HM Treasury

Treasury Minutes

Government responses to the Committee of Public Accounts on the Thirtieth to the Thirty-Fourth reports from Session 2019-21

CP 389

February 2021

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Government responses to the Committee of Public Accounts Session 2019-21

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Thirtieth Report of Session 2019-21

HM Treasury, Payment Systems Regulator, Financial Conduct Authority, Royal Mint and Bank of England

The Production and Distribution of Cash

Introduction from the Committee

The use of cash in transactions is in decline. Cash was used in six out of 10 transactions a decade ago but in 2019 was used in less than three in 10. Its use is expected to fall further still, a trend which may accelerate as a result of the decline in cash use during the Covid-19 pandemic. The decline is putting pressure on the commercial viability of the infrastructure which supports the distribution of cash. The UK's cash system involves largely public sector production and private sector distribution. A range of public bodies have responsibility for aspects of the cash system: HM Treasury has responsibility for delivering the government's policy aim, which is "to safeguard access to cash for those who need it, while supporting digital payments"; the Royal Mint, under contract to HM Treasury, manufactures coins; and the Bank of England is responsible for producing notes and also governs the wholesale distribution of notes in England. In addition, the Payment Systems Regulator (PSR) regulates the Automated Teller Machine (ATM) network and the Financial Conduct Authority (FCA) regulates financial services providers who between them provide much of the cash distribution network. In May 2019, HM Treasury established a new coordinating group, the Joint Authorities Cash Strategy (JACS) Group, with the Bank, the FCA and the PSR to "set up strategy, coordinate work to support nationwide access and help safeguard cash for those that need it".

In its March 2020 Budget, the government announced that it would bring forward legislation to protect access to cash and ensure that the UK's cash infrastructure was sustainable in the long-term. In October 2020, the government published a call for evidence setting out its legislative aims for protecting access to cash and seeking views on key considerations for the future of the UK's cash system.

Based on a report by the National Audit Office, the Committee took evidence, on 19 October 2020 from HM Treasury, the FCA, the Royal Mint (TRM), the Bank of England and the PSR. The Committee published its report on 4 December 2020. This is the government response to the Committee's report.

Relevant reports

- NAO report: *The production and distribution of cash* – Session 2019-21 (HC 730)
- PAC report: *The production and distribution of cash* – Session 2019-21 (HC 654)

Government responses to the Committee

1: PAC conclusion: *The public bodies with responsibilities for cash are not acting with sufficient urgency to protect more vulnerable groups and communities, particularly in rural areas, who most need to use cash.*

1a: PAC recommendation: *By January 2021, HM Treasury and the Payment Systems Regulator should write to the Committee to provide a detailed assessment of the prevalence across the UK of cash only being available via paid for cash machines, or via Post Office counter withdrawals, and to set out the steps they have undertaken to ensure adequate access to free cash machines across the country.*

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.3 HM Treasury and the Payment Systems Regulator (PSR) *wrote to the Committee* on 28 January in response to this recommendation.

1.4 As of March 2020, a small proportion of the UK population (1.5%) counted a pay-to-use ATM as their only source of cash within 1 kilometre. A slightly higher proportion (3%) counted a Post Office as their only source of cash within 1 kilometre. This analysis is based on the most up-to-date complete dataset of bank branches, ATMs and Post Offices. The same dataset informed the report *'Where to withdraw? Mapping access to cash across the UK'*, published by the University of Bristol in collaboration with the Financial Conduct Authority (FCA), PSR and industry in November 2020. That report found there was good overall geographic cash access across the UK, with around 90% of neighbourhoods within 1 kilometre of a free source of cash.

1.5 HM Treasury, PSR, FCA, and Bank of England continue to engage closely, including through the JACS Group, to ensure comprehensive oversight of the UK's cash infrastructure. While free-to-use ATMs continue to be the most commonly used means of withdrawing cash, there are several ways people and businesses withdraw and deposit cash to support their needs and circumstance. Members of the JACS Group are therefore taking action to ensure the provision of cash across a range of cash facilities. This encompasses work to mitigate the impact of the COVID-19 pandemic, as well as taking action to protect access to cash in the long term.

1b: PAC recommendation: By the end of March 2021 at the latest, HM Treasury should publish a clear plan of action, including draft legislation, for securing access to cash across the UK. The plan should include clear commitments, including a clear statement of what the regulators are expected to achieve in terms of cash access for communities and vulnerable groups; definite steps to allow cash back without having to make a purchase; and clear evidence that regulators will have effective powers to take action should access to cash be threatened.

1.6 The government disagrees with the Committee's recommendation.

1.7 The government agrees with the importance of setting out its next steps on cash.

1.8 The government published a *Call for Evidence on Access to Cash* which closed on 25 November 2020. This sought views on the key considerations associated with cash access, including deposit and withdrawal facilities, cash acceptance, and regulatory oversight. The government is considering the responses and will seek to set out its next steps in due course.

1.9 The government disagrees with committing to publish draft legislation to this timetable. Access to cash is a complicated issue. Industry are currently exploring sustainable and appropriate solutions that meet the cash needs of consumers and businesses in the long term, across a range of channels including ATMs. It is therefore important that legislation is not rushed, but is carefully designed to both accommodate both current and future cash access solutions, and to anticipate changing cash access needs over time.

1.10 With regards to cashback without a purchase, the government stated in the Call for Evidence that this has the potential to be a valuable facility to cash users and support local cash recycling. Following the end of the transition period on 31 December 2020, the government is now able to legislate to remove barriers to the widespread adoption of cashback without a purchase.

1.11 The response to recommendation 3 provides additional information on the role of regulators.

2: PAC conclusion: ***We are not convinced that the public bodies understand how declining access and acceptance of cash can adversely affect many people's lives.***

2: PAC recommendation: ***In undertaking their plan to secure continued access to cash, the government should set out how they propose to incorporate the concerns and requirements of different communities and groups to ensure that solutions actually meet local needs. The plan should set out what consumers, particularly those in vulnerable groups, can expect in terms of accessing and using cash in their locality.***

2.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

2.2 As highlighted by the Committee, in recent years, the ongoing trend in payments in the UK has been away from cash and towards card payments and other digital payment methods. The government recognises that cash remains important to millions of people across the UK and there are a range of ways and reasons for people to use cash. These can include the importance of cash as a symbol of independence, as well as an important budgeting tool, and as a way that elderly or vulnerable people can access social opportunities.

2.3 The government has committed to protecting access to cash to ensure those that rely on cash are not left behind. To date, the PSR has used its regulatory powers to make sure LINK – the UK's main ATM network - delivers on its public commitments to maintain the existing geographic spread of free-to-use ATMs. Furthermore, it has encouraged LINK to develop additional initiatives, such as LINK's ATM Community Request scheme and Retail Centre Policy. Collectively, these actions help to ensure that communities, including those in remote and deprived locations, continue to have access to free-to-use machines.

2.4 The *Call for Evidence on Access to Cash* set out that the government considers that flexibility and proportionality will be important criteria to meet the needs of individuals and businesses, including those in vulnerable groups, and invited views from all stakeholders. The government is considering the responses and will seek to set out its next steps in due course.

3: PAC conclusion: ***No one is in overall charge of making sure that people and businesses have access to cash.***

3: PAC recommendation: ***HM Treasury needs to give overall responsibility for the cash system to a single body, with the other bodies having clearly defined roles to support this. It should address potential gaps in current oversight, for example in overseeing the end-to-end resilience of the cash system.***

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

3.2 The government aims to ensure that the authorities have the appropriate powers and responsibilities to oversee the cash system efficiently and effectively. The Bank of England, FCA, PSR, and HM Treasury each have roles and responsibilities for the cash system.

3.3 The government's *Call for Evidence on Access to Cash* stated that there may be significant benefit in giving a single authority overall responsibility for setting requirements to ensure that the retail distribution of cash meets the needs of consumers and small and medium sized enterprises. Furthermore, it set out the government's view that the FCA may be well positioned to take on this function through legislation. The government is considering the responses and will seek to set out its next steps in due course.

