FCO) and United Kingdom Trade and Investment (UKTI) on their work to support UK exporters overseas. The Committee published its report on 17 January 2014. This is the Government response to the Committees report.

#### Background resources

- NAO report: *Supporting UK exporters overseas* – Session 2013-14 (HC 732)
- PAC report: *Supporting UK exporters overseas* – Session 2013-14 (HC 709)

#### 3: Committee of Public Accounts conclusion:

*From 2000 to 2012, the annual value of UK exports nearly doubled. During the same period, the annual value of exports globally nearly trebled.*

#### Recommendation:

*UKTI and FCO need to understand the reasons behind these stronger overall export growth rates of other countries and use this research to inform their future planning to close the gap.*

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** November 2014.

3.2 Economists from FCO, BIS and UKTI (the three departments) will complete joint analysis to better understand the reasons for differing export performance between the UK and principal competitors, including Germany, France, Italy, and Switzerland, by August 2014. FCO and UKTI will use this to understand where improvements need to be made to help close the export gap. The analysis will also be used to:

- prepare the economic roadmap;
- allocate resources in the business planning round for 2015-16;
- analyse key individual geographic markets;
- identify barriers to export; and
- analyse the effectiveness of different interventions.

3.3 This will enable FCO and UKTI to identify the support that can help British companies and the market sectors that could potentially see a significant increase in demand for exports from the UK. Part of this analysis is already in use to inform 2014-15 business planning. Not all activity will be within the remit of the

Government. Where it is, FCO and UKTI will drive a co-ordinated Government approach to ensure other departments are fully engaged. Where activity is for business to lead, FCO and UKTI will consult with business representative bodies.

**4: Committee of Public Accounts conclusion:**

***UK export performance is currently not on-track to meet the Chancellor's ambition to double the value of exports to £1 trillion a year by 2020.***

**Recommendation:**

***UKTI and FCO need a defined joint 'roadmap' to support the £1 trillion annual exports by 2020, particularly focusing on what FCO and UKTI need to do to help UK businesses maximise export opportunities to emerging markets, as well as maintaining, at least, export levels to advanced markets.***

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** August 2014.

4.2 UKTI and FCO economists have modelled how UK exports might grow towards the £1 trillion target using different assumptions, for example maintaining market share in High Growth Markets, Emerging Europe and the rest of the world, and matching a weighted average of French, German and Italian market share in these markets.

4.3 By August 2014 FCO and UKTI will use this analysis to develop a joint economic roadmap to the £1 trillion, focusing on the top 20 priority markets. This will incorporate a model showing how each of a small number of key policy initiatives (for example: Industrial Strategy, Medium-Sized Business Initiative, Export Challenge to Small Businesses) might contribute additional exports beyond the potential growth from the assumptions above. The departments will use the roadmap to drive forward the joint strategy and single action plan. FCO will consider how the Prosperity Fund could also be used to support this work.

**5: Committee of Public Accounts conclusion:**

***UKTI and FCO have not always worked together effectively to promote export growth.***

**Recommendation:**

***The proposed joint strategy between UKTI, FCO and BIS on exports, and the new joint country plans will need to be clear on roles and responsibilities, set out how the organisations will work together, and provide a single action plan for promoting UK exports centrally and at overseas locations.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** August 2014.

5.2 UKTI, FCO and BIS will produce a single overarching joint strategy by August 2014. It will be clear on roles and responsibilities, set out how the organisations will work together in pursuit of the £1 trillion target and provide a single joint action plan for promoting UK exports centrally and at overseas Posts. All three departments have their own complex objectives to deliver and their own strategies setting out how they will achieve these. The joint strategy will explain how they align to deliver UK export success. In addition, UK Export Finance (UKEF) and UKTI will work together to ensure UKTI's overseas network understands the support available from UKEF, so that UK exporters and project sponsors can be signposted to UKEF where appropriate.

5.3 FCO and UKTI at Post already contribute to a single country business plan which includes shared commercial objectives. For 2015-16, the departments will draw on the analysis in the economic roadmap to provide a single, joint plan for promoting UK exports.

5.4 The complementary work of the three departments is coordinated by the BIS, FCO and UKTI Trilateral Board (the Board), which sets direction and ensures the work is coherent. The Board will approve the Joint Strategy in August 2014 and review progress in December 2014. FCO Minister of State Mr Swire and UKTI Minister Lord Livingston will meet regularly to oversee this work.

**6: Committee of Public Accounts conclusion:**

***UKTI needs to be a more effective source of intelligence on new opportunities in order to support small and medium-sized enterprises (SMEs).***

**Recommendation:**

***UKTI needs to be a more effective source of intelligence on new opportunities in order to help make it less difficult for SMEs to export. It should actively market to SMEs the export opportunities available in different overseas markets, as well as the support it can provide to help overcome barriers to exporting.***

6.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

6.2 Since 2012, UKTI has increased its commitment to the Business Opportunities Service, which publishes more than 1,000 export opportunities monthly to 45,000 registered users. UK company responses to these opportunities have increased by 60% this year. UKTI has invested in technology, marketing and partnership development, with an emphasis on Trade Associations publishing opportunities. UKTI's independent *Performance Impact Monitoring Survey* indicates over £1 billion per annum of new business won from this service, with further expansion likely.

6.3 The High Value Opportunities Programme which focuses on larger complex business opportunities also increased in scale in 2013. Companies have acknowledged FCO and UKTI support in more than £6 billion worth of business won in 2013-14. More than 1000 companies are already participating in this programme and this will continue to rise.

6.4 FCO and UKTI work in partnership to deliver the Overseas Business Risk service, providing political risk analysis and market intelligence for UK companies, particularly SMEs. UKTI are continuing to encourage MPs to market opportunities in their constituencies. However, general awareness of UKTI services to overcome barriers to export has been a concern. To address this issue, UKTI is carrying out targeted marketing, while an integrated Government service to small companies: *Small Business Great Ambition*<sup>2</sup> will deliver a single portal for small businesses to apply for Government support, tailored to their needs, by December 2014.

**7: Committee of Public Accounts conclusion:**

***The FCO would benefit from a ready means to evaluate the impact of its work to promote exports.***

**Recommendation:**

***The FCO should develop measures to evaluate the relative impact of its interventions, to understand their likely costs and benefits.***

7.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

7.2 From 1 April 2014, the FCO will use a standard way of measuring the impact and value of their work to open up new markets, drive sustainable economic growth, build energy security, promote the UK's reputation, and help British businesses succeed in overseas markets. These measures will allow the FCO to quantify the relative return on its investment and understand where they should put their resources. The measures will also show how the FCO contributes towards the Government's target of doubling exports to £1 trillion by 2020.

7.3 The first of these impact measures, the *Business Win* form, is now in place and being used jointly by UKTI and the FCO, to allow the departments to measure the value of the contracts they have helped British businesses to win and the costs saved by eliminating regulatory burdens. This measure is validated by the businesses themselves and is already providing useful information to FCO and UKTI.

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/266212/bis-13-1313-small-business-great-ambition-FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266212/bis-13-1313-small-business-great-ambition-FINAL.pdf).

**8: Committee of Public Accounts conclusion:**

*The actions of other departments, such as the Home Office to secure UK borders, can lead to tensions with the UKTI and FCO's work to promote UK exports.*

**Recommendation:**

*UKTI and FCO need to identify the key problems which business travellers face in obtaining UK visas and the impacts on export opportunities. They should work with the Home Office to minimise barriers while maintaining UK border security.*

8.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** Spring 2014.

