



HM Treasury

Treasury Minutes

Government responses on the Thirty Fourth to the Thirty Sixth; the Thirty Eighth; and the Fortieth to the Forty Second reports from the Committee of Public Accounts: Session 2015-16



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Government responses on the Thirty Fourth to the Thirty Sixth; the Thirty Eighth; and the Fortieth to the Forty Second reports from the Committee of Public Accounts Session 2015-16

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

TREASURY MINUTES DATED 21 JULY 2016 ON THE THIRTY FOURTH TO THE THIRTY SIXTH; THE THIRTY EIGHTH; AND THE FORTIETH TO THE FORTY SECOND REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2015-16

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Print ISBN 9781474136495

Web ISBN 9781474136501

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

ID 13071601 07/16

Printed on paper containing 75% recycled fibre content minimum

Thirty Fourth Report of Session 2015-16

HM Revenue & Customs

Tackling tax fraud

Introduction from the Committee

HM Revenue & Customs (HMRC) is responsible for administering the tax system, including the management and reduction of risks to tax revenue. HMRC measures the tax gap and assesses what behaviour led to that gap. Three types of behaviour that illegally deprive the Exchequer of tax revenue are referred to as tax fraud: evasion—when registered individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities; the hidden economy—which involves people whose entire income is unknown to HMRC ('ghosts') and those for whom HMRC knows of some sources of income but not others ('moonlighters'); and criminal attacks—which typically involve coordinated and systematic actions by criminal gangs, with varying levels of sophistication and organisation. Tax fraud results in losses of some £16 billion a year, almost half of the tax gap of £34 billion. The other parts of the tax gap do not involve the law being broken, for example, tax avoidance and genuine errors made by taxpayers when completing a tax return.

On the basis of a report by the National Audit Office, the Committee took evidence, on 13 January 2016, from HM Revenue & Customs on its approach to tackling tax fraud. The Committee published its report on 15 April 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks – Session 2015-16 (HC 610)
- PAC report: Tackling tax fraud – Session 2015-16 (HC 674)

1: Committee of Public Accounts conclusion:

The Committee cannot judge how effective HMRC is at reducing the tax gap because the way it reports its performance is too confusing.

Recommendation:

HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap. It should also publish this information in a way that is accessible for everyone to understand.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: August 2016.

1.2 The Department will publish information about the relationship between receipts, compliance yield and changes in the tax gap in its Annual Report and Accounts in the summer. This is a highly complex area and there are few simple connections between these three measures. The Department recognises that it should explain the relationships between these areas in the clearest possible way and will continue to look at how it can make them more accessible and understandable.

2: Committee of Public Accounts conclusion:

HMRC has not set out a clear strategy for tackling tax fraud

Recommendation:

HMRC should set out its strategy to tackle fraud by November 2016. It should identify how much resource is devoted to tackling different tax risks and the corresponding yield in each area of the tax gap.

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

2.2 The Department already has a highly effective compliance strategy. Promote Prevent Respond: promoting good compliance by designing it into systems and processes; preventing non-compliance at or near the time of filing and responding to non-compliance. The Department constantly looks for ways to improve compliance and tackling non-compliance, such as: investing in digital technology; taking action against people who hide assets in the UK or offshore to evade tax and those who support them; and, taking steps to reduce the illicit trading.

2.3 The Department focuses on tackling risks across customer segments with each presenting different risks and demanding different approaches. Around 22,000 staff work in its enforcement and compliance overall - including over 4,000 people in its Fraud Investigation Service, leading the response to the most serious forms of tax fraud and organised crime.

2.4 Maximising revenue and bearing down on avoidance and evasion is one of the Department's primary objectives. Over recent years it has consistently increased both revenue and the amount it recovers through compliance activity; driving down the Tax Gap to 6.4% of liabilities. The Department continually assesses the wide ranging, complex and changing nature of the risks; adjusting its response and resource deployment accordingly.

3: Committee of Public Accounts conclusion:

The perception that HMRC does not tackle tax fraud by the wealthy needs to be addressed.

Recommendation:

HMRC must do more to tackle tax fraud and counter the belief that people are getting away with tax evasion. It needs to increase the number of investigations and prosecutions, including wealthy tax evaders, and publicise this work to deter others from evading tax and to send out a message that those who try will not get away with it.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: February 2017.

3.2 The Department is exploring how it can better publicise both its criminal and civil investigation outcomes and increase the impact of the range of civil and criminal sanctions it uses. This work will be completed by winter 2016-17.

3.3 The Department uses its wide range of compliance activities to tackle serious tax frauds including the ability to levy highly punitive civil penalties and civil fraud investigation procedures. Criminal investigations can be lengthy, expensive and uncertain and so are reserved for a small, but important, number of cases to send a strong deterrent message. In 2014-15 1,288 people were charged by UK's prosecuting authorities as the result of the Department's criminal investigations. This protected more than £2 billion in revenue from being lost to criminal activity. Over 40% of convictions were of people engaged in evading more than £50,000 – almost twice the UK median salary.

3.4 As part of the Summer Budget 2015, the Department will go further and triple its criminal investigations into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, including cases with offshore evasion risks; adjusting its resource accordingly.

4: Committee of Public Accounts conclusion:

HMRC does not know what meeting its target of 1,000 additional prosecutions has achieved.

Recommendations:

HMRC should assess what is the optimum number and mix of people to prosecute and should evaluate and quantify the impact of prosecutions and other counter-measures in deterring evasion. It should work with others to model the impact of different approaches, and then review its prosecutions strategy using this data.

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

4.2 The Department agrees that it is important to understand the effectiveness of its prosecutions in deterring tax evasion and continues working to improve this understanding. It does not agree it should establish an optimal number of prosecutions. Evaluation of SR10 has shown that isolating and quantifying

the specific impact of a prosecution is complicated by the variable impact of prosecutions according to risk, population and context and because they are one element of a wider package of preventative measures designed to deter evasion.

4.3 The Department has a robust programme to build its understanding of the deterrent effects of their activities. Research, which it has shared publicly, demonstrates the deterrent impact arising from the Department's compliance, prosecutions and publicity campaigns. The Department will continue to build this evidence base, with internal evaluation and assessment, as well as its work with academics and other experts in the field. The Department also shares best practice with other tax authorities to improve the effectiveness of different approaches and prosecution strategies.

5: Committee of Public Accounts conclusion:

HMRC has been slow to respond to the growing risk of VAT fraud by internet traders.

Recommendation:

HMRC should review the Committee's previous findings on VAT fraud, and identify the size of VAT internet fraud and update the Committee on how effective the measures introduced in the Budget have been to address this. HMRC should update the Committee within the next 12 months.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

5.2 At Budget 2016, The Department published its estimate that online fraud in goods from overseas businesses now accounts for £1-1.5 billion of the total VAT Gap. The Government also announced new legislative measures to help it tackle this fraud; strengthened rules for VAT representatives and overseas businesses; a new provision making online marketplaces jointly and severally liable for unpaid VAT from overseas businesses; a new Due Diligence Scheme for Fulfilment Houses; and continued work with international partners to develop solutions to this problem, that affects all major economies.

5.3 The new rules for VAT representatives and online marketplaces come into legal effect from Royal Assent of the Finance Bill 2016. The consultation on the design of the new Fulfilment House Due Diligence Scheme closed on 30 June 2016 and the scheme will come into effect in 2018. The Department will update the Committee by March 2017.

Thirty Fifth Report of Session 2015-16

Department for International Development

Department for International Development: responding to crises

Introduction from the Committee

Over recent years, the number and severity of crises that have humanitarian consequences have been increasing. Crises threaten the health, safety, security, wellbeing and livelihoods of people and impede the progress of developing countries. Some crises occur suddenly, such as natural disasters; others develop over time and become protracted. The Department leads the UK Government's response to humanitarian crises, often working with other government departments. In 2014–15, the Department spent almost £1.3 billion on humanitarian assistance, representing 14% of its overall budget (compared to 6% in 2010–11). The Department provides most of its crisis response by funding UN agencies and other multilateral organisations, non-governmental organisations and contractors. These first-tier partners often deliver assistance through engagement with their own partners.

On the basis of a report by the National Audit Office, the Committee took evidence, on 10 February 2016, from the Department for International Development on responding to crisis. The Committee published its report on 20 April 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: Responding to crises – Session 2015-16 (HC 612)
- PAC report: Department for International Development: responding to crises – Session 2015-16 (HC 728)

1: Committee of Public Accounts conclusion:

The Department, its staff and many of its partners are doing a good job of intervening across an increasing number and range of crises. The Department does not have a full and clear understanding of what constitutes success across its crisis interventions.