4: PAC conclusion: ***The Bank of England seems to lack curiosity about the huge volume of notes not used or held for day-to-day transactions.***

4: PAC recommendation***: The Bank, working with other public authorities such as HMRC, should take action to improve its understanding of the factors that are driving the increase in demand for notes, and also who is holding the approximately £50 billion worth of notes.***

4.1 The Bank of England agrees with the Committee's recommendation.

Target implementation date: December 2021

4.2 As the Bank of England stated when the Committee's report was released, the Bank of England's responsibility is to meet the public's demand for banknotes. It has always met that demand and will continue to do so. The delivery of this responsibility does not require identifying who is holding banknotes at any point in time. Members of the public do not have to explain to the Bank of England why they hold banknotes or how much they hold.

4.3 The Committee highlight the continuing increase in the value of notes in circulation, despite the use of cash for day-to-day transactions falling in recent years, including during the pandemic. This suggests that banknotes are increasingly held as a store of value. Holding banknotes as a store of value can be perfectly legitimate, and the trend towards using banknotes for this purpose is also being seen in many other major currencies around the world.

4.4 The Bank of England does not agree that it lacks curiosity about the increasing number of notes not being held for day-to-day transactions. The Bank of England already carries out work on trends in banknote use for the purposes of understanding future banknote demand. The Bank of England's future work will – consistent with the Committee's recommendation – focus on banknotes held as a store of value, given the declining trend in notes used in the domestic economy to facilitate transactions. The Bank of England will conduct surveys over the next year on households' use of banknotes as a store of value and on small businesses' banknote holdings and usage. There may be limitations to survey-based techniques as, for example, respondents may not want to reveal their true holdings.

4.5 The Bank of England will also engage with other relevant authorities, in particular Her Majesty's Revenue and Customs (HMRC) and the National Crime Agency, who may hold additional relevant information.

5: PAC conclusion: ***The Bank of England's stock of notes seems high and it is not clear to us how the Bank decides upon what is an appropriate stock level.***

5: PAC recommendation: ***The Bank should ensure that it properly records and evidences the judgements it makes about printing notes and its stock levels so that it can be properly held to account for the decisions it makes.***

5.1 The Bank of England agrees with the Committee's recommendation.

Target implementation date: December 2021

5.2 The Bank of England needs to hold sizable stocks of printed notes, ready to be issued, to ensure there are sufficient banknotes available to meet public demand, which can change suddenly and by large amounts. For example, demand for banknotes increased by 10% (£7.5 billion) in 2020 relative to the peak in 2019. Having insufficient notes to meet demand would risk significantly undermining the public trust in the currency.

5.3 The Bank of England has a robust process in place for making decisions about how many notes to print and believes its stock levels are appropriate. Decisions regarding stock levels do, however, involve judgement. The range of considerations includes forecasts of the demand for banknotes, the impact of events such as note launches, and the need to ensure value for money by having efficient print runs and making the best use of the Debden site's print capacity. It is important that how these factors are balanced is clearly documented. Therefore, as recommended by the Committee, the Bank of England will review its documentation around stock decisions and contingency requirements and ensure that it clearly records the main factors contributing to final decisions on print volumes and stocks.

6: PAC conclusion: ***The continued reduction of coin use, possibly accelerated by Covid, is likely to put further pressure on the Royal Mint's ability to deliver a profit on its UK coin manufacturing operations.***

6: PAC recommendation*: In the Treasury Minute response to this report, HM Treasury and the Royal Mint should set out how they are ensuring that the plans for manufacturing UK coins are sustainable and cost effective.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2021

6.2 HM Treasury and The Royal Mint (TRM) recognise the pressures that the reduction in transactional cash use and COVID-19 have placed on the profitability of UK coin manufacture. Ensuring that operations are sustainable and cost effective into the long-term, is a key priority for both HM Treasury and TRM. TRM is working to mitigate the impact of the reduction in transactional cash use by seeking to make long-term improvements in business efficiencies. To date, TRM has made significant advancements in its overall business operations, and since 2018 TRM has reduced the average direct manufacturing cost per UK coin. These cost reductions and efficiency gains are part of TRM's continuous improvement plans and on-going business strategy. Led by market demand, TRM has reduced its cost base by over 30% in the last 3 years.

6.3 TRM will continue its work in aligning operational costs with coin production demand. Furthermore, as UK volumes have been falling over recent years TRM has worked hard to strengthen its overseas business, to a point where UK volumes account for less than 15% of all circulating coin production. This ensures that the business is sustainable, spreading the fixed cost base over a larger overall volume. It safeguards TRM's capability to produce UK coinage at a competitive cost. Furthermore, the UK Coin Contract (UKCC) between TRM and HM Treasury sets a fixed price for the production of UK coins. The UKCC drives cost efficiencies in the manufacturing of UK coin and value-for-money, ensuring any rise, outside of inflation, in manufacturing costs are not passed on to the taxpayer.

6.4 A key challenge for TRM, now and moving forwards, is forecasting coin demand in an environment of declining cash use. The COVID-19 pandemic presented additional, unprecedented challenges. TRM has worked closely with industry to accurately forecast demand for new coin and engages bilaterally with the Bank of England to share best practice in forecasting. Prior to the COVID-19 pandemic, forecasting accuracy in 2019-20 was 98%. TRM has taken a more active role in engaging with HM Treasury, industry and the Bank of England since COVID-19 impacted the UK and as a result has introduced additional measures to ensure the appropriate level of coin is available to industry at the right time and support the effective operation of the UK economy.

Thirty-First Report of Session 2019-21

Ministry of Housing, Communities and Local Government

Starter Homes

Introduction from the Committee

The Ministry of Housing, Communities & Local Government (the Department) aims to support the delivery of a million new homes in England between April 2015 and the end of 2020, half a million more by the end of 2022, and be on track to deliver 300,000 net additional homes per year by the mid-2020s. These ambitions have been expressed in an extensive array of policies. The government announced one such policy in April 2015 when it committed to delivering 200,000 Starter Homes to be sold at a 20% discount and available exclusively for first-time buyers under the age of 40. The November 2015 Spending Review provided £2.3 billion to support the delivery of 60,000 of these planned homes. From 2015, the Home Builders Federation administered a register of people interested in buying a Starter Home. But despite the Department having spent £192 million by July 2019 on remediating land intended for Starter Homes, none have been built because the Department has not enacted the necessary secondary legislation following the Housing and Planning Act, 2016. The spending is, however, supporting the development of homes more generally, including some affordable housing. In January 2020 the Department announced that the Starter Homes policy was no longer being pursued. In February 2020 it launched a new initiative, First Homes, which also aims to deliver discounted homes for first-time buyers, while differing from Starter Homes in some significant ways.

Based on a report by the National Audit Office, the Committee took evidence, on 22 October 2020 from the Ministry of Housing, Communities and Local Government. The Committee published its report on 9 December 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Investigation into starter homes* – Session 2019-21 (HC 275)
- PAC report: *Starter Homes* – Session 2019-21 (HC 88)

Government responses to the Committee

1: PAC conclusion: *We deplore the time and resources wasted by the Department as it let the Starter Homes policy drift out of existence.*

1: PAC recommendation*: The Department should be open with Parliament and the public when policies change or are abandoned. Such announcements should be made to Parliament and the public in a timely manner to reduce uncertainty and disappointment for those looking to the government to help them; in this case, to find a home they can afford.*

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The Ministry of Housing, Communities and Local Government (the department) informed both the public and Parliament regarding the de-prioritisation and conclusion of the Starter Homes policy. Starter Homes was a policy of a previous administration that was announced in 2014. There was a change in administration in 2016. The administration at that time set out its strategy in the 2017 housing and planning White Paper, Fixing Our Broken Housing Market, which informed the public of their policy decision to focus on a wider range of affordable housing products, of which Starter Homes was one. Following this, the department engaged with stakeholders on the design of the Starter Homes product. In 2019, there was a change of administration which was followed by a General Election. In that election, the Conservative Party Manifesto set out its priorities for government, which did not include Starter Homes. In 2020, the new administration informed Parliament that the Starter Homes policy was not going ahead and members of the public who had registered their interest in the policy were contacted. While the conclusion of the policy may have been disappointing to some, Starter Homes was one of a suite of products on offer to support prospective home owners. Since 2010, the government has helped 666,500 households onto the housing ladder through schemes such as Help to Buy or Shared Ownership. In that time, the government have also delivered over 508,000 new affordable homes, including over 360,000 affordable homes for rent (affordable rent and social rent).