8.2 Both in the UK and overseas, UKTI and FCO regularly receive feedback on the UK visa system - from overseas businesses, entrepreneurs, investors, and UK exporters. Through a new joint forum, this feedback is shared with UK Visas and Immigration (UKVI) to inform discussions on operational improvements delivered through their Business and Growth Network. This network develops services in priority countries and will help deliver UKTI and UKVI Action Plans.

8.3 Harnessing the GREAT brand, UKVI, FCO and UKTI are also tackling misconceptions about the visa services, developing a suite of bespoke marketing material. The UK is at the forefront by offering a 3-5 day priority visa service in over 60 countries, which will be expanded to over 90 countries by spring 2014. But there is always more that can be done, and the departments will continue to work together to support the Home Office in developing a package of business support services, such as the premium visa services introduced in key markets to ensure that processing times are not a barrier to trade and investment.

# Thirty Eighth Report

## Department for Business, Innovation and skills

### Improving access to finance for small and medium-sized enterprises

#### 1: Committee of Public Accounts conclusion

BIS manages six main schemes that are intended to provide around £2.85 billion of financial support for SMEs between 2011-12 and 2014-15. In 2012-13, these schemes helped just over 5,900 firms. In addition, HM Treasury and the Bank of England jointly oversee the Funding for Lending scheme, under which banks and other lenders have been provided with £17.6 billion at cheaper than market rates, with the intention that they will lend this on to businesses and households. The new British Business Bank, which will start operating in 2014, has £1 billion of capital at its disposal in addition to the resources of the existing BIS-led schemes, and is designed to better identify and fill gaps in the market for financing SMEs.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 11 November 2013, from the Department for Business, Innovation and Skills and the Treasury on improving access to finance for small and medium-sized enterprises. The Committee published its report on 18 December 2013. This is the Government response to the Committee's report.

#### Background resources

- NAO report: *Improving access to finance for small and medium-sized enterprises* - Session 2013-14 (HC 734)
- PAC report: *Improving access to finance for small and medium-sized enterprises* - Session 2013-14 (HC 775)

#### 2: Committee of Public Accounts conclusion:

*The departments' schemes are managed as a series of ad hoc initiatives that are launched to address particular weaknesses in the market, rather than to act as a coherent programme.*

#### Recommendation:

*The departments should use the establishment of the British Business Bank to start managing the various schemes as a coherent programme, clearly setting out what it wants to achieve, and how each scheme and the programme as a whole will contribute towards the departments' overall objectives for making it easier for SMEs to access finance.*

2.1 The Government disagrees with the Committee's description of its approach, but agrees with the Committee's recommendation.

**Target implementation date:** October 2014.

2.2 The Government's approach to this will be set out and monitored through the British Business Bank's business planning process. In order to preserve coherence, the default position will be that the British Business Bank will operate all national SME access to finance schemes across Government. The British Business Bank will continue to target schemes at particular imperfections in the market in order to achieve value for money for the taxpayer.

#### 3: Committee of Public Accounts conclusion:

*The Government spends a considerable amount of taxpayer funded money promoting better access to finance for SMEs but the departments could not demonstrate that their schemes have successfully addressed the market failures they were designed to correct. Indeed far from encouraging more lending to SMEs, investment has declined.*

#### Recommendation:

*When the departments establish a scheme to address a particular market failure, they should set out clearly both what a successful impact on the market will look like and how they intend to evaluate its success.*

3.1 The Government disagrees with the Committee's description of its approach, but agrees with the Committee's recommendation.

**Target implementation date:** October 2014.

3.2 The British Business Bank, rather than Government departments, will establish new schemes to address market failure in the SME access to finance market. All schemes set up by the British Business Bank will be justified by a business case with an ex-ante assessment of costs and benefits to society. The evidence of continued market failure will be reviewed regularly and an evaluation plan will be put in place for each scheme, to ensure real impacts are measured and fed back into the policy making cycle.

**4: Committee of Public Accounts conclusion:**

**There is scope for the departments to better match the nature of their interventions with the specific needs of SMEs.**

**Recommendation:**

***The departments must ensure that the British Business Bank draws upon emerging evidence of SMEs' changing financing needs, and tailors its interventions accordingly, implementing, refining or withdrawing schemes as circumstances change.***

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** October 2014.

4.2 The British Business Bank's business planning process will ensure that all interventions reflect evidence of SMEs' financing needs and market intelligence. Where evidence of market failure is not available, schemes will be withdrawn.

**5: Committee of Public Accounts conclusion:**

**BIS has not done enough to ensure that SMEs have access to information on the potential range of financing options available to them.**

**Recommendation:**

***The departments must establish a clear strategy to ensure that SMEs are made aware of appropriate funding options for their needs, both through government information and through advice from lenders and others. The departments should use their influence with the mainstream banking sector and across Whitehall to ensure high street banks understand the needs of their local businesses in order to encourage lending.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** October 2014.

5.2 The British Business Bank will establish a clear strategy to ensure that SMEs are made aware of funding options, building on market insight reflecting the ways in which SMEs behave when they have financing requirements. The British Business Bank will improve the information on business finance available to SMEs in the market. The activities in the area of information provision will be monitored and evaluated. . Departments will be expected to support this work and to continue to use their influence with the financial and professional services sectors (including the high street banks), and across Whitehall, to encourage the flow of finance to SMEs.

**6: Committee of Public Accounts conclusion:**

**For some of the schemes, the amount of funding reaching UK SMEs is either unknown by the departments or appears lower than we would have expected.**

**Recommendation:**

***The departments must gather and publish data about how much financial support is reaching SMEs, and how much is diverted to other recipients or used to run the schemes.***

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** October 2014.

6.2 The British Business Bank will publish data on a regular basis on its website. This information will make clear how much finance is reaching SMEs as a result of the programmes it runs, how much is paid to third parties in respect of fees and charges for each programme and the direct costs relating to each Programme. It also will distinguish between costs attributable to setting up and operating Programmes.

# Thirty Ninth Report

## HM Treasury

### Sovereign Grant

#### 1: Committee of Public Accounts conclusion

On 1 April 2012, the Sovereign Grant (the Grant) replaced the Civil List and the three Grants-in-Aid. The purpose of the Grant is to provide resources for the Household to support The Queen's programme of official duties. The Grant covers the staffing costs of the Household, maintaining the Royal palaces, and the costs of Royal travel. The Treasury is responsible for monitoring whether the Household uses the Grant in accordance with a Framework Agreement between the Treasury and the Household. The Grant was £31 million in 2012-13 and is set to rise to £36.1 million in 2013-14 and to £37.9 million in 2014-15. In 2015-16, the Royal Trustees will carry out their first review of the funding formula for the Grant.

1.1 On the basis a memorandum by the NAO, the Committee took evidence, on 14 October 2013, from the Royal Household on the Grant. The Committee published its report on 28 January 2014. This is the Government response to the Committees report.

#### Background resources

- NAO report: *Royal Household: Sovereign Grant* - Session 2013-14 (HC 722)
- PAC report: *Sovereign Grant* - Session 2013-14 (HC 618)

#### 2: Committee of Public Accounts conclusion:

*The Treasury is responsible for effective scrutiny of the Household's financial planning and management.*

##### Recommendation:

*The Treasury should be more actively involved in reviewing the Household's financial planning and management. It could draw on a full range of cross-government and property experience in its review, to offer advice on the key challenges facing the Household ahead on options for Royal travel and protecting the properties in the Royal estate.*

2.1 The Government disagrees with the Committee's recommendation.

2.2 The Treasury takes its responsibility for oversight of Royal Household spending seriously. It maintains a similar level of strategic oversight as for spending by Government departments. For example: discussing the annual budget and three year plan; reviewing monthly management accounts; and holding regular liaison meetings. This is commensurate with the considerable freedom given the Royal Household in the Sovereign Grant Act 2011 to set its own priorities in order to improve efficiency.

