HM Treasury

Treasury Minutes

Government responses on the Fourth to the Eighth reports from the Committee of Public Accounts: Session 2015-16

Cm 9190

January 2016

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

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TREASURY MINUTES DATED 21 JANUARY 2016 ON THE FOURTH TO THE EIGHTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2015-16

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Fourth Report of Session 2015-16

Department for Work and Pensions / HM Revenue and Customs

Fraud and Error Stocktake

Introduction from the Committee

HM Revenue and Customs (HMRC) manages tax credits and paid out £29 billion to 4.7 million claimants in 2013‐14. The Department for Work and Pensions (DWP) manages most remaining benefits and the state pension, paying out £164 billion in 2013‐14 to 18 million people. Benefits and tax credits fraud and error is a significant and long-standing problem. Since 2010, both departments have made progress in reducing headline rates of fraud and error, particularly HMRC in tax credits. However, in 2013–14, DWP and HMRC still overpaid claimants by £4.6 billion because of fraud and error, and underpaid claimants by £1.6 billion. Overpayments increase costs to taxpayers and reduce public resources available for other purposes. Underpayments mean households do not get the support they are entitled to. The Comptroller and Auditor General has given qualified opinions on DWP's accounts since 1988–89, and on HMRC's accounts since 2003–04, because of the levels of fraud and error in benefits and tax credits.

On the basis of a report by the National Audit Office, the Committee took evidence, on 14 September 2015, from the Department for Work and Pensions, and HM Revenue and Customs on Fraud and error stocktake. The Committee published its report on 19 October 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: *Fraud and error stocktake* – Session 2015-16 (HC 267)
- PAC report: *Fraud and error stocktake* –Session 2015-16 (HC 394)

1: Committee of Public Accounts conclusion:
HMRC's recent reduction in tax credits fraud and error is encouraging, but it does not know what further reductions are possible.

Recommendation:
HMRC should set regular targets for reducing fraud and error in tax credits during the transition to Universal Credit, based on an assessment of how recent reductions were achieved for each major risk area and the level of further reductions that are achievable.

1.1 The Government accepts the Committee's recommendation.

1.2 The Government agrees that that there is a need to set a strategic and sensible plan to manage Error and Fraud that encapsulates the transition to Universal Credit. The Government will consider this further and set out its plans in due course

2: Committee of Public Accounts conclusions:
DWP has not met its overall target for reducing fraud and error, despite being helped by changes in the mix of benefits.

Recommendation:
DWP should build on its development of individual strategies by publishing targets for reducing fraud and error for each major benefit, having assessed what level of further reductions is achievable, and set out clear operational plans to deliver this.

2.1 The Government does not accept the Committee's recommendation.

2.2 The Department believes multiple targets would dilute the overall view of Departmental performance and could not be applied to those benefits that are no longer continuously measured for fraud and error. The Department will explore the value in disaggregating the global view where it would be practical and informative to do so. Given the uncertainties inherent in forecasting a 2020-21 target, the Department recommends that any target should be set provisionally for review in 2018 once the impact of

Universal Credit is better understood. The Department supports moving towards a net Monetary Value of Fraud and Error (MVFE) target and will consider disaggregating it into, for example, legacy benefits (with and without State Pension) and the post-welfare reform benefits.

2.3 The Department has developed individual benefit-specific fraud and error strategies and action plans which focus on the particular characteristics of each benefit and target the main causes of loss (in line with the Department's overarching fraud and error strategy). These short term strategies target known fraud and error causes - for example: undeclared earnings, capital, living together, household composition and other income for example: occupational and private pensions. In certain circumstances, these loss areas span across multiple benefits (for example: living together).

3: Committee of Public Accounts conclusion:
The likely impact of welfare reforms on fraud and error is promising, but the reforms will not solve all the problems of tackling erroneous benefit payments.

Recommendation 3a:
DWP must set out how it will target the causes of fraud and error that will remain after the introduction of welfare reforms, and update the Committee each year with clear forward projections for fraud and error, based on the latest information available, so that we can assess its performance.

3.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

3.2 The Department has developed an overarching fraud, error and debt strategic approach covering both legacy benefits and welfare reform for 2015-20 which will build on the progress already made by focussing on the main causes (undeclared capital, earnings, household composition, living together and other income - pensions).

3.3 The Department will maintain a rolling 5 year MVFE forecast, which can be monitored against the Department's annually published mid-year provisional and final year fraud and error statistics.

Recommendation 3b:
The Departments should have a strategy in place to identify and minimise the key risks of fraud and error arising from implementing and operating major reforms, including setting targets for what levels of fraud and error will arise.

3.4 The Government accepts the Committee's recommendation.

Recommendation implemented.

3.5 The Departments consider the risks of fraud and error arising from major reforms, and during the conceptual design of new initiatives, ensuring focus is maintained during development and implementation to minimise any risks introduced.

4: Committee of Public Accounts conclusion:
The departments have made little progress in preventing fraud and error over and underpayments occurring.

Recommendation 4a:
Both departments should improve their understanding of the reasons why claimants make mistakes, and use this to develop stronger preventative measures.

4.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

4.2 The Departments already take action to ensure there is a greater understanding of why claimants make mistakes. This includes HMRC's *Error and Fraud Analytical Programme* tracking exercise, and DWP's *Root Cause Analysis*, a review of feedback and engagement with the third sector. These are used to support the continual development of stronger preventative measures.

Recommendation 4b:
Both departments should set targets for reducing underpayments, in order to galvanise efforts to tackle this neglected issue

4.3 The Government does not accept the Committee's recommendation.

4.4 All fraud and error measures are designed to ensure payments are correct and the global underpayments level is stable. The Departments will continue to tackle the causes of underpayments, as part of the wider approach to ensure claimants are paid the amount that they are entitled to.

Recommendation 4c:
Both departments should report back to the Committee in 6 months on progress they have made in relation to initiatives exploiting third party data.

