HM TREASURY

TREASURY MINUTES

Government responses on the Thirty Sixth to the Forty Second and on the Forty Fourth Reports from the Committee of Public Accounts - Session: 2012-13

Cm 8652

June 2013

Treasury Minutes on the Thirty Sixth to the Forty Second and on the Forty Fourth Reports from the Committee of Public Accounts
Session 2012-13

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

June 2013

Cm 8652 **£16.00**

TREASURY MINUTES DATED 17 JUNE 2013 ON THE THIRTY SIXTH TO THE FORTY SECOND AND ON THE FORTY FOURTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS - SESSION 2012-13

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This publication is also available on http://www.hm-treasury.gov.uk/psr_treasury_minutes.htm

ISBN: 9780101865227

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2567241 06/13 30332 19585

Printed on paper containing 75% recycled fibre content minimum.

Thirty Sixth Report

HM Revenue and Customs

Customer Service

Committee of Public Accounts report summary

HM Revenue & Customs (HMRC) spent approximately £900 million on customer service in 2011-12, around a quarter of its £3.7 billion total expenditure. It received 79 million phone calls and 25 million items of post in the year. People contact HMRC because they want to get their tax right and HMRC is obliged to make sure they get a good service. However, in recent years the standard of HMRC's customer service has been unacceptable. For example, in 2011-12 20 million of the 79 million telephone calls made to HMRC went unanswered and customers incurred costs of £136 million while they waited to speak to an adviser.

In the past HMRC has considered it too difficult to implement the recommendations the Committee has made to improve services and reach standards that are commonplace elsewhere. The Committee is pleased to report signs that HMRC is now changing its attitude. The Department seems to be realising that good customer service is not a 'nice to have' feature that can be sacrificed when resources are tight and workloads high, but an essential part of any strategy to collect revenues while also reducing costs.

While there is much to be done, the Committee welcomes the commitments HMRC has now given to improve the service taxpayers receive. Planned changes include the introduction of a call-back service for customers whose queries cannot be resolved first time, resolution of more queries first time round, and the replacement of all 0845 numbers with cheaper 03 numbers.

HMRC has now set itself a target to answer 80% of calls within five minutes. While achieving this target would be an improvement on current performance, it remains unambitious and woefully inadequate. It will still leave 16 million people waiting more than five minutes and is far below the industry benchmark of answering 80% of calls within 20 seconds. On quality of service, HMRC meets its internal standards but many are still not happy with the standard of advice they receive.

Challenges for HMRC will increase as the new Real Time Information System, the introduction of Universal Credit, and changes to Child Benefit are likely to lead to more phone calls. At the same time, the Department's cost reduction plans include having a third less customer-facing staff. HMRC expects to maintain customer service with fewer staff by reducing avoidable contact and using staff more flexibly, but recognises that it needs a 'Plan B' if things go wrong. If there are significant increases in customer contact, HMRC may need to put in additional resources to avoid its performance plummeting, as it has in the past, let alone improving as it should.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from HMRC on its customer service performance on 28 January 2013. The Committee published its report on 18 March 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

HMRC has an abysmal record on customer service but has now given us welcome commitments for how it plans to improve. In addition to maintaining its recent performance of answering at least 90% of calls, HMRC's plans include: offering a call-back service so that customers do not have to wait when lines are busy; introducing more online self-service; resolving more calls first time; replacing its expensive 0845 numbers with 03 numbers during 2013; and publishing more detailed information on its performance. It has also set itself a target for call-waiting times.

HMRC should now set out a clear plan for making these changes, including delivery dates and more detailed metrics for measuring and publishing performance, and report back to the Committee on progress in six months.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

1.2 The department has already started work on the areas referred to by the Committee and will report back on progress in six months.

1.3 The call-back service trial on the Child Benefit helpline runs from April to July 2013. The department will announce its decision on a roll out of this service after the trial.

1.4 In December 2012, the department published its Digital Strategy, which sets out clear plans and delivery dates for the introduction of more online self-service.

1.5 The department is working to resolve more customer calls first time via a programme of *Once and Done* trials. The programme aims to reduce both the need for customers to contact the department more than once to resolve a query and the number of hand-offs within the department to resolve queries or complete transactions. The trials involve empowering front-line teams to generate ideas for changes that will enable resolution of customer queries at first call, and operating an approach to test improved processes and assess ideas so that successful changes can be rolled out quickly across operational teams. The trials will be completed by December 2013.

1.6 The first tranche of Personal Tax helpline numbers migrated from 0845 to 0300 in April 2013; these were Child Benefit, Employer Helpline and Online Services Helpdesk. All remaining Personal Tax and Debt Management and Banking customer facing 0845 numbers are planned to have an 03 equivalent on offer to customers by the end of September 2013. At that point, 0300 numbers will then be available for the majority of customer calls to HMRC. The department will systematically review the remainder of its 0845-only lines.

1.7 The department is working with Tax Agents through the Joint Initiative on Service Delivery to develop performance measures that better reflect the customer experience and to publish more detailed information on its performance. The department has already published detailed information on its contact centre performance including queue times and results of its contact centre customer experience survey. It will now work with the Agents to publish performance against its new call wait time target, abandonment rates and the top reasons for calling the department. It aims to begin publication of the extra information in August 2013.

PAC CONCLUSION AND RECOMMENDATION 2

The Committee welcomes HMRC's decision to move away from 0845 numbers, which are much more costly for HMRC's customers.