2.3 The Treasury intends to rely on the current survey of property maintenance requirements to inform its dialogue with the Royal Household about the programme of remedial work.

#### 3: Committee of Public Accounts conclusion:

*The Grant's funding formula provides the Household with certainty for its planning and budgeting, but does not give it clear incentives to find efficiencies.*

##### Recommendation:

*The Household should ensure that it employs effective longer term financial management and planning processes for managing the Grant, and that potential efficiencies in Grant expenditure are identified. In their 2015-16 review of the funding mechanism, the Royal Trustees should also have regard to the need to drive efficiencies in the Household's support to the Monarch.*

3.1 The Government and Royal Household disagree with the Committee's recommendation.

3.2 The Treasury and the Royal Household believe that the Household uses effective modern methods of planning and tracking expenditure financed by the Sovereign Grant. It has achieved real efficiency savings of 10% over the past 5 years through reductions in staff costs, travel and hospitality, bringing the total real

reduction in costs to 50% over the past 20 years. In addition, the Household is developing a 10 year plan for its property maintenance costs.

3.3 The Royal Trustees will consider a range of issues in determining the grant regime from 2016-17, and will take the Committee's recommendation into account.

**4: Committee of Public Accounts conclusion:**

***There is scope for the Household to generate more income and reduce its costs further.***

**Recommendation:**

***The Household should ensure it has sufficient commercial expertise in place, both to maximise opportunities for generating income and to reduce costs, with a view to supporting The Queen's programme at lower net cost, providing better value.***

4.1 The Government and Royal Household agree with the Committee's recommendation.

**Recommendation implemented.**

4.2 The Treasury and Royal Household believe that the Household has demonstrated that it has the necessary commercial expertise. Working within its business plan to support The Queen's official business, the Royal Household has improved its income generation by 73% over the past 5 years. This was especially demanding during the Jubilee and Olympic Games. The Household continues to look for further opportunities to improve its income consistent with the need to maintain The Queen's official programme of engagements at the Occupied Royal Palaces.

**5: Committee of Public Accounts conclusion:**

***The Household needs to do more to safeguard nationally important heritage properties.***

**Recommendation:**

***The Household should make swift progress on updating its property maintenance plan, including an estimate of the cost of repairs needed to bring the estate back to target condition, and clear prioritisation of the work required.***

5.1 The Government and Royal Household agree with the Committee's recommendation.

**Target implementation date:** end of 2014.

5.2 The Royal Household completed its two yearly update of the property condition assessment survey in December 2013. It is now evaluating the results of the survey and preparing a 10-year property maintenance plan, which it will discuss with the Treasury. This should enable it to set priorities and establish how quickly it can achieve target conditions for the variety of projects involved, some of them lasting several years.

**6: Committee of Public Accounts conclusion:**

***The Household has left its Reserve Fund at a historically low level of only £1 million.***

**Recommendation:**

***The Household should rebuild a sufficient level of contingency in its Reserve Fund to cover unforeseen demands on The Queen's programme.***

6.1 The Government and Royal Household agree with the Committee's recommendation.

**Target implementation date:** 2015-16.

6.2 With the Treasury's support, the Royal Household ran the Reserve down in 2012-13, when grant was tight and there were the special expenses of the Diamond Jubilee. The Royal Household plans that the Reserve will rise toward a target of 5% of the annual Sovereign Grant by 2015-16.

## Fortieth Report

### Department of Health

### Maternity Services in England

#### 1: Committee of Public Accounts conclusion

Having a baby is the most common reason for admission to hospital in England. In 2012, there were nearly 700,000 live births, a number that has risen by almost a quarter in the last decade. There has also been an increase in the proportion of 'complex' births, such as multiple births or those involving women over 40. Maternity care cost the NHS around £2.6 billion in 2012-13. The Department is ultimately responsible for securing value for money for this spending. Since April 2013, maternity services have been commissioned by clinical commissioning groups, which are overseen by NHS England. Maternity care is provided by NHS trusts and NHS foundation trusts.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 18 November 2013, from the Department of Health and NHS England about maternity services in England. The Committee published its report on 31 January 2014. This is the Government response to the Committee's report.

#### Background resources

- NAO report: *Maternity Services in England - Session 2013-14* (HC 794)
- PAC report: *Maternity Services in England - Session 2013-14* (HC 776)

#### 2: Committee of Public Accounts conclusion:

*There is confusion around the Department's policy for maternity services, what it wants to achieve and who is accountable for delivery.*

#### Recommendation:

*The department should set out clearly its objectives for maternity care, explicitly stating who is accountable for their implementation and how success against its objectives will be measured.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

2.2 The Government set out its objectives for improving maternity care in its Mandate to NHS England, first published in November 2012. NHS England is preparing its business plan for 2014-15 which will explain how it proposes to achieve these objectives including specific deliverables. The Department holds NHS England to account for achieving the Mandate objectives through an assurance process that includes periodic assurance reports; monthly formal accountability meetings between the Senior Departmental Sponsor and NHS England's National Director of Policy; and bimonthly formal accountability meetings between the Secretary of State for Health and the Chair of NHS England.

2.3 NHS England operates a comprehensive assurance process for Clinical Commissioning Groups, the bodies responsible for commissioning maternity services locally, covering statutory duties and planned commitments. Where performance or quality challenges are identified, NHS England will support Clinical Commissioning Groups and may, if necessary, intervene to make agreed improvements.

2.4 The department will triangulate information from the Mandate assurance process with data from a range of other independent sources including system regulators, professional bodies and stakeholder organisations and commissioned research to inform the development of new and more detailed objectives for maternity in the update of the Mandate for 2015-17.

#### 3: Committee of Public Accounts conclusion:

*The department has not demonstrated whether its policy objectives for maternity services are affordable.*

#### Recommendation:

*The department should assess, through a detailed costing exercise, the affordability of meeting its policy objectives, and work with NHS England and Monitor to review whether the current tariffs for maternity care are set at the right level. The department should ensure the financial incentives enable the best and most appropriate services to be developed at the lowest cost.*

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department concurs with the final sentence of the Committee's recommendation, but intends to tackle this objective in a different way. No decisions have been made about the national tariff arrangements for 2015-16, and NHS England is conscious of the need for early engagement with the service to inform decisions on reimbursement arrangements for maternity care.

3.3 A new pathway payment system for maternity services which pays providers for the whole pathway rather than individual interventions was introduced in April 2013. It incentivises providers to be innovative and collaborative and improves accountability and is already enabling clearer contracting. NHS England has established a review process and is monitoring how the new system is working.

3.4 From 2014-15, national tariffs will be set by Monitor, but flexibility will continue to be allowed by the department to address financial risks associated with implementing the new system. Provision for local modification to the national price, for example, where a local service is needed to ensure safe care, but would otherwise be non-viable, will also continue. Monitor and NHS England have jointly established a review process and will monitor how the new system is working. Amendments will be considered to address any perverse effects and minimise administrative burdens.

#### **4: Committee of Public Accounts conclusion:**

***The clinical negligence bill for maternity services is too high.***

##### **Recommendation:**

***The department and NHS England should build on recent research to address the main causes of maternity clinical negligence claims and to stop so many claims coming forward. They should also investigate the variations in performance between trusts to see how services can be improved so that fewer tragic mistakes occur.***

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2016.

4.2 The department and NHS England are working to reduce claims by spreading best practice through better education and training of staff (with Health Education England), promoting multidisciplinary team working, effective communication and better evaluation of the resulting improved practice.