Recommendation:

The Department should extend its approach to reviewing performance across its portfolio of sudden onset crises to include longer running and more complex crises. It should use the resulting information to aid its decision-making and to provide assurance to Parliament on its performance.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

1.2 The UK has been at the forefront of international efforts to respond to complex crises like Ebola and ongoing protracted conflicts in the Middle East and Africa. The bulk of the UK's humanitarian assistance is spent responding to protracted crises. The Department completed a Bilateral Aid Review (BAR) in 2015-16 which assessed the shape of its geographical footprint, looking at where the Department currently operates, what role it should play and how. The BAR has helped to ensure that the Government's ambition set out in the UK Aid Strategy¹, which set strengthening resilience and response to crises as one of four strategic objectives for Official Development Assistance (ODA) and confirmed that the UK will spend at least 50% of ODA in fragile and conflict affected states and regions is translated into action by the Department's country and policy teams.

1.3 At the World Humanitarian Summit in May 2016, the Government was able to demonstrate UK leadership in addressing global crises. This included securing a new approach to protracted crises, including situations of long-term displacement of large numbers of people. The UK effectively built on the important legacy from the successful Supporting Syria and the Region Conference in February 2016, scaling up the approach that the UK pioneered in the Syria region as a global model for protracted crisis and displacement – going beyond people's basic needs and investing in education, jobs and livelihoods.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478834/ODA_strategy_final_web_0905.pdf

1.4 The Department will continue to focus on the challenges of protracted crises and forced displacement, adapt its approach to deliver better outcomes not only to meet immediate needs, but also to reduce vulnerability, support people to re-establish livelihoods and invest in the future. The Department will also work with international partners to focus on implementation and follow up from the World Humanitarian Summit, including in the run up to the Obama Summit on Global Refugees in September 2016.

2: Committee of Public Accounts conclusion:

The Department plans to increase its capability to respond to crises but has yet to identify the most cost-effective mix of civil servants and contractor staff.

Recommendation:

Before re-letting its contract in 2017 for humanitarian support, the Department should assess the most cost-effective way of securing the specialist capability it needs to respond to crises and ensure that it is only contracting for those skills which are not already available in-house.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

2.2 The UK already has a world-class humanitarian response capability, delivering support when needed. The Department continues to ensure this capability, provided by both civil servants and contracted expertise, is fit for purpose and improves based on experience and evidence. Moving forward, in line with our manifesto commitment to continue to lead the response to humanitarian emergencies, UK humanitarian response teams will be able to deploy more quickly, responding to more humanitarian emergencies, while harnessing a wider range of expertise.

2.3 The Department uses a range of mechanisms to ensure it has appropriate skills, expertise and capability to respond to global humanitarian emergencies. The Department is aiming to improve the speed and flexibility of resourcing systems to respond to emergencies. It is also increasing the number of its humanitarian advisors, planning for a 30% increase on numbers at the start of 2016. This uplift will likely have an impact on requirements for contracted services.

2.4 The Department is aiming to improve access to wider Government resources to build resilience and respond to emergencies. The Department and the Ministry of Defence have a memorandum of understanding for the use of military assets in humanitarian response, and this is being further operationalised through a fast track mechanism, which was announced in the Strategic Defence and Security Review. The Department is collaborating with the Department of Health and the National Health Service to scale-up the UK's International Emergency Medical Teams and Public Health England's Rapid Response Team. These will substantially increase capacity to respond to major health emergencies as well as expanding the range of specialisms capable of being deployed.

3: Committee of Public Accounts conclusion:

The Department does not have a good understanding of the impact on its wider business when it moves staff and resources from planned activities to support a major response to a crisis.

Recommendation:

The Department should assess the impact its response to the Ebola outbreak had on the progress and results of programmes run by teams that released staff and funding to enable the response.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: December 2016.

3.2 Since the Ebola crisis response the Department has identified ways to improve its systems and capacity to respond to crises. It has established a £500 million ODA Crisis Reserve ensuring it is able to respond, at scale, to new emergencies and restructured the Department to ensure Director-level oversight of crisis response work.

3.3 The Department has conducted a review of its operating model considering possible effects on programming brought about by the response to Ebola. The Department will discuss its approach to this recommendation with the NAO and undertake a proportionate assessment to determine potential impact its response to the Ebola crisis had on other programmes and results.

4: Committee of Public Accounts conclusion:

For some complex crises, the Department's support systems have hindered its establishment of a fully operational local presence.

Recommendations:

Within the next 6 months, the Department must develop its systems so that it can quickly deploy staff, and provide them with the support and equipment they need to work effectively in complex crises.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: October 2016.

4.2 The Department has already used its staffing flexibly to respond to new priorities – including recent events such as the migration crisis in the Mediterranean, and the impact of El Nino in Africa. The Department also has systems in place to deploy staff and necessary support structures rapidly in response to global emergencies; this includes a life support module which can support an initial humanitarian response team for the first month of response.

4.3 The Department, in response to an increased business need to deploy staff to locations where it has no presence, has been working with its regions to provide short, clear and simple guidance on decisions, deployment options, roles and responsibilities and timescales and a less time and resource intensive process for arranging future deployments. The Department has considered the issue of surge staff and rapid deployment as part of its workforce planning. Mechanisms have been put in place to share better information on resourcing across the organisation between its human resources department, professional networks and directorates. Work is underway to create a decentralised crisis network that can be drawn on to respond to the initial stages of a complex crisis, enabling directorates to manage flexibility in staffing.

4.4 The UK Aid Strategy and the 2015 Spending Review committed to create the ODA Crisis Reserve to support resilience and crisis response and allow still greater flexibility to respond to emerging crises. The ODA Crisis Reserve, managed by the Department in co-ordination with the Treasury, will make resources more readily available and help support the quick deployment of staff and equipment. Alongside this, the Department has improved skills for working in crises, including developing a new approach to strengthening resilience in individuals and teams.

5: Committee of Public Accounts conclusion:

The value for money for the UK taxpayer of the Department's funding of UN agencies is undermined by the overlapping remits of the agencies and inflexibility in their systems.

Recommendation:

The Department should, by the end of August 2016, report back to us on the impact it has had at the World Humanitarian Summit in bringing about improvements against its 3 priority areas for improvement.

5.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

5.2 The World Humanitarian Summit took place from 23-24 May 2016 in Istanbul. It was the first global summit on humanitarian issues and was truly global, bringing together participants from governments, the private sector, civil society and non-governmental organisations. Leaders welcomed the United Nations (UN) Secretary General's Agenda for Humanity as well as his five priority areas: global leadership to prevent and end conflicts; upholding the norms that safeguard humanity; leaving no one behind, moving from delivering aid to ending need; and investing in humanity.

5.3 The UK led the way to secure agreement to a 'Grand Bargain' on more efficient humanitarian financing. This will change the way donors and agencies do business and included commitments to:

- improve joint and impartial needs assessments, as well as more systematic use of shared analysis and planning;
- enhance transparency of data;

- harmonise and simplify reporting requirements;
- increase multi-year, collaborative and flexible planning and multiyear funding instruments;
- increase the use of cash-based approaches in crisis situations;
- increase support and funding tools for local and national responders, including adopting common standards to put affected people at the centre of the response;
- reduce duplication and management costs with periodic functional reviews;
- reduce the earmarking of donor contributions; and
- enhance engagement between humanitarian and development actors.

5.4 The UK, alongside other partners, will continue to drive this reform agenda in the months and years ahead, including establishing a monitoring mechanism to track progress against the ‘Grand Bargain’ commitments. The monitoring mechanism is expected to be launched in autumn 2016.

5.5 The World Humanitarian Summit has set the humanitarian agenda until 2030 and will serve as the framework to guide reform. However due to the nature of the Summit – non-intergovernmental, multi-stakeholder – the Department will need to look to forthcoming events, particularly the UN General Assembly, to further gain consensus on this new approach and hold participants to their commitments to embed change, particularly the UN, in crisis-affected countries. The UN Secretary General will report on his proposed approach for taking commitments forward and the Government anticipates that a UN resolution will be proposed.

6: Committee of Public Accounts conclusion:

For many of its crisis interventions, the Department does not have a full understanding of how much of the taxpayer’s pound is spent by which bodies and on what.