HMRC should inform other Government departments and agencies of its plans to move away from 0845 numbers and the costs and benefits associated with this change.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: 30 November 2013.

2.2 The department will inform other Government departments of its plans to move away from 0845 numbers, through the Finance Leadership Group by July 2013, providing its best estimate of the costs and benefits to both the department and its customers. Once migration to 0300 numbers is completed in September 2013, the department will finalise the costs and benefits and provide updated estimates.

PAC CONCLUSION AND RECOMMENDATION 3

HMRC's target of answering 80% of calls within five minutes is woefully inadequate and unambitious. While HMRC told the Committee that 80% is more than it is achieving at present, it is still not sufficiently ambitious, particularly in the medium and long term. It falls well below industry standards.

HMRC should set a more challenging short-term target for call-waiting times, and a long-term target that is much closer to industry standards, and give a timetable for reaching its long term target.

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department agrees that it should be ambitious in improving the time that customers wait to speak to an advisor in its Contact Centres. However, the department must balance this with the costs of doing so and with other priorities, such as improving the quality of advice given to customers.

3.3 A target of answering 80% of calls within five minutes has been implemented, which the department believes is challenging compared to its performance in 2012-13 and is in line with what customers have told the department they think is acceptable. The five minutes includes the time that the customer spends in the Interactive Voice Response System (IVRS). This makes the target more ambitious as time in IVRS is not included in measuring waiting time elsewhere in the industry. The department has decided to include this time as it provides a better measure of customers' experience.

3.4 The department is working with the NAO to review how much further HMRC can improve and consider appropriate long-term targets. The department will look to make comparisons with other organisations of similar size and complexity such as the Department for Work and Pensions. The cost of moving to a target of answering 80% of calls within 20 seconds now would be some £50 million, so it is essential that the new measure is allowed to settle in and that huge change initiatives such as Real Time Information and Universal Credit are delivered before considering whether an even more ambitious target is appropriate. In the meantime, the department is looking to implement a basket of other measures to achieve the right balance between speed and quality.

PAC CONCLUSION AND RECOMMENDATION 4

The prospects of fewer staff and more calls are a real risk to HMRC being able to improve standards of customer service. In the past, customer service has suffered when workloads increased. HMRC now plans to reduce the number of customer facing staff by 8,500 (about a third) by 2015. At the same time, the introduction of Real Time Information and Universal Credit could lead to extra calls, and changes to the Child Benefit system may also increase workload.

HMRC should develop a contingency plan for how it will make sure customer service is not sacrificed, in the event that its plans to reduce avoidable contact and deploy staff more flexibly do not work.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2013.

4.2 The department is developing the digital by default agenda that will enable customers to self serve, reducing contact by telephone. The department is also developing contingency plans for a work prioritisation model to safeguard resources to front line customer service activities, so that the department can sustain improved customer service levels, even if plans to reduce avoidable contact and deploy staff more flexibly do not achieve the benefits currently forecast.

PAC CONCLUSION AND RECOMMENDATION 5

Too many customers are not satisfied with the quality of service they receive, despite HMRC meeting its own internal quality standards. HMRC meets its internal targets for phone and post quality but 29% of tax agents do not think that HMRC is good at getting things right. HMRC tries to deploy its staff flexibly, but does not always have specialist skills available to deal with more complex queries.

HMRC needs to improve how it deals with more complex queries and should distinguish between simple and more complex queries when it measures the quality of its advice.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2013.

5.2 The department currently distinguishes between simple and complex queries received into its contact centres. The complex queries are referred to technicians, who have the specialist skills needed to deal with these queries. The quality of advice given in relation to these complex queries is measured separately.

5.3 The department will develop this further by measuring separately the quality of advice given in relation to:

- simple queries;
- complex queries referred to technicians;
- queries received by customers who need enhanced support, and
- queries received from tax agents via the Agent Dedicated Helpline.

5.4 This will provide the department with a clear picture of the quality of advice it is providing to different customer groups and enable it to target improvement activity. The department has also divided its results for post quality into complex and non-complex work. This will again provide the department with a clear picture of the quality of advice it is providing in complex cases and enable it to target improvement activity.

PAC CONCLUSION AND RECOMMENDATION 6

Until recently, HMRC did not know how much revenue and profit Cable and Wireless made from providing HMRC's telephone services. When the NAO carried out its work HMRC did not have access to information on how much revenue and profit Cable and Wireless made from customers' calls to 0845 lines. Between the NAO's report and our hearing, the Department discovered that Cable and Wireless' profit from these calls was up to £1 million a year.

If HMRC, or other Government departments, enter into contracts where service providers get a share of revenues, they should insist on open-book accounting, and put in place transparent arrangements for sharing benefits if revenues are higher than forecast.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department is currently in the process of re-tendering their telephony contract and that contract will provide for open-book accounting and transparent arrangements for what happens in the event that revenues are higher than forecast.

Thirty Seventh Report

HM Treasury

Whole of Government Accounts 2010-11

Committee of Public Accounts report summary

The Whole of Government Accounts (WGA) combines the financial position of some 1,500 public sector bodies to provide the most complete picture available of Government's total finances. The Treasury published the audited WGA for the financial year 2010-11 in October 2012. This is the second WGA and the first to have comparative data from the previous year.