2: PAC conclusion: ***The Department's reliance on developer contributions to fund First Homes is a complex mechanism lacking transparency and risks less money being available to local authorities for housing and infrastructure.***

2: PAC recommendation***: As part of the First Homes pilot, the Department should model the effect of funding First Homes from developer contributions on local authorities' ability to fund local infrastructure and other housing needs, such as social housing, and what the opportunity cost is of using developer contributions in this way. It should also set out clearly how the secondary resale market will work.***

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 Under the new First Homes policy, developments will be expected to capture the same amount of value for affordable housing as they do now. The First Homes requirement will not be in addition to current value capture for affordable housing but will change the mix of affordable housing which is delivered. As such the government does not expect First Homes to have any effect on the level of funding available to local authorities to fund other priorities such as infrastructure.

2.3 The department published a detailed Equalities Impact Assessment for the First Homes programme as described in the response to the 'Consultation on the design and delivery of First Homes', which includes modelling on the effect of the policy on the number of homes expected to be delivered through developer contributions, broken down by tenure. The department notes that there has been a further consultation, which considers aspects of the policy that will affect the mix of affordable housing delivered through developer contributions and will update an impact assessment accordingly when these decisions are made.

2.4 The department has worked with HM Land Registry to develop a legal framework to ensure the discounts and restrictions are passed on to future purchasers and has already started testing this process with parts of the industry and will set this out clearly and publicly in due course. The department will continue to work with local authorities, conveyancers, estate agents, consumers and others to ensure the secondary market works smoothly and purchasers are fully aware of their requirements and restrictions.

3: PAC conclusion: ***We are disappointed that the Department remains unable or unwilling to clarify how it will achieve its ambition of 300,000 new homes per year by the mid-2020s.***

3a: PAC recommendation***: We are frustrated that once again we must repeat our recommendation that the Department should clarify how its range of housing schemes, including First Homes, will each contribute to its ambition of building 300,000 new homes per year by the mid-2020s.***

3.1 The government disagrees with this recommendation.

3.2 The department has and continues to be transparent about its objectives, and the progress towards them. In June 2019, the department published its latest Single Department Plan, including strategic objectives to increase supply. The Departmental Plan will be updated in line with the wider timetable, to be agreed with Cabinet Office and HM Treasury. The department publishes quarterly data on the progress towards raising net housing supply to 300,000 a year, meeting Conservative Party manifesto commitments.

3.3 This government is determined to level up opportunities across the country, building the homes this country needs.

3.4 The department has made significant progress having delivered over 1.8 million new homes since 2010, including 508,000 affordable homes and around 244,000 additional homes last year - the highest level in over 30 years.

3.5 COVID-19 and associated economic conditions have significantly impacted supply. To support house building, the government announced initial funding of £7.1 billion for a new National Home Building Fund, unlocking up to 860,000 homes. This includes £2.2 billion of new loan finance to support housebuilders across the country.

3.6 This forms part of the nearly £20 billion in multi-year capital investment announced in the 2020 Spending Review, including the new £11.5bn Affordable Homes Programme will provide up to 180,000 new homes.

3.7 The Planning for the Future White Paper in August 2020 proposed reforms to streamline and modernise the planning process, with enough land and the long-term conditions for increased supply.

3b: PAC recommendation: *The department should write to us within three months, including an assessment of how many homes of each tenure it expects will be delivered and what types of homes count towards its 300,000 ambition.*

3.8 The government disagrees with this recommendation.

3.9 In terms of which types of home count towards the 300,000, the official measure used is the 'Net Additional Dwelling Statistics', which is published annually. This includes all new house building completions plus gains or losses from conversions and change of use and demolitions (also referred to as Net Supply of Housing). The definition of the types of homes that contribute to these statistics is available on page 15 of the publication, *Housing supply; net additional dwellings, England: 2019-20*.

4: PAC conclusion: *We welcome Homes England's commitment to provide us with regular updates on its progress delivering affordable housing, but we are concerned that it and the Department has yet to clarify what 'affordable' actually means, and how much it costs to deliver affordable housing.*

4a: PAC recommendation*: The Department should write to us within one month setting out a clear definition of 'affordable housing', whether this definition means they are for sale, shared ownership or rent, and whether, and how, the definition may vary for different circumstances and geographies.*

4.1 The government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The government defines affordable housing in the *National Planning Policy Framework, Annex 2.* This applies to a range of tenures including affordable housing for rent, starter homes, discount market sale housing and other routes into home ownership. It links affordability to local market rates taking into consideration housing costs in different geographies. The government sets this definition and expects local authorities to consider this in relation to their own local need and prepare local plans and policies which reflect local circumstances.

4.3 The government is committed to delivering affordable homes of a variety of tenures to support a range of people in different circumstances and stages in their lives. The government is investing over £12 billion in affordable housing over 5 years, the largest investment in affordable housing in a decade. This includes the new £11.5 billion Affordable Homes Programme, which will provide up to 180,000 new homes across the country, should economic conditions allow. The new Affordable Homes Programme will deliver more than double the social rent than the current programme, with around 32,000 social rent homes due to be delivered.

4b: PAC recommendation: ***As agreed, Homes England should write to us every 6 months to update us on the numbers of affordable homes created, and of what type and tenure.***

4.4 The government agrees with the Committee's recommendation.

Recommendation implemented

4.5 Homes England *wrote to the Committee on 1 December 2020* sharing the latest affordable housing statistics from Homes England and will keep the Committee updated on progress. Homes England publishes its *affordable housing statistics* every six months on GOV.UK. The Greater London Authority publishes data on affordable housing statistics for London on a quarterly basis on *its website.*

5: PAC conclusion: ***The long-term success of the Department's housing policies depends on it being able to engage effectively with organisations across the housing sector and provide clarity on funding, without losing sight of the needs of those who are unlikely to be able to buy or rent their own home without support.***

5a: PAC recommendation***: The Department should write to us within three months to explain how it is addressing the problems of homelessness, rough sleeping, and families in temporary accommodation.***

5. 1 The government agrees with the Committee's recommendation.

Target implementation date: April 2021

5.2. The department accepts the Committee's recommendation to explain how it is addressing the problems of homelessness, rough sleeping and families in temporary accommodation, and will update the Committee within three months.

5b: PAC recommendation***: the Department should increase its efforts to work more closely with local authorities and developers to:***
i) embed space and light standards in legislation to ensure housing is of decent quality.

5.3 The government disagrees with the Committee's recommendation.

5.4 The department primarily sets its standards for housing design quality through the planning system, and planning policy is the most appropriate mechanism for securing appropriate space and light in development**.** The National Design Guide notes that well-designed homes should provide a good standard and quality of internal space, including sunlight, daylight and ventilation, which is a material consideration in determining planning applications. The department engages with local planning authorities (LPA) through the National Planning Policy Framework, guidance in the National Design Guide and the forthcoming National Model Design Code, which will enable local authorities to create their own local design guides. LPAs can apply technical Nationally Described Space Standards in their local plans, subject to demonstrating viability and need. The department has also introduced changes so that in the future all new homes delivered through permitted development will be required to meet the Nationally Described Space Standards; and apply to proposals from 6 April 2021.

5.5 Homes England has a strategic priority to improve build quality and design, and continuously engages with developers to embed the principles of good design and placemaking in their schemes. Ministers also raise concerns about standards with developers as appropriate. The department also remains in touch with the New Homes Quality Board on proposals for a code of practice and redress for homebuyers. The department's Charter for Social Housing Residents announced a review of the Decent Homes Standard, to ensure it is delivering what is needed for the safety and decency of housing.

5c: PAC recommendation*: the Department should increase its efforts to work more closely with local authorities and developers and ii): make greater use of innovative methods such as modular forms of housing… to ensure housing is of decent quality.*

5.6 The government agrees with the Committee’s recommendation.

5.7 **Target implementation date:** Autumn 2021

5.8 The department is clear that new technology and innovation have improved productivity, quality and choice across a range of sectors and the government wants to see the same happen in housing. Some of the potential benefits of modern methods of construction (MMC) have not yet been realised in the housing sector, because it has not reached scale.

5.9 The department is focused on tackling the barriers to increasing the use of MMC; interventions so far have included Homes England funding and eight ‘showcase’ housing sites; working with industry on warranties and accreditation; and procuring research into the safety of modular housing. The department is also supporting the creation of a pipeline of opportunities, which is key to give confidence to the sector and investors, for instance, the Affordable Homes Programme recently adopted a 25% target for MMC within the Strategic Partnerships. The department is committed to continuing to work with the sector to address systemic issues and achieve sustainable growth.