Recommendation:

As a matter of routine, the Department should identify all the bodies involved in providing assistance, the funding each receives and the main costs incurred. It should use this information to help manage risk and identify cost-effective partners and practices.

6.1 The Government accepts the Committee’s recommendation.

Target implementation date: December 2017.

6.2 The Department welcomes the Committee’s recognition of the importance the Department attaches to managing risk and identifying the most cost effective partners and practices for responding to crises. In line with this, the Department has already commissioned a financial review of four key UN agencies (the UN High Commissioner for Refugees, UNICEF, the World Food Programme and UN Office for the Coordination of Humanitarian Affairs). This review will build on the outcome of the Department’s Multilateral Aid Review and aims to include recommendations around cost effective partnerships and practices based on information from the agencies and specific in country examples. The inception report for this review was finalised in June 2016 and the Department is expecting to receive the final report in July 2016.

6.3 This recommendation is also in line with commitments made by the UK and other donors, UN agencies and Red Cross agencies (the latter two referred to as ‘aid organisations’ in the following) as part of the ‘Grand Bargain’ at the World Humanitarian Summit in May 2016. Three sets of commitments are particularly relevant:

- ‘Financial Transparency’ - commitments to publish timely, transparent, harmonised and open high-quality data on humanitarian funding within two years of the World Humanitarian Summit in Istanbul;
- ‘Reduce Management Costs’ - commitment that aid organisations will provide transparent and comparable cost structures by December 2017 and reduce costs through shared procurement of commonly required goods and services; and
- ‘Front-line Responders’ - increased proportion of humanitarian funding going to local and national responders as directly as possible to improve outcomes for affected people, and reduce transactional costs.

Thirty Sixth Report of Session 2015-16

Cabinet Office

Use of Consultants and Temporary Staff

Introduction from the Committee

The main 17 Government departments and their agencies paid permanent staff salaries totalling £17 billion in 2014–15. Departments also spent between £1.0 billion and £1.3 billion on consultants and temporary staff, who are paid as independent suppliers rather than as employees. They can fulfil anything from highly specialist roles through to providing cover during peaks in demand for less skilled work, and the approach to managing these resources needs to be tailored accordingly. Both consultants and temporary staff are sometimes used to fill gaps in the skills of the civil service.

In 2010, as part of its plan to reduce the deficit, the Government introduced a more coordinated approach to the procurement of common goods and services, including for consultants and temporary staff. A series of cross-government contractual agreements (frameworks) are managed by the Crown Commercial Service, an agency of the Cabinet Office. The Government also introduced new spending controls which required departments to obtain ministerial approval before appointing external resources, and to inform the Cabinet Office before appointing consultants for more than 9 months.

On the basis of a report by the National Audit Office, the Committee took evidence, on 1 February 2016, from the Cabinet Office, Home Office and Department for the Environment and Rural Affairs about the use of consultants and temporary staff within the Civil Service. The Committee published its report on 22 April 2016. This is the Government response to the Committee's report.

Background resources

- NAO Report: Use of consultants and temporary staff – Session 2015-16 (HC 603)
- PAC Report: Use of consultants and temporary staff – Session 2015-16 (HC 726)

1: Committee of Public Accounts conclusion:

Departments have not made progress with their workforce planning which means they do not know their future resource needs and will have to resort more often to using consultants and temporary staff.

Recommendation:

The Cabinet Office needs to set out clearly how it will define success in developing key skills across government. By January 2017 it should have in place realistic targets for the skills it expects to be held within specialist functions and the senior civil service by the end of this Parliament.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2017.

1.2 The Government believes the most effective method of developing key skills is through cross-departmental functions. 10 core functions have been identified as key to transforming and increasing the performance of the Civil Service over the next 5 years.

1.3 The Commercial function has developed cross-government career competencies and standards that apply to each role-level (including the Senior Civil Service), and will continue further work to identify targets at each level. The Project Delivery function will shortly launch a set of core job roles and a career ladder focused on specialist and leadership roles, which will form the basis of workforce and capability tracking across government. Similar work is underway on digital skills and capability.

1.4 The Cabinet Office recognises that further work is needed to develop capability plans in each function, including putting targets and more robust measures in place. Work to build skills of the senior civil service is also underway and the first stage of a Leadership Academy will be in place by March 2017. One major strand of the Academy will be dedicated to key professional skills.

2: Committee of Public Accounts conclusion:

Departments have not made progress with their workforce planning which means they do not know their future resource needs and will have to resort more often to using consultants and temporary staff.

Recommendation:

By December 2016, all Departments should produce a strategic workforce plan that covers their entire group for the next five years, identifying expected 'skills gaps' and other resource needs and how they will be filled (including by consultants and temporary staff). The Cabinet Office should provide the Committee with an update, naming those Departments still lagging behind, in March 2017.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

2.2 The Cabinet Office will ask each department to produce a strategic workforce plan that covers the civil servants in their entire group.

2.3 The workforce strategy for the Civil Service sets out how the Cabinet Office will develop a highly capable, skilled and engaged workforce, whilst at the same time becoming smaller and highly adaptable. The strategy also extends to the functions, ensuring that the key skills of commercial, digital, project delivery and finance are built into the wider workforce, and to leadership capability at all levels in the Civil Service.

2.4 To underpin the workforce strategy the Cabinet Office is continuing to build strategic workforce planning capability across the Civil Service to better identify and manage workforce supply and demand. The Strategic Workforce Planning Expert Service is working with departments to develop internal and external insight to understand key workforce risks, workforce trends and labour market conditions.

2.5 The Expert Service will work with departments to develop overarching strategic workforce plans that take into account the insight as described above, coupled with work underway to understand the workforce implications of Single Departmental Plans. This will enable departments to understand where they are likely to have skills gaps in the future and implement plans to address them effectively. Those plans may include the use of consultants and temporary staff to provide specialist skills or to meet short term requirements necessary to deliver business objectives.

3: Committee of Public Accounts conclusion:

The numbers of temporary staff employed by departments has been growing since 2011–12 and specialist temporary staff often cost twice as much as permanent staff.

Recommendation:

By autumn 2016, all departments should have established regular reviews of the need for temporary staff across their whole group, the time in post and the progress made in filling more of these posts with permanent staff. The Cabinet Office should cover this issue in its update to us in March 2017.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

3.2 The Cabinet Office will ask all departments to establish reviews across their group of organisations with civil servants. The Cabinet Office is working with departments to build better, more comprehensive and sophisticated strategic workforce plans. Part of this process will be to review various aspects of the data periodically so that progress can be monitored, and informed decisions can be taken going forward. The Civil Service is seeking to reduce its reliance on contingent labour but there may be some cases where this is the most appropriate and cost effective way of delivering objectives.

3.3 To improve monitoring, and ensure usage is appropriate, the Cabinet Office are conducting an exercise into contingent labour HR data so that we know what the current position is, understand where

data is less robust and the governance arrangements in place operating within departments to ensure appropriate usage.

4: Committee of Public Accounts conclusion:

The Committee is not convinced that Departments are doing all they can to ensure that temporary staff pay the right tax.

Recommendation:

HM Treasury should re-evaluate its guidelines to departments in the light of Budget 2016. It should also require that departments immediately review whether their off-payroll staff should be on PAYE and, after April 2017 that departments review the calculation of tax for a sample of any temporary staff who continue to be contracted as a company.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2017.

4.2 The Treasury will consider whether its guidelines need amending following the Budget 2016 announcement of proposed reform in the public sector of the tax legislation on off-payroll limited company workers. HM Revenue and Customs published a consultation on these changes on 6 May 2016. Following this, the Treasury will consider whether changes to the guidelines are necessary. The existing guidance will continue to require departments to review whether off-payroll staff should be on PAYE. After April 2017, the new tax rules announced at Budget 2016 will apply.

5: Committee of Public Accounts conclusion:

Departments use central procurement agreements for only half of consultancy and temporary staff assignments, reducing government's ability to get the best deals.

Recommendation:

From April 2016, all departments should use Crown Commercial Service agreements as their default option for appointing consultants and temporary staff, except in rare instances where, for example, particularly specialist skills are required and for which the business case provides a clear justification for use of other procurement routes.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: Winter 2017-18.