The WGA shows that the annual deficit was £94.4 billion in 2010-11, a reduction of £68.3 billion from the £162.7 billion deficit in 2009-10. However, the 2010-11 accounts include a gain of £126 billion from an assumed reduction in the public sector pension liability as a result of the Government's decision to change the measure of inflation used to up rate payments to pensioners from the Retail Price Index to the Consumer Price Index with effect from 1 April 2011. Without this change, the deficit for 2010-11 would have been £220.4 billion.

The WGA also shows that at the end of 2010-11 the government had net liabilities – the difference between the Government's assets and liabilities - of £1,193.4 billion, which is similar to the figure of £1,212 billion at the end of the previous year. The total future obligations for the 706 PFI contracts contained in the accounts are estimated to be £144.6 billion. The WGA also contains provisions of £17.5 billion for claims for clinical negligence, £60.9 billion for the estimated cost of nuclear decommissioning, and £18.7 billion for irrecoverable debts.

The Treasury acknowledges the potential of the WGA to help it manage the public finances more effectively. But the Treasury does not have a clear plan to realise that potential or improve the quality and timeliness of the WGA to improve its usefulness. For example: the accounts could be used to identify and manage key financial risks and pressures, and report on the effectiveness of Government policies aimed at reducing the UK's annual deficit and Government debt. Key issues identified in the accounts on which the Government should act include the spiralling cost of clinical negligence claims and the estimated costs for nuclear decommissioning. The Government also needs to perform better at collecting all monies due to all agencies and reducing the estimated £21.2 billion a year lost in the public sector through fraud and error.

The accounts should also be regularly considered by all departmental management boards. Where cross-departmental issues are identified, such as the increasing claims for clinical negligence, the Treasury should ensure action is taken across Government. The WGA could also be used to highlight the burden of past decisions on the public purse such as the on-going cost of nuclear decommissioning. More needs to be done to make the accounts easier to understand. The WGA would also be more useful if it contained sufficient information to enable a detailed analysis by region or by category of spend.

It took the Treasury 19 months to publish the WGA. This means that the information it contains is out of date. This, coupled with the issues that led the Comptroller and Auditor General to qualify his audit opinion on the accounts for a second year, undermines the WGA's usefulness. Part of the Treasury's role, as Ministry of Finance, is to ensure that the relevant public sector bodies, including government departments, are on track to resolve these qualification issues as quickly as possible. The quality of the data provided by some public sector bodies was an issue, with some academies failing to provide any data and others providing un-audited information. The Treasury does not have effective sanctions or incentives in place to encourage bodies to submit better quality data.

It is also important that the accounts give a complete picture. The 2010-11 WGA includes the Bank of England for the first time, but it still does not include all bodies owned and controlled by government, leading to an accountability gap. The Treasury could not provide a convincing explanation for the on-going exclusion of organisations such as the Royal Bank of Scotland, Lloyds Banking Group and Network Rail from the WGA which, under normal accounting rules, should be included.

On the basis of a Report by the Comptroller and Auditor General the Committee took evidence from the Treasury on the Whole of Government Accounts on 21 January 2013. The Committee published its report on 11 April 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Treasury does not have a clear plan for turning the WGA from an elaborate accounting exercise into a more meaningful document that helps shape the management, direction and reporting of the public finances. The Treasury should, in consultation with key stakeholders such as Parliament and the National Audit Office, carry out an immediate stock take of the opportunities the WGA presents to improve financial management, and formulate a clear plan for how it will use the WGA to assist its management of public finances. The plan should set out how the Treasury will:

- **report in the WGA how it has discharged its finance ministry function, including what action it is taking to improve performance in key areas such as debt collection and minimising losses through fraud and error;**
- **include in the WGA key risks to public finances and how they are being managed, including cross-departmental issues such as reducing claims for clinical negligence;**
- **use the WGA to help inform spending decisions, particularly those that involve long term liabilities, such as the costs of nuclear decommissioning and PFI;**
- **reduce the time it takes to deliver a published account and reduce the number of qualifications;**
- **put in place sanctions and incentives, so that all bodies submit data that is complete, timely, and auditable;**
- **improve the presentation and usability of the WGA so that it is both clear to the lay reader, and comprehensive, with more information to facilitate detailed analysis by category of spend; and**
- **comply with normal accounting rules so that all bodies owned by government and those over which government exerts control are consolidated within the WGA.**

1.1 The Government shares the Committee's vision to make WGA a more meaningful document and to use it to help manage the public finances. Used with other financial data, it should offer useful perspective on the strategic and other significant financial risks that the government faces.

Recommendation implemented.

1.2 The Treasury has already developed plans to address a number of the points raised by the Committee and intends to address the remainder. Plans include:

- a project to consider simplifying annual reports and accounts;
- producing a simplified summary account for the 2011-12 WGA;
- using WGA data in the 2013 Spending Round to challenge and inform decision-making. However, it is primarily for accounting officers to manage their departments to deliver agreed budgets and manage the associated risks;
- publishing WGA within nine months of the year end. The 2011-12 account should be published in the summer, three months earlier than the 2010-11 account;
- improving the quality of WGA by removing qualifications.

1.3 The Treasury disagrees that WGA should comply with accounting rules without adaptation. As permitted by the Government Resources and Accounts Act 2000, the Treasury aligns WGA with national accounts coverage to better support financial management. As WGA develops, the Treasury will keep this approach under review.