4.3 NHS England plans to work with the NHS Litigation Authority to examine in more detail the causes of claims both successful and unsuccessful and to translate this into care in maternity services. This will include improving the identification, monitoring and management of babies at high risk of growth restriction according to national guidance.

4.4 Ongoing work is scoping the costs and practical implications for maternity services to implement these changes. These may involve considerable changes to workforce, scanning protocols and the management and delivery of growth restricted babies. Any changes will need robust assessment and be shown to lead to a reduction in stillbirths and perinatal deaths and improved long term outcomes. New evidence regarding fetal monitoring in labour will become available during 2015 and NHS England will consider and act on this once outcomes, cost effectiveness and deliverability are known.

4.5 Governance arrangements will continue to promote best practice, as well as embedding the values of "Compassion in Practice", which is the joint strategy between the department and NHS England for nurses, midwives and care staff.

#### **5: Committee of Public Accounts conclusion:**

***Women want more choice about where to give birth.***

##### **Recommendation:**

***NHS England should build on recent research to investigate the factors that affect women's choice of place of birth, including closures of maternity units, and what inhibits women from exercising choice in practice.***

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

5.2 NHS England recognises that women want to make choices about their maternity care and is working to support improvements in maternity services in line with its mandate objective and business planning. Choices in maternity care depend on a woman's circumstances as well as what services are available locally.

5.3 Clinical commissioning groups are responsible for commissioning maternity services in line with NHS England commissioning guidance, taking into account the views of local maternity services users and factors such as demography and geography. Service improvements will take into account what is appropriate locally; understanding what drives women's choice of care; and reflecting the balance between choice and safety. NHS England has established strategic clinical networks to research, develop and disseminate best practice to support this guidance. NHS England is also exploring patients' rights to choice and extended choice, where no legal right exists, are embedded into the NHS, which may include maternity services.

**6: Committee of Public Accounts conclusion:**

*The NHS has failed to address persistent inequalities in maternity care.*

**Recommendation:**

*NHS England should set out what it intends to do to reduce inequalities, take the appropriate action as a matter of urgency, and report annually on progress.*

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

6.2 As required by the Health and Social Care Act 2012, NHS England - working with key partners - is reducing health inequalities by improving early access to maternity services, which will improve infant health outcomes. This enables services to identify and manage risks, and to provide advice.

6.3 Evidence based interventions and NICE guidance on pregnancy and complex social factors<sup>3</sup> will improve access, experience and outcomes for at risk persons. NHS England, responsible for overseeing the delivery of NHS services, has rolled out the Equality Delivery System (EDS2) as a tool to support all patients and communities, including Black and Minority Ethnic women, in improving the healthcare services that they receive. The aim is for 95% of services to have EDS in place by 2015-16. NHS England will also work with Clinical Commissioning Groups to embed the principles of *Commissioning Maternity Services - A Resource Pack to support Clinical Commissioning Groups*<sup>4</sup>, which highlights good practice interventions. Progress will be monitored through the vital signs data for early access to services and other data including the Friends and Family Test.

**7: Committee of Public Accounts conclusion:**

*Local maternity networks are an important way of sharing good practice and reducing variation, but they are not obligatory and those that do exist tend to be less well developed than other NHS networks.*

**Recommendation:**

*NHS England should actively manage the development of maternity networks across the NHS, and set out what arrangements it will put in place to ensure the sharing of good practice between, as well as within, networks to improve quality and eradicate unacceptable variations across the country.*

7.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

7.2 NHS England has set up and funded 12 Maternity and Children's Services Strategic Clinical Networks, each with dedicated network managers and clinical leads, to improve maternity services and meet the requirements of the Mandate and Outcomes Framework. They are designed to effect improvements through an integrated whole system approach. The National Clinical Directors for Maternity and Women's

<sup>3</sup> <http://www.nice.org.uk/nicemedia/live/13167/50822/50822.pdf>

<sup>4</sup> <http://www.england.nhs.uk/wp-content/uploads/2012/07/comm-maternity-services.pdf>

Health and Children and Young People are bringing these leads and other colleagues in NHS England together via network events and other means to identify priorities, discuss and share best practice and help networks to develop an annual programme of quality improvement in local services. Each network has published a work plan, which sets out how it is to achieve this improvement.

7.3 All networks will work with their relevant Clinical Commissioning Groups to use information from the local strategic needs assessment to inform the commissioning of maternity services, taking into account the standards as recommended by professional groups. NHS England is bringing together all Maternity and Children Strategic Clinical Network and Clinical Commissioning Group leads in order to partake in an interactive working day to initiate the process of collaborative working to achieve both national and local priorities.

**8: Committee of Public Accounts conclusion:**

*The Department lacks the data needed to oversee and inform policy decisions on maternity services.*

**Recommendation:**

*The department and NHS England should make better use of existing and emerging data, and of research, to monitor progress against its policy objectives and to inform decisions.*

8.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2016.

8.2 NHS England is developing, with the Healthcare Quality Improvement Partnership (HQIP), a maternity and perinatal National Clinical Audit, which will focus on identifiable areas for improvement including stillbirths, maternal mortality and maternal morbidity. HQIP is establishing the essential specification intelligence required to commission and deliver a national programme designed to support improvements to data quality in maternity, perinatal services and patient outcomes, using the Maternity and Children's Dataset and other routine data where possible.

8.3 The National Clinical Audit will enable national comparisons across units; variations in practice to be identified and addressed; local bodies to identify and make improvements; individual clinicians and teams to benchmark practice and performance; and NHS England to assess progress against national initiatives.

8.4 The department is also supporting a Royal College of Obstetricians and Gynaecologists project to undertake national surveillance, local audit and actions to reduce stillbirths, neonatal deaths and brain injuries as a consequence of serious incidents. This project will not only help to reduce the tragic impact on individual families of a stillbirth, neonatal death or brain-injured baby, but also has the potential to save significant sums of money that could then be available for enhancing front-line care.

## Forty First Report

### HM Revenue and Customs

#### Gift Aid and other tax reliefs on charitable donations

##### 1: Committee of Public Accounts conclusion

Successive Governments have legislated to exclude charities from income tax, including income from donations, and there is cross party support for measures that will simplify and increase charitable giving. Gift Aid allows charities to reclaim the basic rate of tax paid on donations. Other reliefs allow the donor, rather than the charity, to receive all of the tax benefit on donations. These reliefs on donations provide a tax incentive to donors by allowing them to reduce their tax liability. In 2012-13, charities received just over £1 billion in tax repayments through Gift Aid donations; and individuals and companies also received a tax benefit on their donations worth almost £1 billion.

1.1 On the basis a report by the NAO, the Committee took evidence, on 2 December 2013, from HM Revenue and Customs on its progress in dealing with various personal tax, business tax and tax avoidance issues. The Committee published its report on 5 February 2014. This is the Government response to the Committee's report.

##### Background resources

- NAO report: *Gift Aid and reliefs on donations* – Session 2013-14 (HC 733)
- PAC report: *Gift Aid and other tax reliefs on charitable donations* – Session 2013-14 (HC 835)

##### 2: Committee of Public Accounts conclusion:

*HMRC has not collected data to enable it to evaluate if Gift Aid is working as Parliament intended.*

###### Recommendation:

*HMRC should work with the charity sector to gather better evidence of the impact of the reliefs on donor behaviour. In future HMRC must ensure that when it commits to evaluating the impact of a new tax relief, or a change to an existing relief, it collects the data it needs to undertake a robust assessment.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

2.2 The department will build on evaluation work already done and continue to work closely with the sector to explore what more can be achieved. It is undertaking research in 2014-15 to develop an understanding of donor behaviour when using Gift Aid. The department will collaborate where possible with the sector in collecting data to evaluate reliefs, within the constraints of the governing legislation, and where data is feasible to enable robust evaluation, and funding allows. This includes granting access to external academic researchers to undertake a project on the responsiveness of giving by high-income taxpayers through the department's Datalab.