Thirty-Second report of Session 2019-21

Cabinet Office and HM Treasury

Specialist Skills in the Civil Service

Introduction from the Committee

Government has for many years recognised the need to recruit and develop people with specialist skills in order to deliver better public services. From 2013 onwards, it has used fourteen 'cross-Government functions' to build specialist skills in the Civil Service. Functions give expert advice, set and assure standards, develop capability and deliver required services. Functions often have a central unit or organisation, for example to set standards and coordinate training across Government, but much of the work of functions is carried out by staff working in departments, for example in finance teams or as commercial practitioners. The Cabinet Office oversees all but five of the Government functions. It holds joint responsibility with HM Treasury for the Project Delivery function and HM Treasury is solely responsible for the Finance and Internal Audit functions. In the past few years new oversight and governance arrangements have been introduced for the functions. The current focus on Civil Service reform provides further context for Government to consider how best to develop specialist skills in the Civil Service.

Based on a report by the National Audit Office, the Committee took evidence on 2 November 2020 from Cabinet Office and HM Treasury. The Committee published its report on 11 December 2020. This is the Government's response to the Committee's report.

Relevant reports

- NAO report: *Specialist skills in the Civil Service*, Session 2019-21 (HC 575)
- PAC report: *Specialist skills in the Civil Service*, Session 2019-21 (HC 686)

Government responses to the Committee

1: PAC conclusion: *Skills shortages in the civil service are responsible for delays, inefficiencies and increased costs in government projects.*

1a: PAC recommendation: *The Cabinet Office should work with functions and departments to identify skills gaps and should prioritise resolving these as part of the Civil Service Modernisation and Reform process.*

1.1 The government agrees with the Committee's recommendation.

Target implementation date: May 2021

1.2 The Cabinet Office is committed to working with functions and departments to identify and address skills gaps and, as set out by the Chancellor of the Duchy of Lancaster during his Ditchley lecture on 27 June 2020, this will form a key part of Civil Service modernisation and reform. The government established the Government Skills and Curriculum Unit in September 2020 to ensure entry routes to the Civil Service are rigorous; induction is mandatory and high quality; and that technical skills, knowledge and 'tradecraft' are defined, assured, and accessible.

1.3 In addition, by May 2021, the Cabinet Office will enhance strategic workforce planning across the Civil Service, with action already underway to improve the annual workforce projections exercise. This will improve our understanding of key skills and capability gaps, including those that drive the use of consultants and contingent labour, and departments' plans for addressing them. Outputs from this work will also inform Civil Service modernisation and reform, specifically:

- Places for Growth, which will provide opportunities to recruit staff with new skills and capabilities outside London and the South East; and
- The aforementioned Government Skills and Curriculum Unit.

1.4 Improvements to functional workforce planning are underway. The Digital function has successfully led a central workforce data collection exercise and provided strategic support across departments, and the Commercial Blueprint captures a breadth of workforce data including types of roles, grades, accreditation level, location, and pipeline of roles forecast 2-3 years ahead. In the Project Delivery function, although strategic workforce planning has been department-led, cross-departmental demand planning continues to align with recruitment campaigns.

1b: PAC recommendation: ***The current cost of using consultants to fill these gaps should be considered as part of this work. The Cabinet Office should outline in its Treasury Minute response how it plans to reduce reliance on external consultants and mitigate these costs in future.***

1.5 The government agrees with the Committee's recommendation.

Target implementation date: September 2021

1.6 The Cabinet Office recognises that results can be suboptimal when consulting firms are engaged without a clear idea of the desired outcome. The government is ensuring that spending proposals build in the requirement that consultants pass on their skills and learning to civil servants at the end of the engagement to avoid repeated use on similar challenges. Crown Commercial Service (CCS) will continue to provide framework agreements which give access to management consultancy firms and provide assurance over value for money. CCS' new framework for management consultancy, MCF3, is due to go live in September 2021 and will include open book accounting provisions.

1.7 The establishment of the Government Consulting Hub will create a highly capable, respected cadre of civil servants providing a centre of expertise for government on commissioning and working with consultants, including a small cadre of consulting experts deployed as a direct alternative to, or in conjunction with, external firms. This will be achieved by leveraging government's existing senior capacity, harnessing and sharing knowledge and techniques, growing a network to help other parts of the system work similarly, and supporting wider reform of the consultancy ecosystem as part of Civil Service modernisation and reform. A new strategic triage process is in development, with likely piloting over the first quarter of 2021, to test how early support to programmes can reduce the spend on external consultants, and increase the value achieved from consultancy spend which is necessary. Evidence from the pilot and other work will inform a longer-term business case for likely implementation in 2021-22. Additionally, the success of the *Outsourcing Playbook* will be leveraged with the development of a Consultancy Playbook, either as a stand-alone or as an additional part of the Outsourcing Playbook.

2: PAC conclusion: ***The civil service struggles to attract and retain specialist staff.***

2: PAC recommendation: ***The Cabinet Office, HM Treasury and functions should outline in the Treasury Minute response how, and by when, they will review pay exception case processes across the functions to address current pay disparities and avoid creating an internal market for specialists.***

2.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2021

2.2 The Cabinet Office confirms that all matters related to pay for grades below the Senior Civil Service (SCS) are delegated to departments. Functions have introduced measures to address pay disparities by, for example, establishing robust pay exception case processes.

2.3 The Cabinet Office reviews SCS pay across functions and professions through the Senior Salaries Review Body (SSRB) evidence each year. HM Treasury promotes the use of Pivotal Role Allowances as an effective tool for retaining members of the SCS in highly specialised roles including those delivering the riskiest major projects across government, providing extra flexibility to departments and functions when it comes to pay.

2.4 The Cabinet Office reviews the use of SCS pay exceptions on an annual basis (the next review is due in Summer 2021) to ensure the policy is being used appropriately. Most functions already play an active role in advising the Head of Function on pay exception cases for SCS roles. HM Treasury continues to promote the use of the SCS pay exceptions process in appropriate circumstances, where internal candidates move to roles with greater scale or responsibility than their previous role. This requires agreement from the Permanent Secretary and relevant Head of Profession. The Finance function does this by using data from recruitment campaigns and wider market benchmarking.

2.5 New SCS pay rules have been designed to address internal disparities, such as no pay increases for moves within the SCS on level transfer. The Cabinet Office is planning to implement a new capability-based pay system for SCS to reward the development of capability as individuals gain experience and skills whilst remaining in role. Initial pilots will be run from September 2021 to test the capability measurement mechanism. The Cabinet Office is also considering how this could be developed further for delegated grades below SCS. The Finance function has also made use of bulk Pivotal Role Allowance payments for SCS roles to incentivise the retention of key individuals in critical roles.

2.6 In relation to delegated grades, the Cabinet Office collates and shares the use of allowances across departments in order to encourage pay coherence. Departments are encouraged to work together to collectively address pay system challenges for professions and functions. In addition, the Cabinet Office encourages departments, professions and functions to submit cases for pay flexibility where they are able to set out a clear justification and business need, including the identified efficiency savings to fund such proposals. This includes the option to submit cases to introduce Capability Based Pay arrangements. The Civil Service Pay Remit Guidance outlines the pay flexibility business case and criteria process.

2.7 In relation to specialist pay frameworks, the Digital, Data and Technology Framework (DDAT) was first agreed in 2016 to allow departments to use specialist pay arrangements to attract individuals to hard to recruit roles, by using efficiencies gained from reducing the number of contractors within the given department.

3: PAC conclusion: ***There is still a long way to go to ensure the civil service retains and promotes those from different backgrounds.***

3: PAC recommendation***: The Cabinet Office should write to us within three months setting out detailed and broken-down information on the retention and progression of staff from different backgrounds and its plans for further reform in this area.***

3.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2021

3.2 The Civil Service is a geographically diverse employer with 4 out of 5 civil servants being based outside of London, and distributed throughout the country, but the Government intends to go further.

3.3 The Cabinet Office will continue to publish statistics from the Annual Civil Service Employment Survey (ACSES) on Gov.uk each year, providing detailed information on the composition of the Civil Service workforce, including data on diversity and entrants and leavers. In addition, the Cabinet Office will continue to publish results from the Civil Service People Survey by demographic groups.