Thirty Eighth Report

Department for Work and Pensions

Managing the impact of Housing Benefit reform

Committee of Public Accounts report summary

Housing Benefit helps those on a low income in social or private housing to pay all or part of their rent. It is overseen by the Department for Work and Pensions (the department) and administered by local authorities. Housing Benefit supported some five million households in Great Britain in 2011-12 at a cost of £23.4 billion. As part of the measures announced in the Emergency Budget of June 2010 and the Spending Review of October 2010, the Government is reforming Housing Benefit to reduce annual expenditure. Changes include reductions in the rates paid for private rented sector claimants and deductions in payments to social sector tenants in under-occupied homes.

The department is introducing these significant changes without comprehensive modelling of the likely outcome on individuals or on housing supply and with limited understanding of the costs local authorities will incur. Those individuals who receive Housing Benefit are by definition on low incomes and even small reductions in entitlement can have a significant impact on their finances. The department believes that it is difficult to predict accurately how in practice individuals will respond to the changes it will implement; this places greater responsibility on the department to react quickly when the changes are made.

The reforms to Housing Benefit are expected to curb Government spending by cutting benefits for two million households. The impact of these reforms on claimants' finances may be compounded by other changes to the welfare system, notably the introduction of Universal Credit and reductions in Council Tax Benefit. The department does not believe that it can anticipate or model the impacts of the reforms as they depend on the actions claimants take in response to changes in their individual circumstances. Instead the department plans to adopt a reactive approach, changing rules as problems arise.

Claimants need to understand now how their benefit payments will change and what options they have to minimise the impact on their finances, for example, by taking in a lodger. It is important that strong efforts are made by the department, local authorities and Social Housing organisations to inform claimants about the reforms; however, to date the evidence suggests that they have not been effective. The Committee welcomes the steps taken to tell claimants about changes face-to-face but gaps remain and the department must provide sufficient information to claimants for them to plan and adapt to the consequences of reforms.

The department is confident it will achieve savings of £6.2 billion for the four years ending 2014-15 but has failed to take into account the administrative costs of implementing the reforms. It is not clear whether the extra funds set aside for the Discretionary Housing Payments scheme to help claimants as the reforms are implemented will be sufficient.

On the basis of a report by the Comptroller and Auditor General the Committee took evidence from the Department for Work and Pensions, Professor John Hills, London School of Economics, and Mike Donaldson, Group Director, Strategy and Operations, L&Q, on the Housing Benefit reforms on 17 December 2012. The Committee published its report on 26 March 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The department is relying on a 'wait and see' approach to identify the impact of Housing Benefit reforms, for example on homelessness. The department does not believe that it can anticipate or model the impacts of the reforms as they depend on the actions claimants take in response to changes in their individual circumstances and local conditions. The department plans to monitor emerging trends on homelessness, rent levels and arrears with a view to responding rapidly should the need arise, for example, by changing policy rules on rents or returning to more direct payments to landlords.

The department must monitor changes at a regional and local level and be ready to act rapidly by identifying in advance what action increases in homelessness or rents will trigger and report back to this Committee on the legislative or administrative steps it will take in such circumstances.

1.1 The Government disagrees with the Committee's recommendation.

1.2 It was not possible to assess the full social impacts of the reforms in advance as they depend on the behavioural responses of claimants and landlords, and the success of mitigation measures taken, such as the increases in Discretionary Housing Payments. The department is thoroughly committed to monitoring closely the implementation of Housing Benefit reforms, with the local authorities responsible for its administration. In relation to the removal of the spare room subsidy, it has recently undertaken a programme of assurance visits and telephone interviews, building on the successful introduction of the Local Housing Allowance (LHA) changes in April 2011.

1.3 The department has also commissioned two independent studies to analyse the impacts of the Housing Benefit reforms. The interim findings from the two year study, led by the Centre for Regional Economic and Social Research, Sheffield Hallam University, into the changes to the LHA were published on 13 May 2013.[1] Further to this, the department has commissioned a consortium led by Ipsos Mori and including the Cambridge Centre for Housing and Planning Research to evaluate the removal of the spare room subsidy. The first report of this study is due to be published in late spring 2014.

1.4 However, while the department is prepared to act rapidly should problems emerge, it does not agree that it is appropriate to pre-determine what action should be taken. Future Housing Benefit policy will need to reflect both the details of the evidence and the wider fiscal context.

PAC CONCLUSION AND RECOMMENDATION 2

At the time of the Committee's evidence session, awareness of the reforms and their impact was worryingly low amongst those who will be directly affected. Claimants need to understand how their finances will be affected both by Housing Benefit and wider welfare changes. They also need to know what action they might take in response, for example, seeking employment or additional work or taking in lodgers in under-occupied social housing. The department, local authorities and housing associations have been communicating changes to claimants but awareness is still far too low and the department has not identified the impacts that the reforms will have on individuals.

The department needs a clearer understanding of how benefit entitlements will change for claimants in different circumstances. The department should use this information to work with local authorities, housing associations and social landlords to raise awareness of the reforms and explain the impact on individuals using both face-to-face and written communication.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Local authorities are statutorily responsible for the administration of Housing Benefit, including communications with claimants. In order to encourage and help local authorities to have an effective communication plan, the department provided them with a toolkit that included model letters and leaflets to publicise the changes, and a best practice guide to encourage the use of communication through telephone calls and face to face meetings. In addition, the department worked closely with the Chartered Institute of Housing to provide guidance[2] to social landlords on the removal of the spare room subsidy. There are many examples of good landlord practice emerging. In particular, some landlords have been contacting affected tenants to support them in considering how they will meet their rent, and where appropriate, assisting them with arranging a move.