4.5 The Government accepts the Committee's recommendation.

Target implementation date: April 2016.

4.6 The Departments already make use of a large amount of data from other Government Departments and third parties, continually exploiting this data to identify and deliver improvements on fraud and error. The Departments will report to the Committee in six months on the progress of data initiatives.

5: Committee of Public Accounts conclusion:
HMRC has not given sufficient consideration to how its activities to tackle tax credits fraud and error might affect people, including more vulnerable claimants.

Recommendations:
HMRC should work with the government-wide Fraud, Error and Debt Steering Group to commission an independent review of claimants' experience of the tax credits process. The review should include the impact of using its private sector contractor and identify ways to reduce unnecessary burdens on people.

5.1 The Government does not accept the Committee's recommendation.

Target implementation date: March 2016.

5.2 The Department does recognise the need to have regard to claimants' experience of interacting with the tax credits system and, at the same time, to help them better understand their obligations. It is conscious in particular that Undeclared Partner fraud and error remains the biggest compliance risk in tax credits. It is a complex compliance issue and claimants struggle to understand the rules around living with a partner. HMRC commissioned a qualitative survey from Ipsos Mori on tax credits claimants' understanding of the rules and investigated actions HMRC can take to make the process easier and encourage claimants to report their partner status accurately. The final research report will be published in March 2016.

5.3 In addition, the Department publishes an annual tax credit survey of customers undertaken by an external market research agency, which is used to improve the Department's understanding of claimants by tracking their experiences of the tax credits system, attitudes and behaviours over time. The Department also reviews its complaints, including those against the private sector contractor, as well as engagement with the third sector. These sources, along with other ad-hoc independent research commissioned and published by the Department, are used to ensure a continuous improvement in the claimant's experience and remove unnecessary burdens.

6: Committee of Public Accounts conclusion:
DWP does not understand the deterrent effect of the penalties it applies.

Recommendations:
DWP should assess the impact of its enforcement approach, including modelling and reviewing evidence on the deterrence effects of its penalty regime, to establish how effectiveness could be improved.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: Spring 2016.

6.2 The Department introduced the use of Civil Penalties in October 2012 and will be reviewing their use, in line with the commitment given at the time of the Welfare Reform Bill, to review their use within 3 to 5 years. As this is a completely new penalty, unlike those for fraud offences, it is appropriate that any review of penalties should commence with this. Evidence on its effectiveness will be drawn from a range of data sources and information. Evaluation work should be completed by Spring 2016.

6.3 The deterrence effect cannot be directly measured. A longer term analysis is planned to understand the behaviour, perceptions and awareness of the Department's penalties policy. This will build on previous studies and take into account the toughening of penalties in the Welfare Reform Act 2012, and subsequent secondary legislation. In considering the timing of this work, it is important that changes to the penalty regime will have had sufficient time to 'bed in' as their application is not retrospective.

Fifth Report of Session 2015-16

Department for Education

Care leavers' transition to adulthood

Introduction from the Committee

Over 10,000 young people aged 16 or over leave local authority care each year. They have often had difficult lives and 62% were in care because of abuse or neglect. Children must leave local authority care by their 18th birthday, whereas 50% of all 22-year-olds still live at home. Those leaving care may struggle to cope with the transition to adulthood and may experience social exclusion, unemployment, health problems, or end up in custody. In 2013–14, 41% of 19-year-old care leavers were not in education, employment or training (NEET) compared with 15% of all 19-year-olds.

In 2013–14 local authorities reported that they had spent £265 million on care leaver services. Local authorities must support care leavers until they are 21 (or 25 if in education and training) in line with statutory guidance from the Department for Education, which sets the overall framework for the delivery of support to care leavers. The Government wants care leavers to receive the same care and support that their peers would expect from a reasonable parent and, in 2013, the government published the Care Leaver Strategy. The strategy set out how eight government departments would work together to improve support for care leavers, including in housing, health, employment and education.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence on 7 September 2015 from the Department for Education (the Department), the Association of Directors of Children's Services and two young people who had experienced the care system. The Committee published its report on 30 October 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: *Care leavers' transition to adulthood* – Session 2015-16 (HC 269)
- PAC report: *Care leavers' transition to adulthood* – Session 2015-16 (HC 411)

1: Committee of Public Accounts conclusion

Central accountability and responsibility for improving the care leaver system is not clear.

Recommendation:

Recognising the ministerial lead for care leavers is in the Department for Education, the Committee recommends that the Department takes a formal responsibility for improving the quality of support for care leavers.

1.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

1.2 The Department for Education has the lead role in Government for improving the quality of support that care leavers receive. In particular, the Department has oversight of the legislative framework that determines what support local authorities must provide to care leavers; publishes data on care leavers' outcomes; supports innovation in service delivery (through the Innovation Programme); funds voluntary sector organisations to provide direct support to care leavers; and intervenes where Ofsted identifies that local support for care leavers is inadequate.

1.3 As the lead department, it also has an important co-ordinating role across Government. The Minister for Children and Families has lead responsibility for care leavers at Ministerial level and the Department has taken the lead in driving cross-Government work, including the development of the cross-Government Care Leaver Strategy, which was published in 2013. During that process, the Department chaired a number of cross-Government working groups at official level which led on developing the contents of the strategy and subsequent 'one-year-on' document, and it will continue to drive future cross-Government work relating to care leavers. However, many other government departments provide services that care leavers use, for example health services; support to help care leavers find work; and housing services, and different departments are responsible for the delivery of those services.

2: Committee of Public Accounts conclusion
The Care Leavers Strategy was a positive step and has achieved some success but there is still more to do.

Recommendation:
The Department should look again at the Care Leaver Strategy, setting out clearly the Government's objectives for care leavers, and how and when it will make improvements to the support they receive.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2016.