3.4 On plans for further reform, the Cabinet Office is developing a new Civil Service Inclusion strategy to replace the 2017-2020 Civil Service Diversity and Inclusion strategy. The strategy is likely to focus on the themes of talent, fairness and inclusion and to set out a vision for a modern Civil Service where everyone can thrive no matter what their background or working style and where workplaces are safe, open and inclusive. It will reflect an evidence-led approach while also offering a broader view of diversity, including regional and cognitive diversity. Functions are also looking at how they directly support departments, with the Finance function planning to launch its Diversity, Inclusion and Wellbeing strategy at the end of February 2021 to promote a culture of inclusion and a message that finance is open to all. The strategy and support to departments will be underpinned by data, including rates of representation across a range of protected characteristics at all grades.

3.5 Government Business Services (GBS) will launch the Government Recruitment Information Database (GRID) which will act as a single dataset for all Civil Service Jobs recruitment data. The objective is to centralise data in line with central data standards and to promote 'data-driven decision making' to improve recruitment diversity, accessible via a paid GRS service. This is achieved by bridging analysis and digital functional expertise, whereby analysis modelling is used to identify required action and digital systems instantly share this insight with civil servants, enabling them to proactively course-correct poor recruitment performance. The dataset will also be leveraged to inform workforce planning, for instance providing recommendations on which advertising to be used for best diversity based upon historical performance. The project roadmap is due to achieve business as usual delivery by April 2022.

4: PAC conclusion: ***Departmental data is not good enough to support functions' development of comprehensive workforce plans.***

4: PAC recommendation*: The Cabinet Office should set out how it will work with departments to make sure workforce data is collected at the right level, to better address skills gaps and shortages.*

4.1 The government agrees with the Committee's recommendation.

Target implementation date: May 2021

4.2 As set out in the response to recommendation 1, the Cabinet Office is already taking steps to improve the annual workforce projections exercise which will provide further information on key skills gaps and confirm how departments intend to address them.

4.3 Government functions (Finance, HR and Commercial) are working together to ensure that data standards are aligned and consistent for end-to-end processes that span multiple functions - the alignment of finance and workforce data will support more accurate and responsive business planning, and support more evidence-based decision making through enhanced insight.

4,4 Civil Service Human Resources is currently working with Government Business Services to improve the consistency and transparency of workforce data through process convergence, design and common data definitions starting with joiners, movers and leavers in line with the Shared Services Strategy for Government.

4.5 The Cabinet Office is also working to collect more effective functional data through the ACSES. Regular engagement is taking place between the Cabinet Office and departments to improve the quality of their ACSES returns for 2021.

5: PAC conclusion: ***Seven years on from their introduction, functions still have not developed clear plans to help maximise their impact and lack strategic direction.***

5: PAC recommendation*: The Cabinet Office and functions should work together urgently to complete capability blueprints. The Cabinet Office should write to us by April 2021 at the latest to confirm that these have been finalised.*

5.1 The government disagrees with the Committee's recommendation.

5.2 The Cabinet Office confirms that Heads of Function are committed to formulating, implementing and publishing their own capability blueprints (strategic plans), and recognises that functions will need additional time beyond April 2021 to finalise these. This is driven in part by contextual pressures (for example, the functions focussing their efforts on the COVID-19 response) and, in other respects, the availability of functional workforce data.

5.3 At present, the Commercial function is the most advanced, with a commercial blueprint in place and updated on an annual basis. Equivalent capability plans and strategies are evident elsewhere across the functions and professions, with - for example - Communications, Counter fraud and Security reporting the regular use of these. The Finance function is developing a performance framework to measure progress against the strategic deliverables it set out in its 2019 strategy and will begin reporting in April 2021. The Finance function will also use the performance framework to measure the overall impact of the function and use workforce data collected from departments to develop its capability blueprint in 2021-22. HR has developed substantial elements of its blueprint work, including the HR functional standards and associated assessment framework (in pilot) and the HR career framework, and intends to publish its blueprint during 2021.

5.4 The Cabinet Office will continue to support this process by sharing best practice across government, including through the appropriate governance routes.

6: PAC conclusion: ***Only a few of the fourteen functions have been able to demonstrate the benefits of their activities.***

6: PAC recommendation***: The Cabinet Office, HM Treasury and functions should agree a consistent methodology for measuring costs, benefits and impacts across all functions by July 2021 and report to the Committee on functions' performance.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2021

6.2 In 2020, the measuring the impact of government functions (to deliver better outcomes and public services) project, commissioned by the Civil Service Chief Operating Officer from the Chief Executive Officer of the Government Internal Audit Agency, concluded that measuring four factors provides an assessment of whether the government functions are improving their contribution to the delivery of public service outcomes.

These four factors are:

- **Functional relationships** - how senior officials in departments assess the strength of their relationships with the government functions;
- **Financial and non-financial benefits** - whether the government functions are delivering financial and non-financial benefits to departments and improving their return on investment (RoI);
- **Process efficiency** - whether internal functional processes are becoming more efficient - i.e. productivity and process times; and
- **Functional capability -** Do the Government functions have the required capability - i.e. professional expertise and whether functional standards are being applied.

6.3 These are being used to develop a performance framework for use at the start of the 2021-22 financial year, which starts with a set of common questions that would apply to all of the functions. Functions are currently deciding on their most appropriate metrics which would answer these questions, some of which will vary from function to function, given their differing subject matter. The Finance function has designed its performance framework and will begin reporting in April 2021. HM Treasury is collaborating closely with the Government Internal Audit Agency and the Cabinet Office to help ensure a consistent and robust approach to measuring functional impact.

6.4 Functions are also playing a key role in advising and supporting departments as part of the government's reformed planning and performance framework. Following on from the publication of provisional priority outcomes and metrics alongside Spending Review 2020, functions are supporting the development of departments' Outcome Delivery Plans. This includes determining how functional activity supports the delivery of an organisation's priority outcomes and wider objectives, helping identify and manage delivery risks and assessing deliverability.

6.5 Beyond this work, the Green Book provides a common methodology across government on the design and appraisal of proposals that achieve government policy objectives and deliver social value. It provides guidance on measuring costs and benefits, alongside guidance on monitoring and evaluating before, during and after implementation. The Green Book Review 2020 made numerous changes to make the guidance easier to apply in practice and placed greater emphasis on both the importance of establishing clear objectives and high-quality evaluation. In addition, to ensure that this world-leading framework has real-world impact, HM Treasury is embarking on a widespread agenda of culture-change to ensure the guidance of the Green Book is followed not just in economic appraisal but in supporting policy development and delivery across government.

Thirty-Third Report of Session 2019–21

Department for Business, Energy and Industrial Strategy

Covid-19: Bounce Back Loan Scheme

Introduction from the Committee

The smallest businesses, which Companies House refers to as 'micro businesses', were struggling to get funding through HM Treasury's Coronavirus Business Interruption Loan Scheme (CBILS) launched in March 2020. HM Treasury, the Department for Business, Energy & Industrial Strategy (the department) and the British Business Bank (the Bank), based on a limited evidence of the underlying challenges for businesses, developed the Bounce Back Loan Scheme (the Scheme). The Scheme sought to provide businesses with loans of up to £50,000, or a maximum of 25% of annual turnover, to maintain their financial health during the covid-19 pandemic.

The loans are delivered through commercial lenders such as banks and building societies. The Scheme expects lenders to approve and pay out the loans within 24 to 48 hours of application. To make the process as fast as possible the Scheme does not require lenders to check the information on the loan application form or to perform credit and affordability checks. Borrowers are expected to repay the loans in full but owing to the absence of these checks government provides lenders a 100% guarantee on the loans: if the borrower does not repay the loan, government will. The loans have a fixed interest rate of 2.5% and a maximum length of ten years; in the first year of the loan there are no capital repayments due, and government pays the interest—making it interest-free for the borrower. As of 15 November, the Scheme had provided over 1.4 million loans to businesses, totalling £42.2 billion. The Scheme will now run until 31 January 2021[1].

Based on a report by the National Audit Office, the Committee took evidence, on 5 December 2020 from the HM Treasury, the department and the Bank. The Committee published its report on 16 December 2020. This is the government response to the Committee's report.