5.2 The Cabinet Office controls process seeks to ensure that all departments obtain value for money in their consultancy and contingent labour procurements. Where Crown Commercial Service (CCS) agreements are appropriate for use and offer the best value for money, they should normally be chosen as the procurement route. In some circumstances, for example where very specialist skills are required, there may nonetheless be a strong case for departments to use other procurement routes. Cabinet Office is working to strengthen the current controls process for consultancy and contingent labour.

5.3 CCS is putting in place new commercial solutions for the contracting of consultancy and contingent labour, to improve the buying experience for departments, be fit for purpose, ensure specialist skills can be procured, and to cover consultancy requirements above the current £2 million limit. These new arrangements should continue to be the preferred contracting route for departments for appointing consultancy and temporary staff across Government, and their broader span will ensure that departments need only go outside of them in rare circumstances. Target dates for implementation of the new models are Summer 2017 (Consultancy) and Winter 2017-18 (Contingent Labour).

6: Committee of Public Accounts conclusion:

The current procurement agreements for consultancy benefit large firms, and across all contracts there is minimal use of small and medium-sized enterprises (SMEs).

Recommendation:

The Cabinet Office's Crown Commercial Service should set out how it will design wider SME participation into its new framework agreements, and specify a clear timescale with interim targets for the proportion of all government spending in these areas.

6.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

6.2 CCS has an overall target that 35% of all departmental spend (direct and indirect) through its deals will go to SMEs by 2020; progress against the target is reported monthly to a Board chaired by the CEO.

6.3 The new procurement vehicles currently being developed for temporary labour and consultancy will be much more attractive to SMEs. The approach involves:

- simplified documentation and processes that are more accessible to SMEs
- additional advice for SMEs to help them compete
- pre-tender engagement between customers and the market
- fit for purpose Terms and Conditions, drawn up with SMEs in mind, for example, reducing the length of documentation and reducing the limits of liability
- facilitating the use of alternative pricing models and support around these, for example fixed prices, time and materials and contingent models
- disaggregating large contracts
- educating buyers and showcasing skills and capability.

6.4 The targets for SME engagement in temporary labour and consultancy have recently been reviewed to ensure that SME participation is maximised while also delivering required quality and service and best value for money. The new targets² are realistic and achievable, include both direct and indirect SME engagement and take account of new forecasts of spend coming through CCS frameworks.

² <http://ccs-agreements.cabinetoffice.gov.uk/category-information-and-updates/professional-services>.

Thirty Eighth Report of Session 2015–16

The Department for Communities and Local Government

Extending the Right to Buy to housing association tenants

Introduction from the Committee

The Department for Communities and Local Government has announced its intention to:

- give 1.3 million tenants of housing associations—through voluntary agreement with the housing association sector—the opportunity to buy their home at Right to Buy levels of discount;
- finance this policy through the sale of high-value council homes as these fall vacant, with the funding to be obtained from local authorities through an annual payment; and
- ensure a new home is provided for each one sold by housing associations on at least a one-for-one basis, as well as ensuring additional homes are provided for those sold by local authorities, with at least two additional affordable homes provided for each one sold in London.

Provisions in the Housing and Planning Bill 2015–16 (the Bill) will enable the voluntary agreement to be implemented.

Background resources

- NAO Memorandum: *Extending the Right to Buy* - March 2016.
- CLG Report: *Housing associations and the Right to Buy* - Session 2015-16 (HC 370)
- PAC Report: *Extending the Right to Buy to housing association tenants* - Session 2015-16 (HC 880)

1: Committee of Public Accounts conclusion:

The Department has presented Parliament with little information on the potential impacts of the legislation required to implement this policy.

Recommendation 1a:

The Department should publish a full impact assessment containing analysis in line with the guidance on policy appraisal in HM Treasury's Green Book, to accompany the proposed secondary legislation, setting out the impact of this policy on Housing Benefit and Universal Credit.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: Winter 2016-17.

1.2 The Department is ensuring that decision-making at every stage is informed by sound analysis and assessment of value for money. This is a continuing process, as more information becomes available, and as policy decisions are made.

1.3 The Government's manifesto set out a commitment to extend Right to Buy discounts to housing association tenants, funded through the sale of higher value council homes. The National Housing Federation came forward with an offer, on behalf of the housing association sector, to extend the Right to Buy on a voluntary basis: 'the Voluntary Right to Buy Agreement'. As a result, it was not necessary for the Government to take through primary legislation setting out a statutory framework for the extension of the Right to Buy to housing associations.

1.4 The clauses in the Housing and Planning Act 2016 give the Government a power to pay grant to housing associations to recompense them for discounts in relation to sales to tenants. They do not set out a detailed policy framework. The detail of how the Voluntary Right to Buy Agreement will be implemented is being developed in partnership with the housing association sector, including through a pilot with five housing associations.

1.5 A number of the detailed policy decisions underpinning both the higher value asset and Right to Buy policies were still under consideration by Ministers at the point at which the Bill was published. The Government was therefore not in a position to publish a full impact assessment for these policies at the time of the Housing and Planning Bill's introduction.

1.6 The Department considered carefully, in consultation with other Government departments and the Better Regulation Executive, the approach it should take to these policies at the time of the Bill's publication. A regulatory impact assessment was not required, as the extension of the Right to Buy was voluntary, and the sale of local authority higher value local authority assets only affects the public sector. Regulatory impact assessments are required only when there are regulatory impacts on business.

1.7 The Housing and Planning Act 2016 has now received Royal Assent. The Act provides powers for Government to make secondary legislation to define 'higher value' homes and to set out any exclusions from that definition. It also enables Government, following consultation, to issue a determination specifying the amount that local authorities must pay in respect of their higher value vacant housing.

1.8 The Department agrees that further assessment of the impact of both policies will be published, alongside this secondary legislation on higher value assets. The regulations defining higher value will be subject to affirmative procedure, which will give Parliament further opportunity to scrutinise the detail of the policy.

Recommendation 1b:

1b The Department should publish a full impact assessment containing analysis in line with the guidance on policy appraisal in HM Treasury's Green Book, to accompany the proposed secondary legislation, setting out how these vary geographically, and the financial transfers between local authority areas, showing net flows of money between local authorities making payments, and areas where the funding is financing the construction of new homes.

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

1.10 The impact assessment will be Green Book compliant, and it will take account of the distribution of higher value vacant housing sales and voluntary Right to Buy sales.

1.11 The amount that local authorities will be required to pay central Government, in respect of their higher value vacant housing, will be set out in the determinations which will be informed by the secondary legislation. The areas where the funding is financing the construction of new homes will be shown in the data that the Department will publish on the additional homes provided through the voluntary Right to Buy and the sale of higher value vacant housing.

2: Committee of Public Accounts conclusions:

It is not clear how this policy will be funded in practice, or what its financial impacts might be.

Recommendation:

The Department should, by the time of the Autumn Statement in 2016, publish a full analysis showing how this policy is to be funded, provide a clear statement of where financial and other risks lie, and spell out its contingency plan if its policies prove not to be fiscally neutral.

2.1 The Government accepts the Committee's recommendation.

2.2 We will publish our analysis of the costs and financial impacts in the normal way, at the time of the full commencement of the policy. In addition, the payments that local authorities will be required to make to central Government will be set out in the determinations which will be informed by the secondary legislation.

2.3 The Government notes the committee's comments and is committed to robust and proportionate risk management and contingency planning across all programmes. The voluntary agreement between the Government and the National Housing Federation will enable Government to manage demand in line with the available funding. The agreement states "we anticipate the Government would put in place

arrangements to manage the financial costs of the policy to ensure that the cost of sales does not exceed the value of receipts received from the sale of high value council assets. This could include, for example, introducing an annual cap on the costs of Right to Buy discounts". Further clarification will be provided when the scheme is implemented.

3: Committee of Public Accounts conclusion:

The commitment to replace homes sold under this policy on at least a one-for-one basis will not ensure that these will be like-for-like replacements as regards size, location or tenure.

Recommendations:

The Department should publish data on where replacement homes are built, what size and type of tenure they are, and when they are completed (not merely started) for: housing association homes sold under the extended Right to Buy.

The Department should publish data on where replacement homes are built, what size and type of tenure they are, and when they are completed (not merely started) for: higher-value council homes sold to finance the extended Right to Buy.

The Department should publish data on where replacement homes are built, what size and type of tenure they are, and when they are completed (not merely started) for: homes sold under the reinvigorated Right to Buy.