2.2 The Department is working with other relevant government departments to refresh the original cross-Government Care Leaver Strategy, which was published in 2013. The Department expects to be in a position, by April 2016, to publish an updated strategy that sets out the Government's vision for this Parliament. As part of this work, senior officials from relevant departments have already met to discuss what more Government can do to support care leavers, in particular in relation to finding suitable accommodation; accessing employment and training opportunities; and providing the emotional and practical support that care leavers need to meet the challenges of living independently. The Department will involve local authorities, care leavers and voluntary sector organisations that support care leavers in shaping the content of the refreshed strategy.

3: Committee of Public Accounts conclusion
There is scope to provide more support to help get care leavers into work.

Recommendation:
The Department should set out how it plans to use apprenticeships and traineeships to help care leavers.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2016.

3.2 The Department is determined to see a reduction in the proportion of care leavers who are not in employment, education or training (NEET). As part of the refresh of the cross-Government Care Leaver Strategy, the Department is working with the Department for Business, Innovation and Skills to determine how best to improve care leavers' access to apprenticeships, including the routes into apprenticeships for young people whose low prior attainment means they do not meet the normal entry requirements. Details of the Government's plans will be included in the refreshed strategy, which is scheduled to be published in April 2016.

3.3 In addition, the Department has continued to fund Catch 22 to run the *FromCare2Work* programme, which gives care leavers opportunities for work experience, apprenticeships and full-time jobs. Since its inception this programme has created over 700 employment opportunities, including 175 jobs and apprenticeships.

4: Committee of Public Accounts conclusion
Too many care leavers are in unsuitable accommodation.

Recommendation 4a:
The Department should urgently consider what more it can do to help local authorities provide suitable accommodation, and keep the issue under constant review.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2016.

4.2 Care leavers are a priority group under homelessness legislation, so local housing authorities must provide suitable accommodation if they are homeless through no fault of their own. Care leavers also have priority access to social housing and statutory guidance makes clear that local authorities should commission a range of accommodation options to meet the diverse needs of care leavers. Care leavers are benefitting from the Department for Communities and Local Government's (DCLG) and Cabinet Office's £15 million Fair Chance Fund, which aims to improve the outcomes of high needs homeless 18- to 24-year-olds, including care leavers.

4.3 To go further to meet care leavers' accommodation needs, the Department has been working with DCLG to support improved local authority practice through the dissemination of the 'Care Leavers' Accommodation and Support Framework' developed jointly by Barnardo's and the homelessness charity St Basils. This framework helps local services to improve value for money and avoid using inappropriate accommodation, such as bed and breakfast. The Department will also continue to publish annual data on the type and suitability of accommodation for care leavers aged 19, 20 and 21, and in 2016 will begin collecting this information in relation to 17- and 18-year-olds.

4.4 The Department will work with DCLG to consider what further action could be taken at a national level to address care leavers' access to suitable accommodation in the context of the development of the refreshed cross-Government Care Leaver Strategy.

Recommendation 4b:
The Department has recognised the potential role of social impact bonds in providing new approaches to supporting care leavers. In its response to this report we would therefore like the Department to set out its position on how it might use social impact bonds to incentivise and reward innovation, and so improve outcomes for care leavers — with a particular view to employment and accommodation.

4.5 The Government accepts the Committee's recommendation.

Target implementation date: April 2016.

4.6 There are a number of Social Impact Bonds in operation across the United Kingdom, covering a wide range of policy areas. These include children's social care and projects that aim to reduce the number of care leavers who are NEET and re-offending. One example is the Fair Chance Fund, which is targeted at getting homeless young people aged 18 to 24 who are NEET into accommodation and employment, while the Centre for Social Impact Bonds' Youth Engagement Fund aims to support 8,000 disadvantaged young people, including care leavers, into work and education. The Department is working with the Centre for Social Impact Bonds to explore further opportunities in this area.

5: Committee of Public Accounts conclusion

There are gaps in the data on care leavers' outcomes and experiences.

Recommendation:
The Department should set out a timetable for improving the data it collects on care leavers' circumstances and how it will ensure that central government and local authorities make effective use of the data to improve outcomes.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: September 2016.

5.2 The Department's annual *Children Looked After in England (including adoption and care leavers) year ending 31 March* data collection (known as the SSDA903) currently provides information on 19- to 21-year-old care leavers' engagement in training, employment and education, and also information on their accommodation arrangements. For the first time, the Department has extended the coverage of this collection also to include 17- and 18-year-old care leavers. National level findings will be published in September 2016 and local authority level statistics in December 2016. The Department will keep its data collection on children looked after and care leavers under review.

5.3 While this collection provides valuable information, the Department recognises that data collected by other Departments or providers offer the potential to gain a fuller understanding of the outcomes achieved by care leavers. A one-off data sharing agreement is in place with the Ministry of Justice to link pupil level data to prison, probation and police data. A separate agreement is in place with Her Majesty's Revenue and Customs, the Department for Work and Pensions and the Department for Business, Innovation and Skills to explore the link between educational achievement and labour market outcomes. In both cases, the Department expects the finalised data match to be achieved in the first part of 2016. Conditional on the quality of the match achieved, the Department's aim is to move to a more regular sharing of data and we will also consider how best to disseminate the findings.

6: Committee of Public Accounts conclusion

The variability in the quality and cost of services is unacceptable.

Recommendation 6a:

The Department should act promptly to follow up Ofsted inspections and in particular to require explanation and action plans for all services rated 'Inadequate'.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: Spring 2016.

6.2 Currently all local authorities that receive an overall Ofsted judgement of 'inadequate' enter formal intervention. On 14 December 2015, the Prime Minister announced reforms whereby children's services in local authorities that have been judged 'inadequate' by Ofsted will be taken over if they cannot show significant improvement within six months. Where local authority children's services have failed persistently or systematically, the Department will immediately appoint a commissioner to review within three months whether services should be removed from council control.

6.3 The Department also intends to create a new 'supervision and support' category for all those authorities that are classified as 'requires improvement' overall, and 'inadequate' on either of the sub-judgements for care leavers or adoption. Whilst these authorities would not be formally in intervention, officials would monitor them for 12 months to gain assurances that improvement has been made. Ministers would then decide if further action is required.