Relevant reports

- NAO report: *Investigation into the Bounce Back Loan Scheme* – Session 2019-21 (HC 860)
- PAC report: *COVID 19: Bounce Back Loan Scheme* – Session 2019-21 (HC 687)

Government responses to the Committee

1: PAC conclusion: *Government was not sufficiently prepared to support micro businesses despite the economic impact of the pandemic being a known risk.*

1: PAC recommendation*: The Department should more clearly set out what it wants the British Business Bank to achieve in the context of Government's wider support to business. It should analyse and assess whether the Bank can have more tailored plans in place for how to support SMEs of all sizes during a crisis, whatever its source.*

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

1.2 The British Business Bank (the Bank) works to drive economic growth by making finance markets work better for smaller businesses – wherever they are in the UK and wherever they are on their business journey – enabling them to prosper and grow. As such, the Bank plays an essential role in the context of government's wider support to business, with access to finance being one of the factors in business success. The Bank collaborates with other bodies engaged in business support, including the Devolved

[1] Since the PAC published their report on 16 December, the *Government has extended the Bounce Back Loan Scheme to 31 March 2021*.

Administrations, Local Enterprise Partnerships and Growth Hubs. The government works closely with the Bank to ensure that our access to finance policy reflects the changing needs of UK business and as part of this we keep the Bank's mission under review. Given the gravity of the economic consequences brought about by the coronavirus pandemic, ministers decided to act quickly to put in place government support to help small businesses access the finance they needed. In this case, decisions were necessarily taken in the absence of robust analysis since the rapidly evolving situation meant that there was limited data available. The Bank responded at speed to implement the Bounce Back Loans Scheme (the Scheme), on the instruction of the Department for Business, Energy and Industrial Strategy (the department).

1.3 The government is working with the Bank to explore how to further strengthen responses to future economic downturns and ensure the resilience of support to SMEs of all sizes during a future economic downturn.

2: PAC conclusion: ***The Scheme was implemented with impressive speed but does not strike the right balance between supporting business and protecting the taxpayer.***

2: PAC recommendation***: The Department should use all available data when implementing new business support schemes. It should use this to develop scenario-based analysis of most likely outcomes and use this to minimise taxpayer risk. It should be clear where data is insufficient to form evidence-based judgements.***

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The department seeks to use all available data in the design and implementation of its business support schemes to help strike the right balance between protecting the taxpayer and delivering policy objectives.

2.3 The department was unable to conduct a robust value for money assessment ahead of the scheme's launch. Initial analysis indicated that the 100% guarantee, the removal of checks and the reliance on self-certification would create significant risks around fraud and credit losses. The department considered that it was unclear whether the benefits of the scheme would compensate for these issues by ensuring more businesses could access the finance they needed. The then departmental Accounting Officer set out these concerns in *her letter to the then-Secretary of State on 1 May 2020* seeking a ministerial direction to implement the scheme on the grounds of highly uncertain value for money and propriety. Given the seriousness of the economic circumstances faced by businesses as a result of COVID-19, ministers considered it was appropriate to take this step.

2.4 Since the Scheme's launch, the department and the Bank have undertaken a range of analytical work to understand better the impacts of the Scheme and to inform future policy development. This includes designing dashboards to monitor management information and comparing Scheme data with the Inter-Departmental Business Register and Companies House data to provide a more detailed view of the loan book. With external support, the department has also developed a model to estimate the net liquidity needs of small and medium-sized businesses resulting from the pandemic, providing further insights. A comprehensive monitoring and evaluation plan has been developed across all three loan guarantee schemes, and an Invitation to Tender is currently live, seeking to appoint an external contractor to conduct a process, impact and economic evaluation. This will make thorough use of all existing data sources in addition to conducting primary data collection across a range of areas. Analytical work will continue as the availability of data improves.

3: PAC conclusion: ***Shortcomings in the Scheme's design have exposed the taxpayer to potentially significant losses.***

3a: PAC recommendation***: Before launching or renewing a Scheme, HM Treasury should be explicit on the level of losses it is likely to entail and the evidence that this analysis is based on.***

3.1 The government disagrees with the Committee's recommendation.

3.2 Throughout the pandemic, the government's priority has been to act quickly to protect businesses and jobs, whilst using public funds responsibly. As previously set out to the Committee, businesses were in urgent need of rapid financial support and the Scheme was designed to address this need. Ahead of the Scheme's launch, the department looked at a range of data and conducted analysis in an attempt to estimate value for money. However, the degree of uncertainty across a number of parameters was such that it was not possible to make an explicit statement on the relative balance of likely costs and benefits. Given this uncertainty, a direction was sought and provided from the then Secretary of State, who subsequently confirmed an initial contingent liability of £27 billion, as set in a departmental minute laid before Parliament.

3.3 The range of potential losses from the Scheme remains highly uncertain, particularly in the absence of any repayment data (which will not become available until June 2021). The BEIS Annual Report and Accounts 2019-20, published in September 2020, cited estimated losses of 35-60%. This initial indicative range is based on historic losses observed in prior programmes overlaid with a range of assumptions relating to macroeconomic scenarios. Actual losses could be significantly different to estimated losses. More generally, the extent of overall losses will depend to a significant extent on the performance of the UK economy over the next decade.

3.4 The department is working to refine these estimates and will update Parliament as part of its 2020-21 Annual Report and Accounts. In the longer-term, the department is committed to undertaking a full impact assessment as part of its Monitoring and Evaluation Plan which will examine whether or not the Scheme demonstrates value for money.

3b: PAC recommendation: ***For the remainder of this Scheme, and future schemes, HM Treasury must better balance the interests of the taxpayer with the interests of businesses. It should demonstrate that its controls are cost effective and associated judgements reflect the appropriate balance between achieving immediate policy aims and protecting taxpayers' money. It should start by assessing whether full reliance on self-certification is still appropriate.***

3.5 The government agrees with the Committee's recommendation.

Recommendation implemented

3.6 Balancing the interests of the taxpayer with the need to support business has been a key consideration in the implementation of the Scheme. This will continue to be the case for the remainder of the Scheme's operation and for any future support schemes.

3.7 Regarding protections against fraud, all borrowers go through Know Your Customer and Anti-Money Laundering checks. The taxpayer is protected against fraud losses which occur as a direct result of a lender failing to undertake these checks, since in such cases lenders cannot claim on the government guarantee.

3.8 Since the Scheme's introduction, the government has taken a number of steps to safeguard taxpayers' money within the context of the Scheme's design. Working alongside the Bank and lenders, the government has implemented a series of measures to counter fraud. Measures include the implementation of a Credit Industry Fraud Avoidance System (Cifas) solution to prevent duplicate applications and the enlistment of National Investigation Service (NATIS) to pursue the most serious cases of fraud. The government has been clear that it will take criminal action against the most serious cases. The recoveries and collections principles issued to lenders provides further detail on managing cases of suspected fraud.

3.9 Meanwhile, the Pay as you Grow options aim to improve the affordability of loans taken out under the Scheme for those borrowers who are struggling, helping to protect jobs and support the UK's economic recovery.

3.10 Given the ongoing impact of the pandemic and the continued need for businesses to access finance quickly, the government considers that the existing application process for the Scheme – including borrower self-certification – remains appropriate. The government will carefully consider the best approach for any future scheme.

4: PAC conclusion: ***Government's plans for managing risks to the taxpayer—from both fraud and borrowers who are unable to repay loans—are woefully under-developed.***

4a: PAC recommendation*: The Department needs to provide clear updates on how it intends to deal with different cases of fraud, including on how it will prioritise recovery and prosecution.*

4.1 The government disagrees with the Committee's recommendation.

4.2 The government agrees that different types of fraud will require different approaches in terms of recovery and prosecution. The department is working constructively with lenders, other government departments and law enforcement colleagues on its counter fraud approach. However, the government does not intend to make public the detail of its approach to recovery and prosecution in different fraud cases, given this could inadvertently undermine the effectiveness of counter-fraud measures by tipping off criminals. Decisions on individual prosecutions are taken independently of government by the Crown Prosecution Service.

4b: PAC recommendation*: British Business Bank should write to the Committee, within two weeks, with a report on the latest fraud estimates in the existing portfolio.*

4.3. The government agrees with the Committee's recommendation.

Recommendation implemented

4.4 As requested, the Bank *wrote to the Committee in December 2020* regarding the latest fraud estimates in the Scheme's portfolio. It has been agreed with the Committee that the Bank will write with further details as soon as practically possible after the initial fraud sampling exercise has concluded.