3.1 The Government accepts the Committee's recommendations.

Target implementation date: Winter 2017 for the reinvigorated Right to Buy. Data for the extended Right to Buy and higher value vacant housing would be published after the first sales have taken place

3.2 As part of the reinvigoration of the Right to Buy in 2012, the Government made a commitment that, for every additional home sold, a new affordable home would be provided nationally. As the report notes, the Government has been clear since 2012 that the commitment is not to like-for-like replacement. Under the agreements they have signed to retain the Right to Buy receipts, it is for local authorities to determine the size of the replacement rented property, based on local need.

3.3 The Department publishes quarterly data for the reinvigorated Right to Buy, which shows sales, receipts and additional starts provided through Right to Buy receipts by each stock holding local authority.³ Completions of properties funded through Right to Buy receipts are published as part of the Local Authority Housing Statistics.⁴ Consideration will be given to any changes that may be needed to the data currently collected.

3.4 The commitment made in the voluntary agreement is that housing associations at a national level will provide one new home for each home sold, and housing associations will have flexibility over the tenure of the replacement. In relation to the use of higher value asset receipts, the Department also wants to ensure that there is flexibility to respond to local housing need. The Department is discussing with housing associations and councils what data will be collected in relation to the monitoring of the additional homes provided through the voluntary Right to Buy and the sale of higher value vacant housing.

4: Committee of Public Accounts conclusion:

Increases in the value of discounts available under Right to Buy have increased the risk of abuse.

Recommendation:

The Department should write to the Committee within six months providing estimates of the amounts of public money lost through fraud and other sharp practice since 2012 under the reinvigorated Right to Buy, and the amounts at risk under the new policy of extending the Right to Buy; providing an assessment of the capacity of, and costs on, local authorities and housing associations to vet all Right to Buy applicants effectively; and setting out its plans for tackling fraud and abuse to protect public money.

³ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales>

⁴ <https://www.gov.uk/government/statistical-data-sets/local-authority-housing-statistics-data-returns-for-2014-to-2015>

4.1 The Government accepts the Committee's recommendation.

Target implementation date: Winter 2016-17.

4.2 The Government takes fraud seriously; subletting council housing is illegal and legislation ensures anyone found guilty could face fines or custodial sentences. The Prevention of Social Housing Fraud Act, which came into force on 15 October 2013, increases the deterrent to tenants considering cheating the system, allows those who do cheat to be detected more easily and punished more severely, and encourages social landlords to take a more proactive approach to tackling tenancy fraud. The Government has also provided £19 million to help councils tackle the problem.

4.3 Local authorities prosecute those tenants that exploit the Right to Buy scheme locally, and the measures that are already in place are designed to catch those that are exploiting the system. It is made clear to applicants that providing false or misleading information may be regarded as a criminal offence, and result in court action and recovery of the property. There are also clear rules around 'deferred resale', where tenants and companies enter into an agreement which results in the property being ceded to the company in return for a loan to purchase. Even if the transfer takes place after a number of years, the discount has to be repaid from the date of the agreement, making the practice less attractive, and tenants are required to declare any such arrangement at the outset.

4.4 Under the reinvigorated scheme, local authorities can keep a portion of the sales receipt to cover their transaction costs, which can include fraud prevention measures.

4.5 As the Department develops the main voluntary Right to Buy scheme in collaboration with the housing association sector, it is consciously taking steps to ensure that as far as possible fraud prevention measures are designed into the sales process. Fraud is a key issue being considered by the joint working group on the applications and sales process, and different approaches to preventing fraud are being trialled under the pilot. Sheffield Hallam University are also undertaking research into the pilot, and the findings from that study will be fed into the working group.

4.6 To help to further tackle the issues around fraud and sharp practices, the Department has set up a new working group with social landlords, lenders and key partners to help determine how common these practices are. The objectives of the group are to:

- Understand what existing fraud and sharp practices occur, the scale of this activity, how and when it is noticed, and who by;
- Understand what is currently done by local authorities and others, and to share best practice;
- Consider how this will translate into the voluntary Right to Buy, and other potential fraudulent or sharp practices that could occur;
- Identify any additional safeguards that can be put into place and provide guidance to the sector.

4.7 The Department will write to the Committee with the findings of the working group and its plans to further reduce fraud.

Fortieth Report of Session 2015-16

Department of Health

Managing the supply of NHS clinical staff in England

Introduction from the Committee

The NHS employs around 824,000 clinical staff, including doctors, nurses, midwives and allied health professionals, such as physiotherapists. Clinical staff cost around £43 billion each year to employ and account for around half of NHS providers' costs.

The Department of Health (the Department) is ultimately accountable for securing value for money from spending on health services, including on training and employing clinical staff. Health Education England is responsible for providing leadership and oversight of workforce planning. It develops national and regional plans and commissions the training of new clinical staff. It spent £4.3 billion on training places in 2014–15 and 140,000 students are in clinical training at any one time. Healthcare providers, including NHS trusts and NHS foundation trusts, are responsible for employing staff and supporting clinical placements. Trusts are overseen by NHS Improvement, which brings together the NHS Trust Development Authority and Monitor.

On the basis of a report by the National Audit Office, the Committee took evidence, on 23 February 2016, from the Department of Health, Health Education England, NHS Improvement (the new body which brings together Monitor and the NHS Trust Development Authority) and NHS England. The Committee published its report on 11 May 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: *Managing the supply of NHS clinical staff in England* - Session 2015-16 (HC 736)
- PAC report: *Managing the supply of NHS clinical staff in England* - Session 2015-16 (HC 731)

1: Committee of Public Accounts conclusion:

National bodies have set trusts unrealistic efficiency targets. This has caused the development of overly optimistic and aggressive staffing profiles which have subsequently led to staffing shortfalls. These have had to be met by increased use of agency staff.

Recommendation:

The Department, NHS Improvement and Health Education England should provide greater national leadership and co-ordinated support to help trusts reconcile financial, workforce and quality expectations. They should report back to the Committee in December 2016 summarising what actions they have identified and implemented.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: December 2016.

1.2 As a result of the *NHS Shared Planning Guidance*⁵ published by the leading health and care bodies in December 2015, neighbouring health and care services have come together under 44 defined footprints to develop Sustainability and Transformation Plans to transform the way that care is delivered and to narrow the gaps (health and wellbeing, care and quality, and finance and efficiency) outlined in the *NHS Five Year Forward View*⁶. The guidance sets out that the best plans will create coherence across different elements including workforce and finance for the period up to March 2021. Specifically, the 44 areas were asked to complete an integrated finance, activity and workforce template as a mechanism for ensuring that workforce and affordability are aligned, and underpinned by deliverable efficiency targets, which takes into account the particular challenges facing the provider sector this year.

1.3 In order that the broad range of workforce issues relating to the delivery of Sustainability and Transformation Plans are discussed by the right people, Health Education England will establish Local Workforce Action Boards.

⁵ <https://www.england.nhs.uk/ourwork/futurenhs/deliver-forward-view/>

⁶ <https://www.england.nhs.uk/ourwork/futurenhs/>

1.4 The leading health and care bodies will work together across the four regional areas to oversee the shared delivery of the Five Year Forward View through Sustainability and Transformation Plans and Local Workforce Action Boards.

2: Committee of Public Accounts conclusion:

Efforts to retain existing clinical staff are not well managed, which may further increase shortfalls.

Recommendation:

NHS Improvement should review trends in clinical staff leaving the NHS and variations between trusts, and provide us with a plan by December 2016 on how it will support trusts to retain staff better.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: Autumn 2016.

2.2 NHS Improvement has commenced a project to better understand nurse turnover and retention in NHS Trusts and Foundation Trusts in England to inform trust strategies to build nursing workforce capacity and reduce agency spend. NHS Improvement expects this project to be completed by the autumn. The main outputs will be a report outlining key findings and a summary of good practice for Workforce and Nurse Directors. It is proposed that this will complement a wider workforce improvement programme in respect of clinical staff retention.

2.3 Additionally, NHS Improvement will undertake a programme of work to analyse variation in the NHS clinical workforce across England. NHS Improvement will work closely with the Department and relevant health and care bodies to ensure consistency in respect of this programme of work. This will include working with Health Education England to ensure Local Workforce Action Boards and national partners receive intelligence on providers' positions on a range of supply measures including retention to inform co-ordinated action on current supply issues.

2.4 NHS Employers is currently undertaking work on how recruitment and retention can be improved for the nursing and midwifery workforce. The outcomes of this will feed through the nursing workforce supply board chaired by the Chief Nursing Officer.