6.4 This builds on action the Department has taken with Bristol and Southampton City Councils – both of which are categorised as 'requires improvement' for children's social care – but were found to have 'inadequate' services for care leavers following their last inspections. The Minister for Children and Families asked that officials visit both authorities to discuss their respective plans for improvement. Following the visits, the Minister indicated to both authorities that he was content with the plans that had been put in place, but that he would like officials to visit again at a later date in order to test their impact. Officials are planning reviews of both services in 2016 and the Department intends to write formally to the Committee with the outcomes of these reviews.

Recommendation 6b:

The Department should, with the Department for Communities and Local Government and local authorities, secure reliable, comparable data on costs to support benchmarking.

6.5 The Government accepts the Committee's recommendation.

Target implementation date: March 2016.

6.6 The Department recognises the importance of good financial data to support local authority decision making and value for money considerations. It plans to work with local authorities and DCLG to consider how best to improve practice in this area, in line with the Committee's recommendation. It has also taken steps to check the financial data returned by local authorities, including incorporating rules which flag significant changes in spend reported relative to figures from the previous year. The Department also plans to expand on the collection guidance to provide more detail around what should be included under the care leaving services category of spend. This will improve consistency in reporting across authorities.

6.7 Local authorities should also benefit from tools such as the cost calculator for children's services, which has been developed by the Centre for Child and Family Research and uses comparable data on staff costs and hours required for key tasks, based on published research.

7: Committee of Public Accounts conclusion
The quality of support care leavers receive from personal advisers is too patchy.

Recommendation:
The Department should extend the remit of its programme to reform social work education and training to include the role and responsibilities of all personal advisers.

7.1 The Government does not accept the Committee's recommendation.

7.2 Securing a better-trained, more confident social work workforce that is well-led, drives improved practice, is open to innovation and responsive to new challenges is a key Government commitment. High-quality fast-track entry programmes, training and development and a national, practice-focused, career pathway including an assessment and accreditation system that will assess rigorously individual social workers on their knowledge and skills to perform effectively, are all key elements of our programme of reform. The reforms are about the specific needs of social workers working with children in need, including those on child protection plans and those who are looked-after, in order to protect them from abuse or neglect. While the Government expects this programme will have benefits for the wider workforce, including personal advisers, it believes it is important to focus on the specific needs of the social work profession.

7.3 Nevertheless, the Government recognises the important role of personal advisers and will consider what more can be done to ensure consistent and high quality support is delivered to care leavers. In particular, the Department will ask the National Care Leaver Benchmarking Forum to identify what current continuing professional development opportunities are provided to personal advisers to improve their practice.

8: Committee of Public Accounts conclusion
Good practice on how best to support care leavers is emerging but is not systematically identified and shared nationally.

Recommendation:
The Department should take the lead in developing and sharing good practice, and be proactive in helping to bring the worst performing local authorities up to the standard of the best. It should also establish a central resource of good practice and embed good practice in statutory guidance.

8.1 The Government accepts the Committee's recommendation.

Target Implementation date: December 2016.

8.2 The Department is committed to establishing a 'What Works Centre' in order to build a robust evidence base on 'what works' for children's social care to support local practitioners and commissioners to deliver the most cost-effective frontline services. The Government's commitment was set out by the Prime Minister on 14 December 2015.

8.3 The Department is also committed to publishing evaluations of all the projects funded through the Innovation Programme, which has supported the development, testing and sharing of effective practice and new structural approaches to supporting looked-after children and care leavers.

8.4 However, the Department is not the only actor in the social care system and local authorities, Ofsted, voluntary sector organisations and academics also have a responsibility to share and promote best practice. Ofsted runs seminars for local authorities to share the best practice they have identified during inspections. Organisations such as the National Leaving Care Benchmarking Forum have a role to play in sharing best practice across local authorities as do organisations such as the Who Cares? Trust and Catch 22. Academic research, such as the work of the Social Policy Research Unit at the University of York, also helps inform policy and practice.

9: Committee of Public Accounts conclusion

The Committee is concerned about the effect on care leavers of reducing funding to foster carers once they reach 18.

Recommendation:

The Department should conduct an early review of Staying Put, with a particular focus on the financial and social impact of the policy for care leavers, foster parents and local authorities.

9.1 The Government does not accept the Committee's recommendation.

9.2 The Department is keeping the implementation of Staying Put under review and will publish data each year showing the proportion of eligible care leavers who are in a Staying Put arrangement at age 18. The data published in October 2015, covering the year ending March 2015 (the first year after the Staying Put duty was introduced), shows that almost half (48%) of eligible care leavers have taken up the option to continue living with their former foster carer.

9.3 The Department has regular discussions with the Association of Directors of Children's Services and its voluntary sector strategic partners about the implementation of the Government's policies and initiatives relating to children's social care, including Staying Put. Where implementation concerns are identified, appropriate action will be taken on a case-by-case basis. The Department does not accept that there is a need for a more formal review of the policy at this stage.

Sixth Report of Session 2015-16

HM Revenue and Customs

HM Revenue and Customs performance in 2014-15

Introduction from the Committee

HMRC collected £517.7 billion from UK taxpayers in 2014-15, some £11.9 billion more than in 2013-14. Total tax revenue has increased in each of the past 5 years, during which HMRC reduced its running costs from £3.4 billion to £3.1 billion. HMRC has thereby improved its ratio of revenue collected per £1 of administrative expenditure from £138.14 in 2010-11 to £166.95 in 2014-15. In 2014-15, HMRC also reduced tax losses (mainly the amount of tax written off because there is no practical way to collect it) and the balance of tax debt (tax that is overdue and outstanding at the end of the year), while paying out more in benefits and credits. HMRC estimates its compliance work (tackling those who do not comply with their tax liabilities) saved £26.6 billion in 2014-15. The July 2015 budget announced that HMRC would be given a further £800 million to collect an additional £7.2 billion in tax revenue from its compliance work between 2015 and 2020.