2.3 The department has continued to work with local authorities following the publication of the committee's report. This has included providing additional funding for communication activities and administration of the change through the new burdens process. The pre-implementation monitoring of the removal of the spare room subsidy suggests that local authorities have identified claimants individually and made them aware of the impact of the reform and this was supported by a regional press campaign to raise awareness of the change building up to its introduction.

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[1] http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_839.asp

[2] http://www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Making%20it%20fit.pdf

PAC CONCLUSION AND RECOMMENDATION 3

The Department does not seem to have thought through adequately the impact of its position on income from lodgers. Under housing benefit, if a claimant has a bedroom allocated for a sub-tenant or boarder the rental income they receive is taken into account in the assessment. In Universal Credit, there will be no bedroom allocation for a sub-tenant or boarder. The rental income received will be totally disregarded.

The Department must monitor the impact of this change. The Committee will revisit this issue later in this Parliament.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Universal Credit is being monitored continuously throughout its rollout.

3.2 The Committee should note that the change to which they refer will not affect Housing Benefit, which will continue to operate under the current rules. The department has given very careful thought to how support for housing costs can be integrated into Universal Credit without importing all of the complexity and unclear incentives of Housing Benefit.

3.3 At present, sub-tenants and lodgers are included in the calculation of the number of bedrooms to which a Housing Benefit claimant is entitled. Income received is taken into account subject to a disregard. For sub-tenants, the first £20 of weekly income received from each sub-tenant is disregarded, and for boarders, the disregard is £20 plus half of the balance above this level. These arrangements are complex to administer and for claimants to understand. The effect on entitlement is negligible as the room allowance and the income taken into account often cancel each other out.

3.4 In Universal Credit, there will be no allowance for a bedroom for sub-tenants or boarders, but any income received will be disregarded in full. This will be simpler to administer, and will provide an incentive for claimants who have spare rooms to take in sub-tenants or boarders. It will also promote more efficient use of housing stock. Universal Credit is being piloted in the North West and Cheshire region before being rolled out progressively between October 2013 and 2017. The department will continue to monitor progress and consider its response to any issues that arise.

PAC CONCLUSION AND RECOMMENDATION 4

It is not clear whether the increased funding to local authorities to help claimants as the reforms are implemented through Discretionary Housing Payments will be enough. The scheme's funding was not based on an assessment of need but on a judgement made during the Spending Review. The department plans to monitor how local authorities use these funds on a monthly basis.

The department should work with local authorities to measure demand for funding at a local level to target the way that resources are allocated.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Winter 2013.

4.2 The department has put in place a substantial package of financial and practical assistance through Discretionary Housing Payments (DHPs) over the spending review period. The increase in DHPs is aimed at easing the transition for particular groups of people affected by the benefit cap, LHA reforms and the removal of the spare room subsidy in the social rented sector.

4.3 Although the department provides guidance, local authorities have a large degree of discretion over their DHP scheme. They are required to assess each claim on its own merits and may make awards for a variety of reasons. DHPs can help to cover a temporary shortfall in rent, while the claimant seeks employment or alternative accommodation, or adjusts their financial circumstances. Alternatively DHPs can be used for longer term commitments, for example, to support a disabled claimant in a significantly adapted property who is affected by the extension of size criteria to those living in the social rented sector. DHPs can also be awarded to help cover the cost of a rent deposit or rent in advance. This local flexibility is key to the success of the scheme.

4.4 From April 2013, a number of measures are being used to monitor how DHPs are being used to support claimants through the transitional period of welfare reform. Local authorities will record this information and report back to the department biannually. The first return will be collected in autumn 2013.

4.5 The Government contribution to DHPs has been increased to £150 million for 2013-14 and to £120 million for 2014-15. The distribution of funds between local authorities has been agreed following consultation with the local authority associations. Allocations will, as far as possible, target resources according to need within each local authority.

4.6 The additional funding is not based on the replacement of lost benefits resulting from the reforms, nor was it intended to compensate fully for changes in the benefit system. This would undermine the purpose of the reforms. Instead, the Government has agreed to provide some additional resources which local authorities can use to assist those affected in adjusting to a new long-term, affordable approach towards housing support, anticipating that behavioural changes (which the reforms are intended to encourage) will take place. For example, many people will move into employment or seek alternative accommodation without any assistance from the DHP scheme.

4.7 The department held a consultation on the revised DHP guidance for local authorities which was widely seen as very helpful, and ensures that the scheme achieves the right balance between flexibility and consistency.

PAC CONCLUSION AND RECOMMENDATION 5

The Housing Benefit reforms are designed to save £6.2 billion by 2014-15 but the delivery of these savings is uncertain, and indeed the costs of funding Housing Benefit could increase when social rents rise. The department saved less than expected in 2011-12 from the reforms that have been implemented so far. It does not know all the administrative costs of implementing all the planned changes, which could be high for local authorities that cannot process such changes automatically.

The department has committed to fund additional costs incurred by local authorities as a result of the reforms. It should quantify the administrative costs as soon as possible, and prioritise funding to those who will struggle to meet these additional costs.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department has recently provided around £25 million to local authorities to reflect the additional costs incurred in 2013-14 as a result of Housing Benefit reforms and the introduction of the Benefit Cap. This is in addition to the £19 million already provided for costs incurred up to 2012-13. These payments were made on the best possible estimates of the administrative impacts at the time, and were made following consultation with the Department for Communities and Local Government, the Scottish and Welsh Governments and the local authority associations. The department allocated the funding direct to local authorities on the basis of likely need, using information about the geographic distribution of impacts where appropriate.