##### 3: Committee of Public Accounts conclusion:

*The abuse of reliefs on charitable donations by individuals and companies has lost tax revenue and risks giving the charity sector a bad name.*

###### Recommendation:

*HMRC must promptly investigate schemes which appear to use reliefs on charitable donations in ways unintended by Parliament, and ensure it both penalises and maximises publicity of those who have been proved to have misused reliefs in such a way, to deter potential promoters and users of such schemes.*

3.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

3.2 The department investigates avoidance schemes abusing charitable reliefs promptly. Investigating complex schemes is time-consuming and requires a thorough, determined approach. Proposed new powers to impose a penalty on taxpayers who refuse to concede after a substantially similar scheme is defeated in litigation, while enforcing payment of disputed tax in advance will accelerate resolution of these schemes. Publicity is an important deterrent and, working within the law on taxpayer confidentiality, the department is doing more to deter the use of schemes. For example: publishing 'Spotlights' on the website and issuing news releases about schemes, which fail in the courts.

**4: Committee of Public Accounts conclusion:**

*The sharing of information within HMRC and with other bodies, such as the Charity Commission, has been inadequate.*

**Recommendation:**

*HMRC must set out a plan to improve how it shares its information internally. It must also set out more clearly how it will work better and more closely with the regulators of charities.*

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2016.

4.2 The department's charities team has recently commenced a programme to improve internal information sharing. A revised memorandum of understanding (MOU) with the Charity Commission has also been signed on the operation of the statutory gateway between the organisations. This permits closer working arrangements; including significantly increased sharing of information to risk assess charities for tax and regulatory purposes. The planned joint portal for charities to apply together to both organisations will also lead to better information sharing. Similar changes are being made to the MOUs with the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland.

**5: Committee of Public Accounts conclusion:**

*HMRC has not adequately simplified the tax rules for reliefs on donations.*

**Recommendation:**

*HMRC should examine ways in which the rules can be simplified to both reduce abuse and make the system easier and simpler for charities to claim the reliefs.*

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

5.2 The department will review all charity relief processes to ensure they are as easy to use as possible. However, in doing so this must be balanced against the need to ensure that the integrity of the reliefs is not compromised and systems and processes are not left open to the risk of fraud or abuse. In 2013, the department introduced a new IT system which makes it much quicker and easier for charities to make a Gift Aid claim, whilst enhancing its capability to automatically identify fraudulent claims when they are made and therefore reject them at an early stage.

**6: Committee of Public Accounts conclusion:**

*HMRC has still not committed enough resources to administering Gift Aid.*

**Recommendation:**

*HMRC should establish what the right staff profile is for administering reliefs on donations and implement it, taking into account its cost effectiveness in relation to other compliance work.*

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

6.2 Going forward, the department must work with reduced resources and so must balance these over a wide range of functions and risks. However, over the last 4 years, it has doubled its resource on charity compliance and increased yield fourfold. The NAO report contained a number of insights and suggestions about staff profiling which will be considered further.

**7: Committee of Public Accounts conclusion:**

*HMRC recognised that this Committee has contributed to a debate which has led people to be less content about artificial and contrived tax minimisation schemes. HMRC could go further in providing information to this Committee as part of its work to preserve public confidence in the tax system.*

**Recommendation:**

*HMRC must in the future be more willing to share information with the Committee, in confidence where necessary, to help the Committee scrutinise its actions and provide the assurance needed to improve public confidence in the tax system.*

7.1 The Government disagrees with the Committee's recommendation.

7.2 The department is very happy to work with the Committee to preserve public and Parliamentary confidence in the tax system. Within the legal framework under which it operates, the department shares non-identifying information and information about the administration of the tax system with the Committee to assure it that the department is discharging its duties correctly. The department does not, however, disclose details of any specific tax payers and their tax affairs.

## Forty Second Report

### Charity Commission

#### Regulatory effectiveness of the Charity Commission

##### 1: Committee of Public Accounts conclusion

The Commission is the independent regulator of some 165,000 registered charities in England and Wales. It is funded entirely by, and is directly accountable to, Parliament. Its budget for 2013-14 is £22.7 million. The contribution charities make to our society is hugely important to all of us and the Commission has a key role in preserving public trust in charities. The annual income of the charitable sector is around £60 billion, and charities deliver around £14 billion worth of public services annually, funded through central and local government grants and contracts. The Commission's statutory objectives include increasing public trust and confidence in charities and regulating their compliance with charity law.

1.1 On the basis of two reports by the NAO, the Committee took evidence, on 16 December 2013, from the Charity Commission on its regulatory effectiveness and leadership. The Committee published its report on 5 February 2014. This is the Government response to the Committee's report.

##### Background resources

- NAO report: *Regularity effectiveness of the Charity Commission* – Session 2013-14 (HC 813)
- NAO report: *The Cup Trust* – Session 2013-14 (HC 814)
- PAC report: *Charity Commission: the Cup Trust and tax avoidance* – Session 2013-14 (HC 138)
- PAC report: *Charity Commission* – Session 2013-14 (HC 792)

##### 2: Committee of Public Accounts conclusion:

*The Commission has no coherent strategy for delivering clearly defined priorities within its broad remit.*

###### Recommendation:

*The Commission should develop a clear strategy detailing how it will deliver its responsibilities as a regulator effectively, and set out how it will use its budget to implement that strategy. If it is being asked to do too much with too little it should clearly set out its case for additional resources to Government.*

2.1 The Commission agrees with the Committee's recommendation.

##### Recommendation implemented.

2.2 The new Board has adopted a clear strategy and has embarked on a fundamental review which has looked, amongst other things, at operational models, strategic risk management, and data mining. The Commission is also reviewing its statutory objectives, functions and duties and may wish to propose changes to these. Having conducted a thorough review of its unit costs and assessed efficiency measures, the case for additional resources will be made by autumn 2014.

##### 3: Committee of Public Accounts conclusion:

*The Commission has not regulated the charity sector effectively.*

###### Recommendation:

*The Commission needs to use its statutory powers to regulate charities more effectively. This should include making better use of the intelligence it already holds on charities to identify risks, improving how it prioritises the use of its resources, and responding more quickly to serious concerns in individual charities.*

3.1 The Commission agrees with the Committee's recommendation.

##### Recommendation implemented.

3.2 Changes have already been implemented and more will follow. Measures include more resources directed to investigation and enforcement; move to more proactive regulation (increased, better use of data, new Memorandum of Understanding with HMRC, more information sharing with other agencies); more effective use of existing powers (increase in number of statutory inquiries, greater use of enforcement powers), and forensic scrutiny of accounts. The Commission's ongoing dialogue with the Government to request new, stronger enforcement powers has recently resulted in a consultation on extending the Commission's powers. Although the Cabinet Office has indicated that securing a legislative slot for the proposed changes in the next session looks unlikely because of pressures on Parliamentary time, the Commission will continue to press for them.

**4-5: Committee of Public Accounts conclusion:**

*The Commission's leadership has consistently failed to tackle poor performance and ongoing weaknesses in the organisation.*

**Recommendation:**

*The Commission needs to introduce a determined and focused new leadership to radically transform the Commission's culture and operations, and the Board needs to have sufficient grip on the Commission's performance and operations to hold the executive effectively to account.*

4.1 The Commission agrees with the Committee's recommendation.

**Recommendation implemented.**

4.2 The Commission is already doing just that. In recent years the Commission has had to cope with complicated legislative changes (the Charities Act 2006) and severe funding reductions. The Commission agrees that a cultural shift is required to reflect its new regulatory approach and has already agreed and begun to implement structural and operational changes to enable more resource to be directed towards preventing and tackling abuse, with new key performance indicators to measure performance more effectively. The Board is actively engaged and focused on holding the executive to account in achieving the necessary cultural change and delivering the new priorities, and this will continue under the new chief executive.