3: Committee of Public Accounts conclusion:

The shortage of nurses is expected to continue for the next three years.

Recommendation:

The Department, NHS Improvement and Health Education England should set out a plan for how the shortage of nurses will be addressed over the next three years, including how they will better coordinate overseas recruitment and return-to-practice initiatives and how they will attract nurses to those areas with the highest shortfalls.

3.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

3.2 Health Education England published its workforce plan for 2016-17⁷ in May 2016 setting out future nursing supply forecasts. This indicates that up to 47,000 additional nursing and midwifery staff could be available to the NHS or other employers by 2020, if underpinning supply assumptions are achieved.

3.3 Health Education England's Workforce Advisory Board, with system-wide senior membership, has identified nursing as a priority for work on current workforce shortages, which Local Workforce Action Boards will support.

3.4 The Chief Nursing Officer's nursing supply board also considers what further action is needed further to the additional supply being generated by increased training commissions. It has agreed that

⁷ <https://www.hee.nhs.uk/our-work/planning-commissioning/workforce-planning>

international recruitment is best co-ordinated regionally with access to national-level advice. Chief Executives of the Department's arm's length bodies have recently agreed that Health Education England will lead a co-ordinated approach to international recruitment, with proposals in development.

3.5 Health Education England's 'Come back to nursing' initiative commenced during 2014-15. By April 2016, 2,314 people had been recruited onto the programme and 1,132 people had completed it. Of these, 644 people had secured employment and a further 488 were seeking employment or awaiting Nursing Midwifery Council registration. Health Education England intends to maintain the existing campaign and associated education and support.

4: Committee of Public Accounts conclusion:

The significant increase in agency costs is mostly due to higher volumes not higher rates. This is largely the consequence of inaccurate headcount planning within both the trusts and the centre.

Recommendation:

As well as capping hourly rates, the Department and NHS Improvement also need to address the fundamental issue of the increased demand for agency staff; they should report back to the Committee in December 2016 on progress in reducing use of agency staff and achieving the intended savings.

4.1 The Government accepts the Committee's recommendation.

Target implementation date: December 2016.

4.2 A range of measures have been introduced with the aim of significantly reducing agency spend and use. As of April 2016:

- Trusts are required to stay within an annual ceiling for spending on all agency staff.
- Any agency staff must be procured from frameworks approved by NHS Improvement.
- The prices paid to agencies should ensure that agency workers are not rewarded more than a permanent member of staff (including a consideration of on-costs).

4.3 The measures introduced in 2015-16 are having a positive effect as evidenced by qualitative feedback from Trusts on the impact of the controls. Bringing down the returns to agency workers is intended to reduce the attractiveness of temporary work and encourage return to permanent roles.

4.4 Locally, NHS Improvement acts as a conduit for best practice workforce planning and management of agency demand, including retention and recruitment and working with groups of trusts to facilitate regional engagement. Implementation of the Lord Carter Review has identified savings opportunities from the better management of the substantive workforce which will reduce demand for temporary staff.

4.5 Nurses have also been added to the Shortage Occupation List, with a requirement that all posts filled through the tier 2 entry route should be subject to the resident labour market test prior to an appointment being made.

5: Committee of Public Accounts conclusion:

The Committee is concerned that a lack of affordable homes in some parts of the country is affecting the supply of permanent NHS staff.

Recommendation:

The Department should set out how it will take account of the housing requirements for NHS staff, particularly in high-cost areas, in order to support permanent staffing.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: Autumn 2016.

5.2 The Department is working with the Department of Communities and Local Government to consider how the policy on Starter Homes can support NHS workers by giving NHS staff a right of first refusal on Starter Homes built on NHS land.

5.3 The Department is also in discussion with the National Housing Federation about how the NHS might work with Housing Associations to identify suitable, rented accommodation near their place of work.

5.4 Finally, the Department is offering support and advice to trusts on how they can make better use of their land, which includes the provision of staff accommodation. This includes developing case studies to highlight examples of where trusts have successfully developed land for their staff.

6: Committee of Public Accounts conclusion:

The Committee is concerned about the impact that the proposed changes to the funding system could have on applicants for nurse, midwifery and allied health professional training.

Recommendation:

The Department and Health Education England should assess the likely effect of the new funding system on rates of applications for nursing, midwifery and allied health training courses, including whether the impact is consistent across different demographic groups and courses and how the changes are expected to affect the relative number of overseas students to home students. The Committee also expects them to monitor the effects in real-time and report back to the Committee in autumn 2018 after the first year of the new funding system.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: Autumn 2018.

6.2 Removing the artificial 'cap' on nursing, midwife and allied health profession places will allow Higher Education Institutions to recruit more students than they are currently able to do. This will increase student numbers by up to 10,000 before the end of this parliament. This estimate was based on the level of unmet demand for healthcare courses currently seen in the higher education sector.

6.3 A preliminary equality assessment and economic impact assessment⁸ were published alongside the consultation on healthcare education funding on 7 April 2016; a revised Impact Assessment will be published following the close of the consultation.

6.4 The effects of bursary reform will continue to be monitored and evaluated. The Department of Health will work with delivery partners such as Health Education England, Higher Education Funding Council for England, Student Loans Company and the Universities and Colleges Admissions Service to assess the effects of bursary reform.

7: Committee of Public Accounts conclusion:

No coherent attempt has been made to assess the headcount implications of a number of major policy initiatives such as the 7-day NHS.

Recommendation:

All major health policy initiatives should explicitly consider the workforce implications, and specifically the Department should report back to the Committee by December 2016 with a summary of the workforce implications of implementing the 7-day NHS.

7.1 The Government accepts the Committee's recommendation.

Target implementation date: December 2016.

7.2 The Department is committed to improving the quality of policy making and has designed 6 tests to help policy makers identify the areas they need to think about when developing policy. This includes; 'what do the people who matter think?' (including the views of frontline staff) and 'will it actually work and how will you know?' (including the workforce requirements necessary to implement a policy).

⁸ <https://www.gov.uk/government/consultations/changing-how-healthcare-education-is-funded>

7.3 Health Education England's Workforce Advisory Board has been established to develop a workforce with the skills to support the implementation of new models of care and to help embed workforce planning into policy delivery across the system.

7.4 On seven-day services specifically, NHS England and NHS Improvement are working with local health and care systems to ensure that seven-day services can be implemented affordably and sustainably, recognising that different solutions will be needed in different localities. NHS England and NHS Improvement are working closely with 10 areas implementing seven day services in hospitals by March 2017. This will ensure the Department and its arm's length bodies understand how best the NHS can deliver high-quality care across all days of the week, including the workforce requirements.

8: Committee of Public Accounts conclusion:

Limitations in the data on staffing pressures make it difficult for health bodies to make well-informed decisions about workforce planning.

Recommendation:

The Department, working with its arm's-length bodies, should set out how it will ensure there is systematic reliable data on workforce pressures, including vacancy rates and reasons why staff leave the NHS, to help them manage the supply of clinical staff more effectively.

8.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

8.2 Most published data on the Hospital and Community Health Services workforce is drawn from the Electronic Staff Record which is an administrative HR and payroll system. Appropriate validation checks are in place for mandatory fields of the dataset. However, there are quality differences for some non-mandatory fields. Work has been undertaken over the past eight years to improve the quality of the data.

8.3 Monthly Hospital and Community Health Services official statistics include staff turnover and joiners and leavers. Reasons for leaving data are published quarterly and are regarded by the Health and Social Care Information Centre as of sufficient quality to meet the statistical code requirements.

8.4 Work began in 2013 to collect workforce data from non-NHS providers and additional data from GP practices. The Health and Social Care Information Centre published this new dataset for the NHS and independent sector on 30 March and for general practice on 27 April, as experimental statistics. General practice vacancy data will be published in September 2016, subject to data quality.

8.5 The Department is working with the Health and Social Care Information Centre to improve the quality of published experimental statistics on the number of advertised vacancies from NHS Jobs. These data are expected to provide a more complete picture of the health workforce over time.

Forty First Report of Session 2015-16

Financial Conduct Authority

Financial Services mis-selling: regulation and redress

Introduction from the Committee

Mis-selling of financial services and products takes many forms and can cause serious harm to consumers. Mis-selling happens for several reasons: products are complex and difficult to understand for even very knowledgeable consumers, and the culture and incentives within firms can make mis-selling more likely. Over 12 million consumers were mis-sold payment protection insurance (PPI), and firms have paid over £22 billion in compensation to them since April 2011. The Financial Conduct Authority (FCA), as lead regulator of financial services firms' conduct, plays a key role in preventing and detecting mis-selling, and in responding to it when it happens, including arranging for redress for affected customers.