5: PAC conclusion: ***HM Treasury has not yet finalised the rules lenders need to follow to ensure overdue loans are repaid.***

5: PAC recommendation*: HM Treasury should ensure that the recovery rules are confirmed prior to repayment, and that they are uniform in their fair and thorough recovery of loans.*

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The government has worked closely with UK Finance and accredited Scheme lenders to develop a consistent, industry-wide approach to the collection and recovery of the loans. Guidance has now been shared with accredited lenders by the Bank. In addition, the government has engaged with the Financial Conduct Authority and the Prudential Regulation Authority to ensure that the guidance aligns with the relevant regulations.

5.3 As the Committee will appreciate, it would not be appropriate to publish this guidance. To do so would notably risk educating criminals about the approach to the collection and recovery of loans, therefore compromising the processes by which lenders go about recovering funds.

6: PAC conclusion: ***Government has no apparent plans to measure the Scheme's impact, including identifying how many businesses have been unable to access support.***

6: PAC recommendation*: The Department and the British Business Bank should set out, within the Treasury Minute response, how they plan on measuring the Scheme's impact on businesses. They should ensure that any new schemes have, prior to launch, agreed performance measures. The Department should also analyse the impact of the Scheme on the lending market, paying attention to levels of competition and consumer choice.*

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

6.2 The department is actively implementing a Monitoring and Evaluation plan across the three current schemes. As part of this, working with the department, the Bank has put out to tender a contract for an independent evaluator to assess the schemes. This will involve a process evaluation, impact evaluation and economic evaluation, publishing an initial assessment by Autumn 2021. As part of the ongoing analysis of current schemes and potential future schemes, the government is analysing the wider lending market, and the role of the government. The department will actively work to ensure SMART objectives are developed upon for any future schemes, with key metrics and performance measures outlined and agreed.

Thirty-Fourth Report of Session 2019-21

HM Revenue & Customs & HM Treasury

Covid-19: Support for jobs

Introduction from the Committee

In response to the covid-19 pandemic the government decided in March 2020 to lock down large parts of the economy in order to better protect people from the virus. To avoid mass unemployment and provide financial support to jobs adversely affected by the pandemic, HM Treasury and HM Revenue & Customs (HMRC) (the Departments) put in place two employment support schemes: the Coronavirus Job Retention Scheme (CJRS) for businesses and their employees, and the Self-Employment Income Support Scheme (SEISS) scheme for the self-employed. The two Departments worked together to design the schemes, with HMRC then responsible for administering them. HMRC made use of its existing systems for tax return data: The Real Time Information system for employers submitting monthly, and the Self Assessment system for the self-employed who submit annual tax returns. The schemes initially ran from March to October 2020, costing over £55 billion by mid-October. On 5 November, as England went back into a full lockdown, the government decided to extend the schemes, with SEISS now running until the end of January 2021 and CJRS extended through till the end of March 2021, at an estimated additional cost of £21 billion.

Based on a report by the National Audit Office, the Committee took evidence, on 12 November 2020 from HM Treasury, and HM Revenue and Customs. The Committee published its report on 20 December 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Implementing employment support schemes in response to the COVID-19 pandemic* Session 2019-21 (HC 862)
- PAC report: *Covid:19: Support for jobs* – Session 2019-21 (HC 920)

Government responses to the Committee

1: PAC conclusion: ***The Departments have shown great agility in implementing the employment support schemes quickly in response to covid-19.***

1: PAC recommendation*: HM Treasury should, within three months, write to the Committee about how it will ensure the lessons from close working between policy and operational staff are drawn-out for other government departments.*

1.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2021

1.2 Both HM Treasury (HMT) and HM Customs and Revenue (HMRC) are pleased that there continues to be recognition for the ways in which policy and operational staff worked together. The departments have already started to draw out lessons learned on how teams were able to collaborate remotely, at pace, during unprecedented times.

1.3 HM Treasury agrees that these lessons are valuable for other government departments across multiple professions - policy, project delivery, operational and more.

1.4 HM Treasury will write to the Committee within three months on how the department plans to continue to draw out lessons learned from this experience.

2: PAC conclusion: ***The age of the Self-Assessment system made it more difficult for HMRC to provide financial support for the self-employed.***

2: PAC recommendation: ***HMRC should write to the Committee within three months to explain what it has learnt from its review of other countries' self-employed systems and how it will apply these to its plans for delivering the Making Tax Digital programme.***

2.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2021

2.2 HMRC recognises the value in learning from other countries' experiences, and in ensuring that these insights are deployed in the design and implementation of Making Tax Digital (MTD) and the wider tax system. The department considered these insights in designing and implementing MTD. This includes the pre-population of tax returns, prompts and nudges in software, and benchmarking.

2.3 HMRC continues to work closely with the Organisation for Economic Co-operation and Development (OECD) to enhance its understanding of the international landscape. COVID-19 reinforced the need for more flexible, resilient and responsive tax administration system. The HMRC and HMT 10-year Tax Administration Strategy sets out the departments' commitments to build a trusted, modern tax administration system that works closer to real time and is better able to respond to national crises. As part of this, the departments have set out a future roadmap for MTD which provides those within scope with time to make the necessary preparations.

2.4 The 10-year strategy includes extending MTD and increasing use of real-time information to give customers and HMRC a more up-to-date understanding of and certainty over a customer's position.

2.5 As set out in the Tax Administration Strategy, the government intends to publish a call for evidence on real time reporting and payments of tax that will provide a signpost for future changes in this area.

3: PAC conclusion: ***The Departments have not done enough to reduce the number of people excluded from the schemes.***

3: PAC recommendation: ***HM Treasury and HMRC should investigate whether more data within and outside of the tax system could be used to determine eligibility for currently excluded groups and write to the committee within six weeks to explain their findings. HM Treasury and HM Revenue and Customs should liaise with departments which have a detailed knowledge of the affected sectors in order to improve access to Covid-19 related support schemes for currently excluded groups.***

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 People may be ineligible for the *Coronavirus Job Retention Scheme (CJRS)* or the *Self-Employment Income Support Scheme (SEISS)* due to either policy choices or administrative constraints. On the latter, throughout the pandemic, the departments have had to balance the desire to provide support to as many people as possible, as quickly as possible, with the need to protect public funds from error and fraud. To strike this balance, both schemes were based around using information that HMRC already held and could therefore verify.

3.3 As the schemes have evolved, the two departments have been able to extend support to more people; for example, moving the payroll cut-off date for CJRS, and supporting new parents and reservists. Those unable to access support via CJRS or SEISS may be able to benefit from other measures, including funding given to local authorities.

3.4 The HMRC and HM Treasury 10-year Tax Administration Strategy sets out the departments' commitments to develop a fully digital tax system that works closer to real time. This includes extending

MTD and increasing use of real-time information to give customers and HMRC a more up-to-date understanding of and certainty over a customer's position.

3.5 The government continues to explore, and discuss with stakeholders, options for best supporting those affected by COVID 19.

4: PAC conclusion: ***The Departments did not evaluate the schemes or identify which the groups they support before extending them.***

4: PAC recommendation ***HMRC should, as soon as possible, develop and report monthly performance information on the schemes, such as take-up by protected groups and employment outcomes.***

4.1 The government agrees with the Committee's recommendation.

Recommendation implemented

4.2 Both departments are already monitoring the use of CJRS and SEISS, and HMRC is regularly *publishing Official Statistics on the schemes* including analysis of take up by area, age and gender. The CJRS statistics include analysis of the use of flexible furlough.

4.3 In October 2020, HMRC published secondary analysis of ended furloughs, which found that 90% of employees who left the CJRS between April and July 2020 were still on their original payroll in August 2020, suggesting they remained working for their original employer. HMRC also published qualitative and quantitative research, on awareness, understanding and customer experience of the CJRS[2].

4.4 HMRC is collecting new primary research to examine jobs outcomes, working closely with HM Treasury to respond to emerging plans and priorities as the pandemic evolves. As announced on gov.uk, the departments will evaluate the CJRS and SEISS schemes and have published a detailed evaluation plan for CJRS. The CJRS evaluation aims to include the impact on employment. The evaluation will capture the extension and we will publish in line with relevant guidance. Some of the longer-term outcomes will be measured and reported in our routine publications.