**6-7: Committee of Public Accounts conclusion:**

*The Committee has little confidence in the Commission's ability to put right its problems and failings.*

**Recommendation:**

*The Commission needs to act decisively to finalise and put into action a robust change management plan to tackle effectively its enduring failings.*

6.1 The Commission disagrees with the Committee's recommendation.

6.2 The Commission rejects the charge that its record is one of "enduring failings". It notes that since the Committee's last scrutiny, in 2002, there have been considerable changes not only in the Commission's statutory responsibilities, under the 2006 Act, but also in Parliamentary and public expectations, as well as massive funding reductions in real terms. Nonetheless under the new Board a robust change management plan has already been developed to tackle the problem areas, which were correctly identified by the NAO. The Commission will also ensure that the range of its statutory responsibilities is kept under constant review and matched by requests for adequate resources whenever necessary.

# Forty Third Report

## Department of Energy and Climate Change

### Progress at Sellafield

#### 1: Committee of Public Accounts conclusion

Sellafield is the largest and most hazardous of the nuclear sites owned by the Authority. Sellafield Limited is the licensed operator of the site and manages the site under a contract with the Authority, which reimburses its costs of around £1.6 billion a year. In 2008, the Authority appointed NMP, a consortium of private sector companies, as the 'parent body organisation' (PBO) of Sellafield Limited to improve performance using its expertise. NMP receives fees earned by Sellafield Limited for improved performance in the form of dividends, receiving some £50 million in 2011-12, totalling £230 million over the 5 years of the initial contract. A report from consultants KMPG commissioned by the Authority in 2013 was very critical of key features of NMP's performance over the initial contract term. Despite these criticisms, the Authority announced in October 2013 that it had decided to extend its contract with NMP for a further five years.

1.1 On the basis of a report by the NAO, the Committee took evidence on 4 November 2013 from the Nuclear Decommissioning Authority and the Department of Energy and Climate Change; and on 4 December 2013 from Nuclear Management Partners (NMP) Ltd, Sellafield Ltd, and the Nuclear Decommissioning Authority on: the efficiency savings achieved at the site; performance data on cost and delivery schedules on 14 major projects at Sellafield; and on performance and function of the PBO model at Sellafield. The Committee published its report on 11 February 2014. This is the Government response to the Committee's report.

#### Background resources

- NAO report: Managing risk reduction at Sellafield – Session 2012-13 (HC 630)
- NAO report: Assurance of reported savings at Sellafield – Session 2013-14 (HC 778)
- PAC report: *NDA: Managing risk at Sellafield* - Session 2012-13 (HC 746)
- PAC report: *Progress at Sellafield* - Session 2013-14 (HC 708)

#### 2: Committee of Public Accounts conclusion:

*The Authority has extended its contract with NMP despite the company's poor performance at Sellafield.*

#### Recommendation:

*The Authority should set out how, and when, it will review what progress NMP is making in improving performance at the site. The NAO should review the Authority's approach and report back to the Committee on performance at Sellafield one year into the extended contract.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** October 2015.

2.2 Under the ownership of NMP, progress has been made in delivery and safety at Sellafield. Sellafield Ltd and NMP also now have a much better understanding of the work programme, including timescales and costs. The department is however concerned that progress has not been as good or as fast as expected, particularly in relation to building capability at the site. The department endorsed the Authority's decision to roll forward the contract on the basis that it is the best way forward at this time, giving NMP the opportunity to build on progress to date and make use of their better understanding to address areas of weak performance.

2.3 The Authority will continue to monitor the performance of NMP and Sellafield Ltd throughout the second contract term. This will inform future decisions regarding the contract with NMP. Performance will be measured both against quantitative and qualitative information on programme delivery and improvements to management and capability.

2.4 The department welcomes the proposal that the NAO should review the Authority's approach and report on performance at Sellafield a year into the extended contract.

### **3: Committee of Public Accounts conclusion:**

*NMP has not provided the leadership and strong contract management skills that are critical for the success of the major projects at Sellafield and the running of such a large and complicated site.*

#### **Recommendation:**

*The Authority should monitor, and challenge where appropriate, the use made of NMP-appointed executives and experts and the terms on which they are employed. NMP should publicly report its costs, progress and the value it has brought to the site.*

3.1 The Government agrees with the Committee's recommendations.

**Target implementation date:** July 2015.

3.2 The Authority already monitors, and challenges where appropriate, the use made of NMP appointed executives and experts, and the terms on which they are employed. This will continue to be an area of focus in the second term of the contract.

3.3 The department agrees the need for transparency on the costs and benefits of the parent body model at Sellafield. The Authority will work with NMP to review how best to increase the transparency of NMP's costs, as well as delivering progress and value for money within the legal and contractual framework. This may be achieved with supporting publications alongside the Authority's Annual Report and Accounts. However, the department believes that it would not be appropriate for NMP to independently publish its costs - rather that it should be for the Authority to take on this role subject to independent audit by the NAO.

### **4: Committee of Public Accounts conclusion:**

*The Authority has not demonstrated why, given the lack of risk transferred to NMP, this 'parent body' arrangement at Sellafield provides value for money.*

#### **Recommendation:**

*The Authority should set out how it might transfer more of the delivery risk to contractors under its existing arrangements and how it will ensure that its alternative arrangements are viable to enable it to terminate the current contract should performance continue to prove unsatisfactory.*

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** December 2015.

4.2 The Authority is completing a structured review of the baseline Sellafield plan (Performance Plan 14) to examine procurement strategies and confirm that any opportunities, at project level, for the reasonable transfer of risk into the supply chain have been identified and implemented. The review should be completed by December 2015, as stated in the department's Treasury Minute response in May 2013 (Cm 8613).

4.3 Due to the inherent uncertainty of the challenges at the Sellafield site, the market has proved to be unwilling to take on (at Tier 1) any delivery risks associated with Sellafield, which may continue for many years. The current focus is to define the more certain elements of scope and where appropriate transfer delivery risk into the market at Tier 2 and 3.

4.4 The Authority has viable alternatives to the current contractor, contract and PBO model. These alternatives will be maintained and developed further during 2014 and scrutinised by the NAO in their study planned for 2015. In the meantime, the Authority is focussed on ensuring success during the second term of the contract with NMP.

### **5: Committee of Public Accounts conclusion:**

*It is not clear whether there are adequate safeguards to protect taxpayers' interests in the contractual relationships between the private companies involved in managing and operating the Sellafield site*

#### **Recommendation:**

*The Authority, Sellafield Limited and NMP should report publicly on the safeguards in place to protect taxpayers' interests and manage potential conflicts of interest in transactions between each party, their operation and their roles in securing value for money for public funds.*

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** September 2014.

5.2 The Authority was set up to secure value for money from public funds spent on nuclear decommissioning. Its constitution as a NDPB incorporates governance arrangements, Accounting Officer responsibilities, and requirements for public reporting, which the department already considers to be robust. Where a small percentage of work at Tier 2 and 3 is let, through open competition, to companies affiliated to parent companies of NMP, additional safeguards are in place within Sellafield Ltd and the Authority to ensure that the contract awards are fair. These arrangements are open to scrutiny by the department, NAO and Parliament.

5.3 The Authority will continue to work transparently and publish, on its website, a summary of the additional safeguards in place when work is let to companies affiliated to NMP. Securing value for money is always at the forefront of this work.