The Financial Ombudsman Service also plays a role in redress, by resolving disputes between individual consumers and firms. In recent years, claims management companies, which are currently regulated by the Ministry of Justice, have submitted most consumer complaints to the Ombudsman. The Treasury is responsible for designing the regulation and redress framework for financial services.

On the basis of a NAO report, the Committee took evidence, on 2 March 2016, from HM Treasury, the Financial Conduct Authority, and the Financial Ombudsman on mis-selling of financial services. The Committee published its report on 13 May 2016. This is the Government's response to the Committee's report.

Background resources

- NAO report: *Financial Services mis-selling: regulation and redress* – Session 2015-16 (HC 851)
- PAC report: *Financial Services mis-selling: regulation and redress* – Session 2015-16 (HC 847)

1: Committee of Public Accounts conclusion:

Claims management companies have taken up to £5 billion out of compensation that should have gone to consumers.

Recommendation:

HM Treasury and the Ministry of Justice should report publicly on the effectiveness of their actions in reducing the role of claims management companies in PPI compensation. The Treasury and the FCA should demonstrate how they will ensure that these problems do not happen again with future schemes.

1.1 The Government and the FCA accept the Committee's recommendation.

Target implementation date: July 2017.

1.2 The Treasury and the Ministry of Justice recognise the significant issue arising from claims management companies (CMCs) taking a large share of consumers' PPI redress. The Departments and the FCA accept the recommendation that they should demonstrate how they will ensure that these problems do not happen again with future schemes.

1.3 Work is already underway to toughen the regulatory regime, by introducing a cap on the amount CMCs can charge consumers and transferring regulatory responsibility to the FCA. The Treasury expects that stronger conduct regulation and a cap on charges will lead to better conduct among CMCs and ensure that consumers using CMCs receive a larger proportion of their redress. In addition, the FCA has on its website information on CMCs that was developed with the Claims Management Regulator, the Financial Ombudsman Service and the Financial Services Compensation Scheme⁹. The website also has information on claiming compensation (for failed firms) which points out that using a CMC is not

⁹ <http://www.fca.org.uk/your-fca/documents/claims-management-companies-and-financial-services-complaints>

necessary and will cost consumers money¹⁰. However, it is also important to recognise that CMCs also provide access to justice for consumers who may be unwilling or unable to bring a claim themselves, and that the sector evolved in response to poor conduct and complaints handling by banks.

1.4 The Departments and the FCA agree that it is right to evaluate the impact of these reforms and will assess their effectiveness on an on-going basis. The FCA will report on progress annually through its Annual Report and Accounts.

1.5 The Government and the FCA will work together to ensure that future schemes work effectively. The experience of the Financial Services Authority in relation to PPI has informed the FCA's approach to the design of redress schemes. For example, in both interest rate hedging products and card payment protection, the FCA sought to ensure that the schemes were as straightforward as possible and encouraged customers to participate without using CMCs. In its November 2015 Consultation Paper on PPI, the FCA also set out proposals aimed at helping customers claim more easily.

1.6 In all redress schemes, the FCA pays close attention to its own and firms' communications with customers, to ensure that redress schemes are as straightforward as possible and explained in a straightforward way.

2: Committee of Public Accounts conclusion:

The Ombudsman has a large backlog of PPI claims, with many consumers having to wait more than 2 years for a decision.

Recommendation:

By the end of July 2016, the Ombudsman should set out publicly a clear timetable for reducing and ultimately eliminating its backlog of PPI claims, and also report publicly on its progress.

2.1 The Financial Ombudsman Service accepts the Committee's recommendation.

Recommendation implemented.

2.2 On 1 July 2016 the Financial Ombudsman Service published a timetable for resolving older PPI cases¹¹. In total, the Financial Ombudsman Service has received over 1.5 million complaints about PPI, of which over 1.3 million have been resolved. The timetable explains when the Financial Ombudsman Service expects to resolve the remaining cases, and when cases will be routinely answered within three months of receiving them. At the moment, the Financial Ombudsman Service is taking cases as far as possible, but a growing number (63% at June 2016) are awaiting the publication of the FCA's guidance following the Supreme Court's judgment in the case of Plevin v Paragon Personal Finance Ltd – the Financial Ombudsman Service will need to consider this before it can make a final decision in these cases. The Financial Ombudsman Service will report on its progress against this timetable regularly.

3: Committee of Public Accounts conclusion:

The FCA has not done enough to tackle the cultural problems that lie behind mis-selling by financial services firms.

Recommendation:

The FCA should outline the actions it will take to improve cultures in financial services firms, and report to the Committee on their effectiveness in a year's time.

3.1 The FCA accepts the Committee's recommendation.

Target implementation date: July 2017.

3.2 Tackling culture in firms has been a key area of focus for the FCA. It has carried out extensive work on accountability, incentives, remuneration and performance management through the Retail Distribution Review and the Mortgage Market Review. The Senior Managers and Certification Regime has accountability at its core and will ensure that individuals, their employers and regulators know who is responsible for what within regulated firms.

¹⁰ <http://www.fca.org.uk/consumers/complaints-and-compensation/how-to-claim-compensation>

¹¹ Financial Ombudsman Service plan for resolving older payment protection insurance (PPI) cases <http://www.financial-ombudsman.org.uk/publications/ppi-timetable.pdf>

3.3 In its 2016-17 Business Plan, the FCA identifies firms' culture and governance as one of its key priorities and explains what it sees as the key risks and the outcomes it is seeking to achieve. In addition, the Business Plan sets out the FCA's planned activities in a range of areas, including continuing to focus on remuneration and decision making; and promoting discussions with stakeholders to gain a better understanding of the key drivers of culture.

3.4 The FCA will report on progress and achievements against its Business Plan in its 2016-17 Annual Report and Accounts in 2017 and an update will also be provided in the July 2017 Treasury Minute update.

4: Committee of Public Accounts conclusion:

The FCA does not do enough to ensure that consumers understand the financial products they are buying and the possibility of claiming compensation.

Recommendations:

The FCA should set out what more it will do ensure firms check consumer understanding of the products they purchase and of their rights to claim compensation, particularly for vulnerable consumers, and report back to us on this work in a years' time.

4.1 The FCA accepts the Committee's recommendation.

Target implementation date: July 2017.

4.2 The FCA agrees that consumer behaviour and understanding is an important challenge in financial services. This is why advice is one of its priorities in its 2016-17 Business Plan, and why the FCA is doing a range of work focussing on both consumer understanding and consumer behaviour (for example, using behavioural economics to understand how consumers behave and to identify where they might be harmed or need protection). This work also informs policy and supervisory decisions and is used to help design and test better interventions that target the real drivers of consumer mistakes. It will take account of the different needs and capabilities of different types of consumers, including the most vulnerable.

4.3 The FCA has recently launched a piece of work that aims to ensure consumers have the information needed to make the right decision, without being overwhelmed with unnecessary or overly technical material. The intention of this work is to ensure that communications with consumers are clear, fair and not misleading.

4.4 The FCA's rules and principles around Know Your Customer and Treating Customers Fairly already require regulated firms to understand their customers' needs, provide advice and recommendations in a way the customer can understand, and set out terms and conditions clearly. They also require firms to inform consumers of their right to take complaints to the Financial Ombudsman Service. In addition, the FCA website provides information designed to help consumers understand their options for pursuing redress.

4.5 The FCA will report on progress and achievements against its Business Plan in its 2016-17 Annual Report and Accounts and an update will also be provided in the July 2017 Treasury Minute update.

5: Committee of Public Accounts conclusion:

The Treasury does not know how effective the FCA is in reducing mis-selling, and there are no good indicators of the current level of mis-selling.

Recommendation:

HM Treasury and the FCA should develop 'real-time' indicators of the extent of mis-selling, and assess regularly how effective their actions are in reducing it.

5.1 The Government and the FCA do not accept the Committee's recommendation.

5.2 The nature of mis-selling is such that it only becomes apparent to the consumer and the supervisor after the mis-selling has taken place. As such, the development of immediate "real-time" indicators of mis-

selling is not currently feasible, given the inevitable degree of lag in the available data.