On the basis of a report by the National Audit Office, the Committee took evidence, on 9 September 2015 from HM Revenue and Customs on its performance in 2014-15. The Committee published its report on 4 November 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: *HM Revenue and Customs 2014-15 Accounts* - Session 2014-15 (HC 18)
- PAC report: *HM Revenue and Customs performance in 2014-15* – Session 2015-16 (HC 393)

1-2: Committee of Public Accounts conclusion:
HMRC does not report on the scale of aggressive tax avoidance, which means Parliament cannot assess whether tax law is working as intended.

Recommendation:
HMRC should identify and report the value of all tax avoidance schemes. It should include an estimate of the value of those schemes it has challenged, but which have been judged to be legal by the courts, both so that Parliament can see the scale of avoidance and ensure improvements are made to tax law.

1.1 The Government does not accept the Committee's recommendation.

1.2 The Department already reports on the value of all tax avoidance schemes by way of their annual published Tax Gap. The latest gap on account of tax avoidance is estimated to total £2.7billion. This gap is based on data from the Disclosure of Tax Avoidance Scheme (DOTAS) regime, tax risk registers and various management assumptions (including assumptions around un-disclosed avoidance). These tax gap estimates include tax in connection with avoidance schemes being taken to litigation.

1.3 The Department notes the recommendation that it should report an estimate of the value of any avoidance schemes it has challenged which have been judged to be legal by the courts, i.e. measure a 'policy gap'. The tax gap seeks to estimate non-compliance with current UK law, and therefore correctly focuses on tax that is within HMRC's power to collect. Where HMRC loses an avoidance case in litigation it informs the Treasury. Whilst the Department has a role in advising on policy, it does not determine policy, which is a matter for the Government and Parliament.

1.4 The Department will publish on an annual basis the outcome of litigation in cases that it considered were avoidance. The Department will explore the most appropriate mechanism for publishing this information.

3-4: Committee of Public Accounts conclusion:
The number of tax reliefs continues to grow but the scale and nature of the tax foregone is invisible to Parliament because HMRC refuses either to define them or list them comprehensively.

Recommendation:
HMRC should define the different types of tax relief, including those it considers to be tax expenditures. It should identify which reliefs it considers require monitoring and evaluation and publish this information to enable Parliament to decide which reliefs may require further scrutiny or legislative change.

3.1 The Government does not accept the Committee's recommendation

3.2 HMRC is improving its statistical publication from December 2015, and will in future publish monitoring information showing historical changes in estimated actual costs, comparisons between forecasts and actual costs, and commentary on significant variances, for around 180 reliefs.

3.3 Neither Department considers that it would be practicable to go further and agree a definitive categorisation of all tax reliefs by type. This would require a large degree of subjective judgement and many reliefs would fall into more than one category, so any such framework would be of limited practical use in administering reliefs and would be unlikely to assist any value for money consideration. HMRC has already identified the main tax expenditures in its annual publication of costs.

3.4 Both Departments have considered monitoring and evaluating all reliefs and set out such plans for every new relief in the published Taxes Information and Impact Note (TIIN). This was reinforced in the *Best Practice* note produced by HMRC for both Departments and shared with the Committee on 30 September 2015. HMRC already publishes all externally commissioned evaluations, its forward research programme and approved Datalab research projects.

5-6: Committee of Public Accounts conclusion:
HMRC is still failing to provide an acceptable service to customers and could not tell us when it would be able to do so.

Recommendation:
HMRC should identify what impact its poor level of service is having on tax revenues and produce a detailed plan setting out how and when it will provide an acceptable standard of customer service. This should include a clear plan for the efficient management of its change programme and introduction of new IT systems.

5.1 The Government accepts the Committee's recommendation.

Recommendation implementation date: September 2016**.**

5.2 While the Department believes that service and compliance are inextricably linked, there is no evidence that recent spells of poor service have impacted upon tax revenues. There appears to be strong evidence that taxpayers do persist in trying to contact the Department to resolve their query and keep their tax payments up to date. The Department will be working with the NAO in the next year to try to identify evidence of the link between service and compliance and this will be reported to the Committee in 2016.

5.3 The Department's transformation programme centres on improving service and compliance. Over the next 5 years the department is focusing on transforming the way customers interact with them. By 2016 they will have introduced Digital Accounts and made them available to all individual and business taxpayers providing them and their agents with control of their tax affairs via a secure, personalised tax account. This will enable customers to register for new services, update their information online, and more easily understand their obligations.

5.4 The Department believes that with better use of data and more intelligence, it will be able to secure the correct amount of tax from the outset thus, reducing error and increasing voluntary compliance. The department will be producing a Business Plan that details how it will deliver this transformation and this will be published.

7-8: Committee of Public Accounts conclusion:
HMRC's performance measures do not cover delivering a consistent level of customer service throughout the year.

Recommendation:
HMRC should report its performance against measures which reflect all its aims, including providing a consistent level of service and ensuring that accurate and complete advice is provided first-time.

7.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2017.

7.2 The Department is developing a new suite of Key Performance Indicators to measure service standards across all channels on the key drivers of customer service, the department's effectiveness of transition to Digital and the extent to which they design from customer need. This will cover:

- the ease with which the customer can access services;
- timeliness of the service;
- the quality and accuracy of the interaction and;
- the experience or fulfilment, including first contact resolution.

7.3 The measures will cover all existing and new channels for example; telephone, post, iforms, web-chat, social media and secure messaging, and measure the channel shift to online accounts, including customers' satisfaction with them. The plan is to finalise the measures by February 2016 and launch them from April 2016.

9-10: Committee of Public Accounts conclusion:
The number of criminal prosecutions for offshore tax evasion is still woefully inadequate.

Recommendation:
As previously recommended, HMRC should strengthen its capability to investigate offshore tax evasion and make tougher the criminal and civil sanctions it can apply. It should make clear that those who persist in their attempts to hide assets offshore will face the threat of prosecution, and should in future demonstrate the significance of this threat through its actions.