**6: Committee of Public Accounts conclusion:**

*The Authority unduly restricted the information it made available to the public on performance at Sellafield*

**Recommendation:**

*The Authority should revisit its approach to disclosing information to ensure that it does not use grounds such as commercial confidentiality inappropriately to withhold information on performance on its sites and by its contractors.*

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** September 2014.

6.2 The Authority remains committed to open and transparent engagement. However, there will be circumstances, as defined in the Freedom of Information Act, where it would not be appropriate to make the same information available to the general public. The Authority seeks to implement the Freedom of Information Act faithfully and in doing so will commission a review of its approach to disclosing information, to ensure that it does not use grounds such as commercial confidentiality inappropriately.

**7: Committee of Public Accounts conclusion:**

*The Authority has not set out clearly its strategy for dealing with the plutonium stored at Sellafield.*

**Recommendation:**

*The Authority must learn from past mistakes and ensure that there is a comprehensive, robust business case before any decision is taken on dealing with the plutonium stockpile.*

7.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

7.2 The department carried out a public consultation in 2011 on options for dealing with the UK's plutonium. It concluded that the preferred option was re-use, with an assumption that this would take the form of MOX (mixed oxide) fuel to be burned in the new fleet of reactors planned for the UK. However the department remains open to considering alternative options that offer better value for money.

7.3 Having considered two alternative credible proposals - one from GE Hitachi and one from Candu Energy - the Authority will pursue these re-use options, alongside the re-use as MOX option and another option which could see the plutonium disposed of as waste. In reaching a final decision on plutonium disposition, which is expected to include a competitive tendering and procurement process, the department will proceed only when it is confident that a robust business case demonstrates an option that can be implemented safely and securely; that is deliverable; and that offers value for money.

# Forty Fourth Report

## Department for Business Innovation and Skills

### Student Loan repayments

#### 1: Committee of Public Accounts conclusion

The Government introduced student loans in 1990. The department is responsible for the overall system of collecting repayments, which is operated by the Student Loans Company (SLC) and HM Revenue and Customs (HMRC). In 2012-13, the SLC and HMRC spent £27 million operating their systems for collecting £1.4 billion of repayments, the majority of which are collected through HMRC's tax systems. The student loan book is a substantial public asset, and the department estimates that the value of outstanding loans will increase from £46 billion in 2013 to £200 billion by 2042 (in 2013 prices). The department therefore needs to understand which loans are due for repayment and what the outstanding loans are worth, and ensure that it collects all those payments due.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 11 December 2013, from the Department for Business Innovation and Skills on its work on the repayment of Student Loans. The Committee published its report on 14 February 2014. This is the Government response to the Committee's report.

#### Background resources

- NAO report: *Student loan repayments* - 2013-14 (HC 818)
- PAC report: *Student Loan repayments* - Session 2013-14 (HC 886)

#### 2: Committee of Public Accounts conclusion:

*Since student loans were introduced in 1990, there has been no reliable model for forecasting how much will be repaid to the Exchequer.*

##### Recommendation:

*The department must publish clear and easily-understood annual forecasts of what it expects to collect in the year ahead, and explain why any subsequent variances between forecasts and the amounts actually collected. It must also invest in improving its forecasting capability so that action can be taken to reduce the ever-growing write-off figures.*

2.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** March 2015.

2.2 The department will publish clear and easily understood annual forecasts of the amounts it expects to collect along with data on the actual amounts collected. The department will explain any variances between the forecasts and the actual amounts collected.

2.3 The department has, since April 2013, invested additional resources to improve the model used to forecast repayments. The revised model will be used to value the loan book in the Departments' 2013-14 accounts and to generate a forecast of repayments for 2014-15.

#### 3: Committee of Public Accounts conclusion:

*The Committee was reassured by the Permanent Secretary's statement that any sale of the student loan book "has to represent value for money for the taxpayer".*

##### Recommendation:

*The baseline valuation for the sale needs to be determined in advance. The department must demonstrate that it has a robust understanding of: the realistic value of the student loan book; the long-term cost to the taxpayer of any early sale; and the expected level of competition between bidders and what they might pay for the loan book.*

3.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** March 2016.

3.2 As announced by the Chancellor in the December 2013 Autumn Statement, the Government intends to realise value for the taxpayer through sales from the pre-2012 Income Contingent loan book. Loans are expected to be sold in a series of tranches, over a number of years, with a first sale expected during financial year 2015-16.

3.3 The department will ensure that sales of the loan book represent value for money to the taxpayer. A refined model has been developed to provide an accurate forecast of future repayments. Consideration will be given to the comparison between the value of a sale and the value of retention. The department has appointed commercial advisers to develop a process and structure that will provide opportunities for competition and price tension through the sale.

**4: Committee of Public Accounts conclusion:**

*The approach to collecting debt lacks rigour. The department and the SLC need to improve the collection of loan repayments.*

**Recommendation:**

**The department should set, and report against, more stretching and meaningful targets for debt expected to be collected, and for measuring the SLC's performance in specific key areas. This will improve transparency and accountability. It should develop a strategy and targets for collecting overdue debt more quickly from all categories including borrowers living overseas.**

4.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2015.

4.2 The department is reviewing and revising SLC's targets as part of the annual process of setting in the Company's Annual Performance and Resource Agreement (APRA). New targets will be set to incentivise SLC to improve collections from overseas borrowers and prioritise work, including by targeting loans on the basis of their age and value analysis. The department is reviewing how best to improve the collection of loans. This will provide the option to introduce additional targets and collection initiatives in the future. The department is working with HMRC, SLC and the Devolved Administrations throughout this process.

**5: Committee of Public Accounts conclusion:**

*Opportunities to share data with other public bodies to track down borrowers have not been exploited by the department and the SLC.*

**Recommendation:**

**The department and SLC should work with other Government departments to develop a strategy for sharing data to gain more information on borrowers' whereabouts and earnings and to help identify previously undetected fraud.**

5.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** June 2014.

5.2 The department is working with the Department for Work and Pensions on a pilot project from April 2014. The project will help identify whether individual borrowers are in receipt of benefits (those not earning above the relevant earnings threshold) or are deceased. The department is also working with the Department of Health and the UK Border Agency to explore whether additional data on borrowers could be provided. Further, the department has initiated discussions with other EU Member States to explore whether data on borrowers moving between EU countries could be shared.

5.3 SLC participates in the UK's Fraud Prevention Service; the Cabinet Office Data Sharing initiative; and the cross Government debt collection project.

**6: Committee of Public Accounts conclusion:**

*The quality of customer service provided to students has improved, but significant difficulties remain.*

**Recommendation:**

**The SLC must deliver on its promises to improve its online services to borrowers and to stop using premium-rate phone lines in the new financial year.**

6.1 The Government agrees with the Committee's recommendation.

**Target implementation date:** April 2014.

6.2 The department and SLC are committed to moving all 0845 numbers to 03 numbers to reduce the costs of calls to customers. SLC has set up a project team to implement the switch over towards implementing 03 numbers on 1 April 2014, and are already in discussions with Vodafone.

6.3 SLC introduced a pilot in January 2014 for 3,000 borrowers to access their online statement, which will be extended to all customers in the future. SLC has created a new online application service for the academic year 2014-15 for full-time applicants. This will replace the current complicated process which receives a high volume of calls for help. The department and the Devolved Administrations are investing up to £100 million in the SLC's Transformation Programme, which will replace outdated technology and fundamentally improve how SLC delivers better products and services to its customers.