5.3 The department is committed to monitoring the impacts of the Housing Benefit reforms on local authorities in line with the New Burdens doctrine, and can adjust future payments if evidence shows that the initial estimates were out of line.

5.4 The revised estimate of savings in 2011-12 Annually Managed Expenditure (AME) reflects a number of changes, including the decision to provide a period of transitional protection, which delayed the build-up of savings. The department expects total savings over the Spending Review period to be in line with the earlier estimates.

PAC RECOMMENDATION 6

There is a risk that the introduction of direct payments of housing benefit to tenants living in social housing could lead to an increase in rent arrears and evictions. Housing Associations are increasing their bad debt provision and concerns are being expressed that homelessness could increase.

PAC RECOMMENDATION 6

The department should closely monitor the impact of the changes on social housing landlords and individual families, and respond quickly if there is an unintended adverse impact on the finances of social housing landlords or local authorities.

6.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: The final report evaluating the demonstration projects will be published in Spring 2014.

6.2 The Government intends that direct payment of housing costs to tenants is the default position. To help people into work, it is important to reduce the difference between the experience of being on benefits and the experience of most families in work.

6.3 The department is already considering the impact of direct payments of housing costs on social landlords and tenants through the Direct Payment Demonstration Projects. The most effective methods of helping landlords to protect their revenue streams and safeguard claimants' tenancies are being tested by six local authorities and housing associations throughout the UK to inform Universal Credit design. Outcomes from the project to date are already influencing the development of Personal Budgeting Support, Alternative Payment Arrangements, and the Rent Arrears Trigger within Universal Credit, which will tackle partial as well as total non-payment of rent.

6.4 The projects are being monitored closely by an independent academic consortium led by the Centre for Regional Economic and Social Research, Sheffield Hallam University, which produces regular learning reports for local authorities and housing associations[3]. A final evaluation report is expected to be published in Spring 2014.

6.5 The phased roll-out of Universal Credit allows the department to be responsive to emerging findings. This includes arranging alternative payment methods for tenants with difficulties managing their finances and paying housing costs directly to landlords in specified circumstances. All claimants will be screened at the point of claiming and high risk cases put automatically on to managed payments of rent to the landlord whilst they receive appropriate support.

PAC CONCLUSION AND RECOMMENDATION 7

Reforms to housing supply and benefits can work in opposing directions. The Affordable Homes programme allows social sector providers to charge higher rents to finance the building of new homes. Higher rents will increase the Housing Benefit bill, although more affordable homes should reduce the burden on local authorities.

The department should work with devolved administrations to monitor the net effect of policies on house building and benefit levels and include impacts on housing supply explicitly in evaluations of benefit reforms.

7.1 The Government agrees with the Committee's recommendation.

Target Implementation Date: ongoing.

7.2 The Department works closely with DCLG and the Welsh and Scottish Governments to ensure that the overall impacts on housing supply and benefit spending are considered in policy development and evaluation.

7.3 Changes to Housing Benefit make an important contribution to the Government's deficit reduction strategy. The independent OBR forecasts that the Housing Benefit reforms now introduced will deliver annual savings of around £2 billion by 2014-15. This increases fairness in the system by ensuring people claiming benefits face the same choices about the size and location of their accommodation as people not claiming benefits.

[3] http://research.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_839.asp

7.4 Increasing housing supply is crucial to provide greater choice and ease pressures on rents. Therefore the Department is fully supportive of measures taken by the Department of Communities and Local Government to increase the supply of affordable housing. This includes the £19.5 billion of public and private money being invested in new affordable homes in the period to 2015, to help deliver up to 170,000 affordable homes for rent and home ownership.

7.5 Affordable Rent allows more homes to be built for every pound of funding received in grant, and therefore more people will benefit from subsidised housing with lower rents and more security of tenure. Whilst Affordable Rents generally cost more in Housing Benefit than social rents, this cost is offset by the savings from housing more people currently living against their choice in temporary accommodation and the private rented sector.

Thirty Ninth Report

Department of Health

Progress in making NHS efficiency savings

Committee of Public Accounts report summary

The Department of Health (the department) has estimated that the NHS needs to make efficiency savings of up to £20 billion in the four years to 2014-15. This should allow the NHS to keep pace with the growing demand for healthcare and live within its tighter means. The department reported that the NHS made savings of £5.8 billion in 2011-12, virtually all of that year's forecast of £5.9 billion. The department expects that by the end of 2012-13 the savings made will total £12.4 billion.

The NHS appears to have made a positive start but we cannot be fully confident in the savings figures reported. At local level primary care trusts measure and report savings in different ways. For example, the often significant costs associated with generating savings are not consistently taken into account in reporting the savings achieved. Using national data the department can substantiate only £3.4 billion of the savings reported for 2011-12.

The NHS intends that the quality of healthcare should not suffer as it pursues efficiencies. While performance against a small number of headline indicators of quality, including waiting times and infection rates, was maintained in 2011-12, the Committee is concerned that the need to make savings may be affecting wider areas of care quality, which are not adequately measured.