9.1 The Government accepts the Committee's recommendation.

Target implementation date: May 2020.

9.2 Historically, it has been difficult for the Department to obtain details of offshore accounts, due to a lack of data and powers. To counter this, the Department has consistently been at the fore in driving International Agreements and other offshore initiatives, collecting over £2.7 billion in unpaid tax, interest and penalties since 2007.

9.3 Unprecedented global cooperation now takes the Department further, beginning with the receipt of automatic offshore account and trust information from over 95 jurisdictions by 2018, with some information already received and more arriving in 2016. Alongside this, continued investment in analytics measures and sanctions, announced by the Chancellor in the 2015 Autumn Statement, will strengthen civil and criminal sanctions for evaders and their enablers. This moves from a lack of credible overseas data and fewer civil and criminal powers to a time where the Department can detect and robustly tackle those who continue to hide their cash offshore.

9.4 At the end of 2015, the Department will close the existing disclosure facilities and replace them with more robust arrangements, which do not offer exemptions from criminal investigation. As part of investment secured in the 2015 Summer Budget, the Department will seek to triple the number of criminal investigations into serious and complex tax crime, including offshore evasion.

11-12: Committee of Public Accounts conclusion:
HMRC's public reporting of the additional tax revenue it generates from its compliance work (compliance yield) remains unnecessarily complicated and confusing.

Recommendation:
HMRC should report its compliance yield in much clearer and simpler terms. It should state how much cash its compliance activity has recovered each year, alongside its estimates of future revenue and losses prevented. It should also report the range of uncertainty around its estimates.

11.1 The Government does not accept the Committee's recommendation.

11.2 The Annual Report clearly sets out the different elements of compliance yield, including cash collected. The Department is open and clear that a degree of estimation and calculation is involved to arrive at the overall compliance yield figure. However, it is confident that the amount reported is an accurate reflection of the amounts of revenue benefit generated by the activities undertaken.

11.3 Building upon improvements to the 2014-15 Annual Report, the Department is considering options to further increase the clarity and transparency in the way it reports compliance yield, for example:

- continuing to develop the evidence base around the discount applied to arrive at the cash collected figure; and
- looking at the practicalities of estimating the cash impact of compliance activities by allocating Future Revenue Benefit (FRB) to the year of impact on Exchequer revenues.

11.4 The Department does not agree that a range of uncertainty around estimates would help the reader. This would add ambiguity and lead to accusations that needless complexity is being deliberately added to make the report less transparent.

Seventh Report of Session 2015-16

Department for Communities and Local Government

Devolving responsibilities to cities in England: Wave 1 City Deals

Introduction from the Committee

In 2012, the Government signed City Deals with eight of the largest cities outside of London. Known as 'Wave 1', these are the first in a line of government deals designed to give cities the powers and tools they need to drive economic growth. The deals were therefore designed to be individual to each area, with each deal made up of separate programmes covering a range of policies such as transport, housing and skills. The Government has committed up to £2.3 billion to the 40 programmes included in deals, mostly in the form of capital funding to enable local authorities to fund infrastructure investments such as buildings and roads. In 2013 and 2014, the Government announced a second wave of City Deals with 18 more places, and a devolution deal with Greater Manchester.

In February 2015, the government announced that Greater Manchester would gain more devolved control of £6 billion in local healthcare funding. The Department for Communities and Local Government holds policy responsibility for the deals, but a further eight government departments play a significant role by providing local areas with funding for specific programmes within the deals or support in implementing their deals.

On the basis of a report by the National Audit Office, the Committee took evidence, on 16 November 2015, from the Department for Communities and Local Government, and Birmingham City Council about Wave 1 of City Deals. The Committee published its report on 10 November 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: *Devolving responsibilities to cities in England: Wave 1 City Deals* - Session 2015-16 (HC 266)
- PAC report: *Devolving responsibilities to cities in England: Wave 1 City Deals* - Session 2015-16 (HC 395)

1: Committee of Public Accounts conclusion:
The first wave of City Deals show some signs of early success, but they are not necessarily the most appropriate model for wider devolution.

Recommendation:
The Department should actively share the learning and good practice it has gained through City Deals with public bodies involved in the potential devolution of public services, such as NHS England and the Department of Health. It should make a clear statement about how it will determine funding levels for devolved responsibilities.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2016.

1.2 The Department agrees that it is highly important to continue to share learning and good practice to ensure that powers and budgets are devolved as safely and effectively as possible. The implementation of devolution deals will be centrally coordinated by a cross-Whitehall board of senior officials from all relevant departments, to ensure that good practice is communicated to the teams working on devolution, both in local and central government.

1.3 Funding levels for devolved responsibilities will be in line with the principles for determining funding levels for nationally retained responsibilities, for example, by service demand or population, which will differ by policy area. Where funding determinations differ between national and devolved responsibilities, the Department expects that this would be clearly set out.

2: Committee of Public Accounts conclusions:
The Department has not made clear who is accountable for public funds that have been devolved through City Deals.

Recommendation:
Given the increasing pace of devolution, the Department should work with local areas to ensure there are effective and well-resourced local scrutiny arrangements and accountability systems to make certain that funding is well spent so the Department and local taxpayers have a clear understanding about how this money is spent. This is particularly important for devolved healthcare spending.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: May 2017.

2.2 The Department is undertaking work to ensure that there are strong and sustainable arrangements in place at the local level to scrutinise how devolved funding is spent. This will build on the robust core framework for local government, with the Accounting Officer for local government ensuring that councils will spend their money with regularity, propriety and value for money.

2.3 To ensure that there is scrutiny of local funding decisions, the Cities and Local Government Devolution Bill sets out stronger scrutiny arrangements, requiring all combined authorities (including mayoral) to have as a minimum an overview and scrutiny committee and an audit committee to hold both the mayor and the authority to account. Local taxpayers will have a clear understanding about where accountability sits after devolution.