# Forty Fifth Report

## HM Treasury

### Excess Votes 2012-13

#### Committee of Public Accounts report summary

Excess Votes forms part of the framework of Parliamentary control over Government spending. Resource-based Supply requires departments to estimate and manage the financial resources they need during each financial year on an accruals basis for commitments to provide services, and on a cash basis to meet commitments as they mature. Parliament authorises departments' proposed cash spending and use of resources.

Resource-based Estimates reflect accruals and non-cash consumption of resources, such as depreciation. A cash limit is also voted by Parliament. A breach of any of the budgetary control limits or the cash limit results in the need for the expenditure to be regularised through the Parliamentary Excess Votes process. In 2012-13, Parliament granted total net resources of £515.3 billion and total cash of £455.9 billion in Supply Estimates to 50 vote funded bodies.

Under Standing Order of the House of Commons number 55(2)(d), the Committee of Public Accounts scrutinises the reasons behind any individual bodies exceeding their allocated resources, and reports to the House of Commons on whether it has any objection to making good the reported excesses. Once the Committee has reported, Statements of Excesses will be presented to Parliament, to be voted into the Supply and Appropriation (Anticipation & Adjustments) Act. The passing of this Act authorises the additional grant by Parliament to regularise the excesses incurred by Departments.

The table below shows the excesses incurred in 2012-13. Parliament is being asked to approve additional budget for the excess reported in this table. This is the Government response to the Committees report.

Department	Capital DEL		Cash	
	Excess £	Amount to be voted £	Excess £	Amount to be voted £
Department for Communities and Local Government	1,141,000	1,141,000	55,456,000	55,456,000
Food Standards Agency (Westminster)	48,000	48,000		
<b>Total</b>		<b>1,189,000</b>		<b>55,456,000</b>

Ministry of Defence Resource DEL <sup>5</sup>	Excess £	Amount to be voted £
2012-13	1,000	1,000
2011-12	1,000	1,000
2010-11	1,000	1,000
2009-10	1,000	1,000
2008-09	1,000	1,000
2007-08	1,000	1,000

#### Background resources

- PAC report: *Excess Votes 2012-13* - Session 2013-14 (HC 1068)

<sup>5</sup> This reflects the need to revise the Ministry of Defence's DEL Expenditure Ambit to reflect increases in the maximum numbers of personnel to be maintained in a specific service category.

**1-2 and 4-5: Committee of Public Accounts conclusions:**

**1: In 2012–13, the Department for Communities and Local Government breached its Net Cash Requirement Estimate Parliamentary Control total by £55.5 million.**

**2: The Department for Communities and Local Government also exceeded its Capital Local Government Departmental Expenditure Limit by £1.1million.**

**4: The Food Standards Agency breached its Capital Departmental Expenditure Parliamentary Control total by £48,000.**

**5: The Ministry of Defence exceeded its Votes A maximum numbers of personnel to be maintained for service in the Special Members of the Reserves Naval Forces.**

**Recommendation:**

**Under the terms of the Standing Order of the House of Commons number 55(2)(d), the Committee recommends that Parliament provides the additional resources by means of an Excess Vote.**

1.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

1.2 The Treasury agrees that none of the excesses identified by the Committee represent a significant weakness in controls

**3: Committee of Public Accounts recommendation**

**Recommendation:**

**Given the size of the excesses in recommendations 1 and 2, the Department for Communities and Local Government should write to the Committee setting out what action the department has taken to avoid exceeding its allocated resources in future.**

3.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented.**

3.2 The Department for Communities and Local Government will separately write to the Committee setting out what actions will be taken to avoid exceeding their allocated resources in the future.

**6: Committee of Public Accounts conclusion:**

**The Ministry of Defence only avoided a £395 million breach of its Annually Managed Expenditure by not charging the full value of impairments to its Net Operating Costs.**

**Recommendation:**

**The Ministry should write to the Committee setting out what controls and processes they have in place to consider the implications of its accounting treatments, and ensure it fully understands and respects the impact on resources voted by Parliament.**

6.1 The Government disagrees with the Committee's recommendation.

6.2 Under the Government Financial Reporting Manual (FRoM), where impairment arises from a clear consumption of economic value or service potential, the loss should be recognised immediately and taken to the net operating cost section of the Statement of Comprehensive Net Expenditure. In cases where there is no clear consumption of economic value or service potential then the loss is written off against the Revaluation Reserve until the carrying amount of the asset reaches the level of depreciated historical cost. The FRoM guidance is a departure from the International Accounting Standards, which allows the loss to be recognised against the reserves.

6.3 Therefore, as the department does not believe that these impairments are due to clear consumption of economic value, nor loss of service potential, it wrote £907 million off against the revaluation reserve. It would have been inappropriate to use the Supplementary Estimate process to request additional resources to manage the impairment through Annually Managed Expenditure (AME). This treatment was discussed and agreed with the Treasury, who are the authority for Government accounting policy.

## 7: Committee of Public Accounts recommendation

### **Recommendation:**

***HM Treasury should continue to regularly monitor the progress departments are making against their Estimates during the year and, where possible, take appropriate action to prevent bodies exceeding their provision. HM Treasury should also take stock on an annual basis of what lessons can be learnt from the prior year's excesses and the effectiveness of the spending controls in place and whether or not these need to be strengthened and where necessary issue revised guidance to supply financed entities.***

7.1 The Government agrees with the Committees recommendation.

### **Recommendation implemented.**

7.2 The Treasury will continue to monitor the progress departments are making against their Estimates during the year, and where possible take appropriate action to help prevent bodies exceeding their provision. The Treasury daily monitors all departmental drawings of supply cash from the Consolidated Fund. This is achieved using established and robust controls that without fail prevent departments from drawing amounts of supply cash that exceed the net cash requirements authorised by Parliament in the Estimates and Supply and Appropriation Acts.

7.3 Whenever a department does attempt to draw down supply cash that exceeds what is available, the Treasury immediately alerts the department to the situation, and also directs that the appropriate Spending Team is contacted as a matter of urgency. Spending Teams are also alerted internally by Treasury colleagues, so that early consideration can be given to the use of the Contingencies Fund to help bolster departmental cash flows.

7.4 In 2012-13, excluding the token Ministry of Defence excesses reported between 2007-08 and 2012-13, there were just two excesses. This is considerably less than the six excesses reported in 2011-12. It is clear from the nature of the breaches in 2012-13 that since the Clear Line of Sight initiative was introduced in 2011-12, it has helped to improve in-year financial management. In addition to Clear Line of Sight, the Treasury has introduced the On-line System for Central Accounting and Reporting (OSCAR) to improve and standardise both data quality and reporting methods.

7.5 The Treasury continues to update and issue guidance, such as the *Consolidated Budgeting Guidance* and *Improving Spending Control*, to emphasise financial management; the importance of maintaining firm in-year control; provide clarification on voted limits; outline consequences of breaches to controls; and promote departmental monitoring and the sharing of spending information with the Treasury. The Treasury's Review of Financial Management in Government also made recommendations in December 2013 intended to improve financial management in the public sector.

## 8: Committee of Public Accounts recommendation

### **Recommendation:**

**In 2011-12, three departments incurred excesses (Department for Education, Department for Energy and Climate Change, and Department for International Development). The Committee asked each of these departments to provide a note setting out the actions they had taken to avoid an excess in the future. However, only the Department for Education has replied. It is not acceptable for departments to ignore the Committees requests for information. The Committee still expects the two departments to respond to the previous request and, in addition, to explain why our request was not taken forward at the time.**

8.1 The Government agrees with the Committee's recommendation.

8.2 Both the Department for Energy and Climate Change, and the Department for International Development have separately written to the Committee setting out what actions will be taken to avoid exceeding their allocated resources in the future, as detailed in the Committees report: Excess Votes 2011-12.

ISBN 978-1-4741-0203-2



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