The NHS is seeking to make savings by reducing the demand for health services, particularly for acute hospital care. This is not intended to restrict patients' access to healthcare, but there are widespread concerns, from patient groups as well as professional bodies, that access to treatments such as cataract and bariatric surgery is being rationed. Such treatments may be classed as of 'low clinical value' but they can make a real difference to a patient's quality of life. Delaying treatment may also lead to greater cost in the longer term. The Committee welcomes the fact that the department has started to work with the Royal College of Surgeons and others to define appropriate thresholds of care.

Most of the savings to date have been achieved through freezing the pay of NHS staff and reducing the prices paid for healthcare. The more challenging, and risky, part of the efficiency drive requires transformation in the way health services are actually provided. Over the four years to 2014-15, such transformational changes are expected to generate 20% of the total savings, but the department expects that by the halfway stage - the end of 2012-13 - just 7% (£875 million) of savings will have been generated in this way.

Changing the way services are delivered means in some cases centralising services (as in the case of stroke care in London) or providing more community-based care, closer to people's homes. This is expected to lead to some hospitals reducing the range of services they provide and departments, and even whole hospitals, closing. Such change is usually contentious and what might make clinical and financial sense is often not supported by local people. The department has not yet convinced the public or politicians of the need for major service change or demonstrated that alternative services will be in place.

The existing payment mechanisms in the NHS were designed to incentivise hospitals to carry out more activity, and does not drive service transformation. The department highlighted that it has introduced national penalties to reduce emergency admissions and payments to encourage hospitals to implement best practice and thereby improve quality and efficiency. However, these measures may not be suitable in every locality and the department has not assessed their impact.

On the basis of a report by the Comptroller and Auditor General, the Committee we took evidence from the Department of Health on progress in making NHS efficiency savings on 14 January 2013. The Committee published its report on 22 March 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The department's data on reported efficiency savings is unreliable. Just under 60% of the savings reported for 2011-12 could be substantiated using national data. At local level, primary care trusts measure and report savings in inconsistent ways that are not always in line with good practice. For example: primary care trusts do not routinely report savings net of the costs incurred in generating them.

To enhance confidence in the reported figures, the department should set out a clear framework, based on simple accepted principles, and require NHS bodies to measure and report efficiency savings against this framework.

1.1 The Government agrees with the principle of the Committee's recommendation.

1.2 In the reformed health system the framework the department has set is one in which NHS England is set clear objectives for which it is held to account. The department does not, however, mandate exactly how NHS England or Clinical Commissioning Groups (CCGs) should assess progress in delivering their own efficiency programmes locally.

Target implementation date: 2013-14.

1.3 The department agrees that it is difficult consistently and meaningfully to aggregate savings from efficiency programmes designed and delivered locally into a single national total and that this has limited the value of such data.

1.4 The Government's mandate to NHS England set an objective for them to ensure good financial management and unprecedented improvements in value for money across the NHS, including the delivery of its contribution, and that of CCGs, to the QIPP programme. The department will hold them to account for progress made but it is for NHS England to decide how they will achieve this and how best they can assess progress and to provide the necessary evidence.

PAC CONCLUSION AND RECOMMENDATION 2

As the Francis report on the Mid-Staffordshire NHS Trust identified, financial pressures may be causing some hospital trusts to cut staff with damaging effects on the quality and safety of care. The finances of some trusts are fragile, and they are struggling to achieve a sustainable position. There is a risk that such trusts may resort to simple cost-cutting rather than finding genuine efficiency savings. The important interaction between financial and clinical sustainability may not be picked up by the department's current focus on a few headline indicators of quality.

In overseeing trust performance, whether itself or through Monitor, the department should make sure that a range of information is brought together to give a complete view of both quality and finance issues.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2013.

2.2 The department agrees the importance of bringing together a range of information on both quality and finance to inform a balanced view and detect problems quickly. In its initial response to the Francis report, the Government has announced that the Care Quality Commission (CQC) will appoint a new Chief Inspector of Hospitals, who will draw on a sophisticated battery of information to make an assessment of every NHS hospital's performance.

2.3 In order to make it easier for patients and the public to understand performance and to ensure there is a single, shared version of the truth, the CQC will produce ratings of overall hospital performance. CQC will work closely with NHS England, Monitor and the NHS TDA in developing the new approach to rating hospitals and agree the methodology for producing an overall rating of providers that brings together a range of data, including CQC's inspection findings, with other commentaries on quality and the Chief Inspector's judgement.

2.4 This will ensure a single set of expectations on hospitals of what is required of them that is aligned with the way in which commissioners, led by clinicians and guided by the views of local patients, can be assured that high quality care is available in the hospitals they source services from. CQC's approach to ratings will allow complex organisations, such as hospitals, to be assessed at different levels and promote service-specific ratings where possible.

PAC CONCLUSION AND RECOMMENDATION 3

The Committee is concerned that the NHS is seeking to make savings by rationing patients' access to certain treatments. The NHS faces difficult decisions about how to secure most value from its limited resources. In the face of growing demand, primary care trusts (and in future clinical commissioning groups) understandably have to make choices and set priorities. However, at present eligibility criteria for access to services are perceived as arbitrary and inconsistent, and it is not clear how improvements in patients' quality of life are taken into account.

Building on the work started by the department, the NHS Commissioning Board should, as a matter of urgency, set clear, evidence-based eligibility criteria for access to services and make these publicly available.

3.1 The Government agrees with the Committee's recommendation.

3.2 However, while it is NHS England's responsibility to set criteria for its directly commissioned services, it is the responsibility of individual CCGs to do so for the services they commission, in line with the NHS Constitution and their legal duties.