5: PAC conclusion: ***The Departments will not know the actual levels of fraud and error within these schemes until 2021.***

5a: PAC recommendation***: HMRC should write to the Committee within three months outlining how it can utilise the information it already collects to better estimate the levels of fraud and error; and also outline what steps it intends to take to recover CJRS and SEISS grants made during the first phase of the scheme if recipients made substantial profits or were not adversely affected by the pandemic.***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2021

5.2 HMRC has already produced provisional assessments of Error and Fraud for CJRS and SEISS, using the best available evidence. The department will continue to improve and develop the evidence base for these assessments incorporating data from the schemes, operational compliance activities, and information from social research surveys.

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[2] https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-awareness-understanding-and-customer-experience-surveys and https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-understanding-customer-experience

5.3 The department will measure compliance levels using random enquiry programmes where appropriate. In the meantime, risk-based compliance activity to identify and recover incorrectly claimed grants continues to be a priority.

5.4 HMRC's plans to recover funds from those who have deliberately abused CJRS and SEISS are set out in our post payment compliance approach – identifying cases via profiling, contacting many via one to many approaches and following up on those who do not respond, or whose responses need further investigation.

5b: PAC recommendation*: HMRC should list companies which have signed up to the furlough scheme by the end of January 2021.*

5.5 The government agrees with the Committee's recommendation.

Target implementation date: February 2021

5.6 HMRC published the names of employers who claimed CJRS in December 2020, on 26 January 2021, as part of a commitment to transparency and to deter fraudulent claims. This will be followed by publication in February 2021 of further employer details including employer name, company registration numbers (where applicable) and an indication of the value of amounts they claimed for December 2020.

6: PAC conclusion: *Too much chopping and changing of the new schemes has created uncertainty for the UK nations, regions and businesses, regarding financial support and job security.*

6: PAC recommendation*: The Departments should provide as much clarity and forewarning as possible about the employment support arrangements that will be available for UK nations, regions and businesses under conditions of national lockdown, regional lockdown and easing of restrictions for the remainder of the covid-19 pandemic. It should commit to this ahead of the Treasury minute response so employers can be clear that they can plan ahead with greater certainty.*

6.1 The government agrees with the Committee's recommendation.

Recommendation implemented

6.2 Both departments are committed to providing as much clarity and forewarning as possible on support arrangements. For example, on 17 December 2020, details were announced of the extension of CJRS to the end of April 2021, on its current terms.

6.3 Providing certainty has to be balanced with the need to be responsive to the evolving direction and impact of COVID 19 and tailoring the economic support to match the circumstances. The government's principle has always been that financial support will follow the path of the virus. This will sometimes mean needing to review policy at short notice where the nature of the pandemic has changed significantly, such as when the CJRS was extended in October 2020 until March 2021. In December 2020, when lockdown tightened across more of the country, CJRS was extended on its existing terms to the end of April 2021.

7: PAC conclusion: *We are concerned that HM Treasury is unable to explain how much the extended schemes are forecast to cost or what would constitute value for money.*

7: PAC recommendation*: HM Treasury should write to the Committee within a month to set out how it will assess value for money for the extended schemes.*

7.1 The government agrees with the Committee's recommendation.

Recommendation implemented

7.2 As requested by the Committee, the Permanent Secretary to the Treasury *wrote to the committee* on 20 January 2021 outlining how HM Treasury will assess value for money (VFM) for the extended schemes. HM Treasury considered the VFM of the schemes and subsequent changes at key stages of the policy making process. Ensuring VFM, protecting employment and supporting businesses were central to the decision-making for the CJRS and SEISS extensions. Extending the CJRS was a critical response to the economic conditions, and the Office of Budget Responsibility have estimated that this extension will support up to 6 million jobs in November 2020 declining thereafter. The OBR have also estimated that unemployment would have been higher in the second quarter of 2021 in the absence of the CJRS and other measures.

7.3 The revised cost of the CJRS and SEISS will be set out at the next Budget in March 2021. Given the economic and fiscal significance of the CJRS, HM Treasury and HMRC are *undertaking an evaluation of the schemes*.

7.4 In December 2020, the departments *published the Evaluation Plan for the CJRS*, which sets out their approach to evaluating the CJRS.

7.5 The CJRS evaluation will draw on the Magenta Book and Green Book. The departments also plan to evaluate the SEISS, although self-assessment data will not be available until at least 2022.

Treasury Minutes Archive[3]

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

Session 2019-21

Committee Recommendations: 238
Recommendations agreed: 213 (89%)
Recommendations disagreed: 25

Publication Date	PAC Reports	Ref Number
July 2020	Government response to PAC reports 1-6	CP 270
September 2020	Government responses to PAC reports 7-13	CP 291
November 2020	Government responses to PAC reports 14-17 and 19	CP 316
January 2021	Government responses to PAC reports 18, 20-24	CP 363
February 2021	Government responses to PAC reports 25-29	CP 376
February 2021	Government responses to PAC reports 30-34	CP 389

Session 2019

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

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

Session 2017-19

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

Publication Date	PAC Reports	Ref Number
December 2017	Government response to PAC report 1	Cm 9549
January 2018	Government responses to PAC reports 2 and 3	Cm 9565
March 2018	Government responses to PAC reports 4-11	Cm 9575
March 2018	Government responses to PAC reports 12-19	Cm 9596
May 2018	Government responses to PAC reports 20-30	Cm 9618
June 2018	Government responses to PAC reports 31-37	Cm 9643
July 2018	Government responses to PAC reports 38-42	Cm 9667
October 2018	Government responses to PAC reports 43-58	Cm 9702
December 2018	Government responses to PAC reports 59-63	Cm 9740
January 2019	Government responses to PAC reports 64-68	CP 18
March 2019	Government responses to PAC reports 69-71	CP 56
April 2019	Government responses to PAC reports 72-77	CP 79
May 2019	Government responses to PAC reports 78-81 and 83-85	CP 97
June 2019	Government responses to PAC reports 82, 86-92	CP 113
July 2019	Government responses to PAC reports 93-94 and 96-98	CP 151
October 2019	Government responses to PAC reports 95, 99-111	CP 176
January 2020	Government response to PAC report 112-119 [1 and 2]	CP 210

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

Session 2016-17

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

Publication Date	PAC Reports	Ref Number
November 2016	Government responses to PAC reports 1-13	Cm 9351
December 2016	Government responses to PAC reports 14-21	Cm 9389
February 2017	Government responses to PAC reports 22-25 and 28	Cm 9413
March 2017	Government responses to PAC reports 26-27 and 29-34[4]	Cm 9429
March 2017	Government responses to PAC reports 35-41	Cm 9433
October 2017	Government responses to PAC reports 42-44 and 46-64	Cm 9505

Session 2015-16

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

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

[4] Report 32 contains 6 conclusions only.

Treasury Minutes Progress Reports Archive

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

Publication Date	PAC Reports	Ref Number
November 2020	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 0 PAC reports Session 2016-17: updates on 7 PAC reports Session 2017-19: updates on 73 PAC reports Session 2019: updates on 2 reports	CP 313
February 2020	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 3 PAC reports Session 2016-17: updates on 14 PAC reports Session 2017-19: updates on 71 PAC reports[5]	CP 221
March 2019	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 4 PAC reports Session 2014-15: updates on 2 PAC reports Session 2015-16: updates on 7 PAC reports Session 2016-17: updates on 22 PAC reports Session 2017-19: updates on 46 PAC reports[6]	CP70
July 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 4 PAC reports Session 2014-15: updates on 2 PAC reports Session 2015-16: updates on 9 PAC reports Session 2016-17: updates on 38 PAC reports Session 2017-19: updates on 17 PAC reports	Cm 9668
January 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 4 PAC reports Session 2015-16: updates on 14 PAC reports Session 2016-17: updates on 52 PAC reports	Cm 9566
October 2017	Session 2010-12: updates on 3 PAC reports Session 2013-14: updates on 7 PAC reports Session 2014-15: updates on 12 PAC reports Session 2015-16: updates on 26 PAC reports Session 2016-17: updates on 39 PAC reports	Cm 9506
January 2017	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 7 PAC reports Session 2015-16: updates on 18 PAC reports	Cm 9407
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 15 PAC reports Session 2014-15: updates on 22 PAC reports Session 2015-16: updates on 6 PAC reports	Cm 9320

5 Includes updates to Treasury Minutes published up to July 2019
6 Includes updates to Treasury Minutes published up to October 2018

February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2014-15: updates on 27 PAC reports	Cm 9202
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539

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