2.4 The Government will work with the local areas which have agreed devolution deals in order to jointly develop written agreements on every devolved power or fund, including agreement on the accountability arrangements between local and national bodies. This will be in place ahead of mayoral elections, the first of which will take place in May 2017. Additionally, relevant departmental systems statements will be updated yearly to reflect any changes to accountability resulting from devolution.

3: Committee of Public Accounts conclusion:
The Department's lack of monitoring and evaluation in the deals makes it difficult to assess their overall effectiveness.

Recommendations:
The Department must agree a common approach to measuring and evaluating the outcomes of growth programmes, including job creation, with other government departments and local areas, to ensure one geographical area is not 'growing' at the expense of another.

3.1 The Government accepts the Committee's recommendation.

Target Implementation Date: May 2017.

3.2 The Department has already implemented a number of improvements for Growth Deals. For the Local Growth Fund, a consistent set of measures has been agreed for all Local Enterprise Partnerships (LEPs) to use in their reporting. These measures have been agreed with the Department for Local Communities and Government (DCLG), the Department for Business, Innovation and Skills (BIS), and the Department for Transport (DFT) and harmonised with other programmes, for example: the European Structural Investment Fund, the Regional Growth Fund and pre-existing monitoring programmes in transport and skills. Beyond this, City Deals, the Local Growth Fund, Growth Hubs, and the Growing Places Fund have all been incorporated into a common monitoring framework that has further enabled the increased harmonisation of metric definitions and selection.

3.4 Displacement will be a key issue with the impact evaluation work for the Local Growth Fund. The Department is working closely with the *What Works Centre for Local Economic Growth* to encourage development and spread of better methods for evaluation.

4: Committee of Public Accounts conclusion:
The Department lacks certainty over whether there is enough capacity locally to manage devolved funding effectively and sustainably. The Government has committed £2.3 billion to the first wave of City Deals.

Recommendation:
The Department must develop a more evidence-based approach to assessing whether local areas have sufficient and sustainable resources to deliver the City Deals in the wider context of Government funding restrictions.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2016.

4.2 The Department has brought together quantitative and qualitative information about the governance, service delivery and financial position of each local authority in a systematic way and developing this to assess local areas' capacity to deliver the City Deals.

5: Committee of Public Accounts conclusion:
Cities valued the role of the Department's Cities and Local Growth Unit in providing a single, coherent access point in Government but the Unit's capacity is limited.

Recommendations:
The Department should maintain its approach of having a single point of contact with local places, and be responsive to local areas that have less experience in managing more devolved funding. It must also work with other departments to ensure a step change in record keeping. Departments must maintain proper records on initial objectives and lessons learned.

5.1 The Government accepts the Committee's recommendation.

Target Implementation Date: March 2016.

5.2 The Department will maintain its approach on a single point of contact with local places. The Department will also work with local places and other government departments to develop clear, mutually agreed implementation plans for all devolution deals that will set out a clear record of the objectives of interventions and the approach that will be taken to meet these. These records will be maintained both centrally, and by departments. For the first devolution deals, these should be completed by early 2016.

Eighth Report of Session 2015-16

Cabinet Office

The Government's funding of Kids Company

Introduction from the Committee

Kids Company was set up in 1996 to enhance the emotional health of young people through counselling, support and art therapy; and to help schools, and other educational institutions address the emotional needs of young people. Kids Company has received significant funding from the public purse - at least £42 million since 1996 from central Government Departments; and at least £4 million from local authorities and lottery bodies. The Department for Education oversaw grant funding for Kids Company until 2013, when the Cabinet Office took on the responsibility. After March 2013, Government funding was through non-competitive, direct grant awards as Kids Company no longer met the criteria and quality standards for competitive grant funding schemes.

In June 2015, the Cabinet Office advised Ministers that a further grant to Kids Company would not be value for money. Despite this, Ministers directed officials to pay £3 million, to support the restructuring of the charity and secure its long term sustainability. The final £3 million was on top of an earlier grant of £4.3 million for 2015-16, which the Cabinet Office had already paid, in full, in April 2015. Payment was made just a week before Kids Company closed on 5 August. Kids Company was given £7.3 million within a period of 16 weeks. Kids Company has so far passed 1,900 case files to local authorities and the Cabinet Office has given £200,000 to the authorities to support the transition of young people to other services.

On the basis of a report by the National Audit Office, the Committee took evidence, on 2 November 2015, from the Cabinet Office and the Department for Education about the Government's funding of Kids Company. The Committee published its report on 13 November 2015. This is the Government response to the Committee's report.

Background resources

- NAO report: *Investigation: the Government's funding of Kids Company* - Session 2015-16 (HC 556)
- PAC report: *The Government's funding of Kids Company* - Session 2015-16 (HC 504)

1-7: Committee of Public Accounts conclusions:

1: By treating Kids Company as a special case, the Government missed opportunities to help other children.

2: There was insufficient scrutiny of what Kids Company was delivering for taxpayers' money.

3: Government ignored Kids Company's serious cashflow problems and failure to make itself financially sustainable and continued to fund the charity to keep it afloat.

4: Accounting Officers across Government failed to stand up to Ministers.

5: *Funding decisions were not based on evidence nor did they follow due process. Kids Company lobbied Government for funding over many years.*

6: *It is particularly alarming that the Department carried on handing over money for years despite there never being a model that could be replicated across the country.*

7: *The Government failed to learn lessons from Kids Company until the end.*

Recommendation:

As the Government recognises, there are lessons to be learned from its funding of Kids Company. This situation must never occur again. To address these lessons, the Committee makes the following recommendations.