5.3 However, the FCA is committed to improving the measurement of the effectiveness of its actions in relation to mis-selling. It will maintain and develop indicators to enable swift intervention and will continue to report progress in the context of their Annual Report and Accounts.

5.4 The FCA already uses a range of information and data it monitors to help achieve its objectives including preventing mis-selling. These include complaints data, information on firms' business models and the distribution channels through which products are sold.

5.5 The extent to which the FCA is meeting its objectives, including by tackling mis-selling, is regularly reported to the Treasury in the FCA's annual report. In addition, the Treasury receives information from both the FCA and the FOS on consumer protection risk as part of day-to-day working relationships.

6: Committee of Public Accounts conclusion:

Parliamentary accountability for financial regulation is undermined by restrictions on the NAO's access to information held by the FCA.

Recommendation:

HM Treasury should outline a timetable for proposing legislation to give the NAO access to information so that it can carry out full examinations of value for money.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: January 2017.

6.2 The regulators have strong powers to require information from firms for particular purposes. Firms expect this information to be treated in confidence and not disclosed onwards, except in specified circumstances set out in legislation. Much of this firm confidential information is market sensitive, and requires careful handling, and in some cases may be used as evidence in criminal or enforcement investigations.

6.3 However, the Government recognises that the Comptroller and Auditor General should have access that he reasonably requires to information from the financial regulators in order to fulfil his functions. Therefore, the Government has been giving extremely careful consideration as to how to provide appropriate gateways, subject to any legal restrictions on disclosure, for the FCA to provide confidential information to the NAO for the purposes of value for money studies, on the basis that suitable protections must be in place. These should include a statutory bar on onward disclosure of this information by the NAO, unless it is already in the public domain or is in the form of an anonymised summary.

6.4 The Government believes this would be sufficient for the NAO to effectively carry out value for money studies, which would not focus on particular firms. While it is unlikely it would ever be appropriate for the NAO to carry out a value for money study on matters that were the subject of live enforcement or criminal investigations, the regulators should be able to withhold information gathered as part of such investigations, while they are ongoing, to avoid the risk of prejudicing any ultimate action.

6.5 The Government will complete its consideration to a timetable which would aim to allow it to make regulations by January 2017, if it concludes that is appropriate.

Forty Second Report of Session 2015-16

Cabinet Office / Crown Commercial Service

Government spending with small and medium-sized enterprises

Introduction from the Committee

In 2010, for the first time, the Government set a target, that by 2015, 25% of Government spending would go to small and medium-sized enterprises (SMEs). By increasing its spending with SMEs the Government aims to develop a more diverse provider market for Government contracts and to get best value for the public purse through increased choice and competition. Each year, the Government spends around £45 billion on goods and services supplied by non-public sector organisations. In 2014–15, the Government reported that 27% (£12.1 billion) of Government's procurement spending had reached SMEs. In August 2015, the Government increased its target to 33% by 2020. The Cabinet Office's Crown Commercial Service is responsible for leading on the Government's SME procurement policy.

On the basis of a report by the National Audit Office, the Committee took evidence, on 21 March 2016, from the Cabinet Office and Crown Commercial Service on Government spending with SMEs. The Committee published its report on 18 May 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: Government's spending with small and medium sized enterprises – Session 2015-16 (HC 884)
- PAC report: Government spending with small and medium-sized enterprises – Session 2015-16 (HC 882)

1: Committee of Public Accounts conclusion:

The Government has lost some momentum in work to increase its spending with SMEs and it is not clear that it has increased competition for government business.

Recommendation:

The CCS should report back to the Committee by March 2017 on what it has done to re-establish momentum towards achieving 33% and set out how this is increasing competition.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

1.2 The Government will report back to the Committee in 2017 on progress over the coming year, but does not accept that it has lost momentum. Departments have committed to SME targets in their Single Departmental Plans. CCS has continued to publish data on the SME spend which has seen a continued increase (December 2015). CCS continually shares best practice across central Government through the SME Champions network. The Government is recruiting both a new Small Business Crown Representative and a new Small Business Panel.

2: Committee of Public Accounts conclusion:

Government has not yet identified the areas of spending where SMEs could bring the most benefit.

Recommendation:

The Cabinet Office and the CCS should help departments to identify the areas where SMEs can best add value and how it will structure contracts and procurement to enable them to compete accordingly.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: March 2017.

2.2 CCS will work with Departments to identify key sectors and spend categories where the Government can create more value from using SMEs. CCS will support them in exploiting the most significant opportunities in their procurement pipelines. We are also commissioning market data that will support this activity. This work will ensure that all Departments have robust plans to achieve the level of business with SMEs that will deliver the most value to Government.

3: Committee of Public Accounts conclusion:

The Government's figures for spending with SMEs are not a meaningful measure of performance.

Recommendation:

The CCS needs to be able to compare both direct and indirect spend with SMEs between years, to track performance. It should also consider introducing separate targets for each.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: May 2017.

3.2 Direct SME spend data is already comparable between years as the approach has been unchanged since 2011-12. CCS is undertaking a number of initiatives to improve the quality and coverage of indirect SME spend data which will be implemented from 2016-17. CCS will consider establishing separate targets for direct and indirect spend.

4: Committee of Public Accounts conclusion:

It remains too difficult for SMEs to know what bidding opportunities are available for Government contracts.

Recommendations:

The Cabinet Office and the CCS should set out how it is going to make it easier for SMEs to be aware of all direct contracting opportunities, subcontracting opportunities, awarded contracts and what opportunities may be in the pipeline.

4.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

4.2 CCS is committed to all Contracting Authorities publishing opportunities on Contracts Finder in accordance with the Public Contracts Regulations 2015. The Government has issued statutory guidance to public sector bodies explaining their legal responsibilities. CCS monitors compliance and engages with Authorities to address compliance issues. Improvements are planned to Contracts Finder that will enhance the ability of SMEs to find the right opportunity for them. In addition, the Contracts Finder service will be extended to the subcontracting market, offering wider access to procurement opportunities.

5: Committee of Public Accounts conclusion:

It is not clear that the voice of SMEs is being heard in Government.

Recommendation:

The Cabinet Office should fill the SME and VCSE Crown Representative posts and the SME panel as a matter of urgency and report back to us when it has done so.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: Autumn 2016.

5.2 The Cabinet Office has appointed a new Small Business Crown Representative. The CCS recruitment for the Small Business Panel is underway and is expected to be completed by autumn 2016. The Office for Civil Society and Innovation, within the Cabinet Office, is currently engaging in an open policy conversation with key stakeholders and the Government will determine subsequently how best to support small and medium sized VCSEs.

6: Committee of Public Accounts conclusion:

Overall, the Committee is not convinced that increasing spending with SMEs is being given sufficient priority across government.

Recommendation:

The Cabinet Office needs to show clear leadership from the centre so the priority it gives to achieving the 2020 target is shared across all departments.

6.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

6.2 The Cabinet Office has established the Growth and Enterprise Board with key departments. The Chief Executive of the Civil Service chairs this board in order to provide leadership on SMEs as a procurement policy priority. Departments have included their commitment to the 2020 target within their Single Development Plans. SME lead Ministers and senior officials have been appointed in departments. The Cabinet Office has appointed a new Small Business Crown Representative and the CCS recruitment for the Small Business Panel is underway.

6.3 CCS has established its own Small Business Board to provide leadership in achieving the CCS commitment to the 2020 target and departments have committed to SME targets in their Single Departmental Plans. Contracts Finder will enhance the ability of SMEs to find the right opportunities and CCS is committed to all Contracting Authorities publishing opportunities on Contracts Finder in accordance with the Public Contracts Regulations 2015.

List of Treasury Minutes 2015-20¹²

Treasury Minutes is a Parliamentary Command Paper, which is laid in Parliament, and is the Government's response to the Public Accounts Committee reports.

Session 2015-16

Committee Recommendations: 249¹³
 Recommendations accepted: 214 (86%)
 Recommendations not accepted: 35(14%)

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 9220
March 2016	Government response to PAC reports 15-20	Cm 9237
April 2016	Government response 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
October 2016	Government responses to PAC reports 37 and 39	

List of Treasury Minutes Progress Reports

The Government produces Treasury Minute progress reports on the implementation of Government accepted recommendations on a regular basis.

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 2014-15: updates on 27 PAC reports	Cm 9202
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

¹² List of Treasury Minute responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52

¹³ Recommendations up to May 2016

ISBN 978-1-4741-3649-5



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