Recommendation 1:
The Government should undertake a fundamental review of how it makes direct and non-competitive grants to the voluntary sector. The review should consider how:

- ***it ensures grant making processes are fair and equitable, for example, to properly assess geography and relative funding, so that no organisations are disadvantaged;***
- ***it assesses the financial sustainability of a charity once the grant period finishes (and not just on the financial data included in the grant application); and***
- ***when funding a charity that provides innovative services which have the potential to be replicated, it sets clear conditions for how and when this needs to happen;***

When a national charity is providing services with predominantly local characteristics, advice should be sought from local bodies working in that area to validate value for money

1.1 The Government accepts the Committee's recommendations.

Target implementation date: Summer 2016.

1.2 Any proposal to issue grant funding without prior competition will be sufficiently scrutinised.

1.3 In the light of the events surrounding Kids Company the Cabinet Office has launched a detailed review of how it makes grants under section 70 of the Charities Act and will incorporate the Committees recommendations. The review is considering the criteria used to assess risk and is developing a proposal for a new, more rigorous and probing approval process. The Department for Education is also reviewing its grant making powers under the Education Act 2002, in the light of Kids Company report.

1.4 As stated by the Chancellor of the Duchy of Lancaster, the Government intends to await the recommendations of the Public Administration and Constitutional Affairs Committee's recommendations into Kids Company, along with the Public Accounts Committee recommendations and consulting with stakeholders, before reaching final conclusions on grant giving under the Charities Act. The Cabinet Office will write to the Public Accounts Committee once the review has been published later this year (Summer 2016) and respond to the Public Administration and Constitutional Affairs Committee at the same time.

1.5 Both the Cabinet Office review of Charities Act grants and the DFE review are also feeding into the wider review of grant making, covering the whole of Government, led by the Grants Efficiency Programme (GEP). The GEP is undertaking a government-wide review of all existing practice in relation to direct grant awards. This will critically examine the policies and practices, which are applied when deciding to make a direct award. The evidence gathered will be used to make recommendations and develop guidance and best practice in relation to the award, monitoring, and evaluation of grant funding, in particular considering value for money and optimum funding levels.

Recommendation 2:
The Government should develop a register of grants to the voluntary sector so that it can:

- ***easily identify charities receiving large amounts of government funding from single or multiple sources; and***
- ***share intelligence on charities' past performance.***

2.1 The Government accepts the Committee's recommendation.

Target implementation date: Spring 2016.

2.2 The Grants Efficiency Programme (GEP) is developing the Government Grants Information System (GGIS), which will help departments make more informed decisions in relation to their grant funding by providing them with more comprehensive information. The GGIS will enable the recording and reporting of grant information across government in a simple, standardised and scalable way. It will improve transparency and provide insight into government spend. It will enable departments to manage grants efficiently and effectively while providing data to help to reduce the risk of fraud by opening up Government's ability to see whole picture, and ensure we only pay once for each outcome. Over time, the GISS will become a cross-Government register, linked to an analytical system. A collaborative approach has been taken to developing and testing the prototype, with a focus on the needs of users, following Government Digital Service guidance and principles.

Departments will upload grants data to the system, in line with agreed data standards, to demonstrate the capabilities of the system and prove the concept. The first upload of departmental data took place in November 2015; phase 1 will be completed by the end of March 2016. The GGIS will be operating at its full capacity within 12 to 18 months of its launch.

Recommendation 3:
The Government should improve the way it monitors and evaluates the performance of grant-funded organisations including looking at the balance between self-reporting and external evaluation. It should ensure that organisations have robust and transparent mechanisms in place for measuring their own performance.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: Summer 2016.

3.2 The Grants Efficiency Programme (GEP) is already delivering a programme of work to improve grant making across government, including scrutiny of spend. Alongside establishing initiatives such as the GGIS (see 2.2), it is strengthening guidance, training and best practice in relation to the critical decision to use a grant; and improving monitoring and evaluation of grant awards. Solutions are being developed collaboratively with departments as well as the NAO, with whom it has recently published a grant making toolkit. Many outputs of the GEP will be made available through the GEP Centre of Expertise online Hub. The Programme will complete delivery late Spring / early Summer and continue to ensure new practices are being implemented across departments.

Recommendation 4:
The Government should not provide or appear to provide funding commitments without referring the funding request to the appropriate funding department so that the requirements of HM Treasury's manual Managing Public Money are met.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: Spring 2016.

4.2 The Government will not provide funding commitments without referring the funding request to the appropriate funding Department, as required by *Managing Public Money.* Departments will be reminded of this requirement through a Dear Accounting Officer letter to be issued by the Treasury.

Recommendation 5:
If the Government decides to use special powers to grant funding, it should provide a transparent case for its decision and report regularly on the use of these powers.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: Spring 2016.

5.2 The Government is committed to making grant-making decisions as open as possible. The Department will consider the best means for publishing information on grant spend, including the powers under which they are made. The Government anticipates that such publication will be significantly easier once the Government Grants Information System (GGIS), which will record and report grant information across government in a simple, standardised way, is launched in late Spring / early Summer.

List of Treasury Minutes 2015-20[1]

Treasury Minutes is a Parliamentary Command Paper, which is laid in Parliament, and is the Government's response to the Public Accounts Committee reports. The next Treasury Minute will be January 2016

Session 2015-16

Committee Recommendations: 60[2]
Recommendations accepted: 47 (78%)
Recommendations not accepted: 13 (22%)

Publication Date	PAC Reports	Ref Number
December 2015	Government response to PAC reports 1 to 3	Cm 9170
January 2016	Government response to PAC reports 4 to 8	Cm 9190
March 2016	Government response to PAC reports 9 to 14	Cm
April 2016	Government response to PAC reports 15-17+	Cm

List of Treasury Minutes Progress Reports

The Government produces Treasury Minute progress reports on the implementation of Government accepted recommendations on a regular basis. The next update will be February 2016.

Publication Date	PAC Reports	Ref Number
January 2012	Session 2010-12: updates on 13 PAC reports	Cm 8271
July 2012	Session 2010-12: updates on 28 PAC reports	Cm 8387
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2013-14: updates on 27 PAC reports	Cm

[1] List of Treasury Minute responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52
[2] Recommendations up to January 2016

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