Target implementation date: 2013-14.

3.3 Where NHS England directly commissions services it will set clear, evidence based eligibility criteria through its commissioning policies, which will be made available to the public. Where CCGs are responsible, they will remain accountable for commissioning services that are effective and efficient, and in keeping with the NHS constitution, in accordance with their legal duties. NHS England and NICE will support CCGs to do this through provision of practical guidance, resources and tools and NHS England will monitor progress of CCGs in commissioning services that best meet the needs of their patients, through its assurance process.

PAC CONCLUSION AND RECOMMENDATION 4

The NHS has made the obvious savings, particularly through wage freezes, first but will need to change fundamentally the way healthcare is provided to secure the level of savings needed in the future. The Chief Executive of the NHS Commissioning Board has yet to take the necessary action in a number of areas to help the NHS transform how services are provided. The existing payment mechanisms do not encourage NHS bodies to work together to change how services are delivered, for example by moving services out of hospitals and into the community. The Committee welcomes the small number of new financial incentives that have been introduced - such as best practice tariffs - although the impact of these measures has not yet been assessed.

The department and the NHS Commissioning Board should set out their plans for delivering the level of savings required from service transformation, including how they intend to redesign payment mechanisms to encourage NHS bodies to work together.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: during 2013-14.

4.2 The department and NHS England do not develop plans for delivering savings from service transformation in isolation. Rather, service transformation is an integral part of the planning process for CCGs and NHS England's direct commissioning for 2013-14. As part of this, NHS England and CCGs' plans will ensure delivery of sustainable efficiency savings, including through transformational change and clinical service redesign. Additionally, during 2013-14, NHS England will develop a ten year strategy for the NHS. This will provide a high level strategic framework for sustained long term service improvement and financial sustainability. This will inform joined-up local planning for transformation by Health and Wellbeing Board partners.

4.3 NHS England has also committed to developing and overseeing a framework for major service reconfiguration, setting out roles and responsibilities of different organisations to ensure full stakeholder and clinical involvement and developing a range of tools and guidance to support CCGs in delivering transformational change. As part of the authorisation process for CCGs, NHS England have sought assurances that CCGs are taking the necessary steps on service transformation.

4.4 NHS England and Monitor are working to develop a long-term approach to payment mechanisms, so that they are used as effectively as possible to drive better outcomes and better value. They recently published a discussion paper and call for evidence on the future of the payment system.

PAC CONCLUSION AND RECOMMENDATION 5

The public debate about changing how health services are provided needs to be better informed. Local people are understandably resistant when proposals are made which involve closing their local hospital or reducing the range of services it provides. The department needs to persuade the public and set out the logic of the case for service transformation from the point of view of the patient, demonstrating the benefits in terms of the quality and safety of care as well as cost savings.

Unless this is done urgently, the department will continue to face resistance to change and the NHS will struggle to deliver the savings it needs. The electoral cycle could also inhibit the ambitious programme of transformation and the department needs to have regard to that in achieving its savings within the timeframe of the current Spending Review.

The department should develop a coherent, comprehensive and transparent approach to presenting the benefits of service change, to enable it to move forward in this area and achieve the target savings it intends.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2013-14.

5.2 The department agrees the importance of presenting the case for change. During 2013-14 NHS England will develop a ten year strategy for sustained, long-term service improvement that will ensure the NHS continues to deliver. The strategy will be underpinned by significant patient and public engagement and developed in close collaboration with CCGs, local government, and other stakeholders.

PAC CONCLUSION AND RECOMMENDATION 6

It is not clear who will take strategic decisions in the reformed NHS. The reforms involve sweeping changes to the structures of the NHS and working together across organisational boundaries will be crucial to service transformation. As was the case when the Committee considered the future financial sustainability of the NHS in Autumn 2012, it remains unclear who will ensure that individual clinical commissioning groups and trusts work together for the good of the NHS as a whole when strategic health authorities have been abolished.

The department should clarify who will provide this vital strategic direction and oversight in the reformed NHS.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: June 2013.

6.2 The department recognises the importance of close collaboration and it is responsible for providing overall strategic direction and oversight to ensure that the health system is working effectively and efficiently. For example: the department has recently published '*Integrated care and support: our shared commitment*[4]', which sets out how local areas can use existing structures like Health and Wellbeing Boards to bring together local authorities, the NHS, social care providers, education, housing services, public health and others to make further steps towards integration.

[4] https://www.gov.uk/government/publications/integrated-care

6.3 The Health and Social Care Act 2012 requires CCGs and local authorities to work together, through Health and Wellbeing Boards, to make sure their strategies are joined up in delivering key aims including better health and care services and reducing health inequalities. The Act allows CCGs to set their own priorities which are set out in operational plans. NHS England assesses the degree of risk in these plans and uses the NHS planning round to provide assurance that each CCG's plan will deliver its statutory duties to secure the delivery of services and improve outcomes within its financial resources.

6.4 The CCG Assurance Framework will provide a line of accountability on how each CCG is performing against its plan. In doing so NHS England can be satisfied that the requirements of the Mandate that fall to CCG commissioning are being met. The NHS outcomes framework[5] also provides a critical incentive for NHS commissioners to work with others within and beyond the NHS in maximising the quality and value of services.

[5] https://www.gov.uk/government/publications/nhs-outcomes-framework-2013-to-2014

Fortieth Report

Department for Culture, Media and Sport; Home Office; and Cabinet Office

London 2012 Olympic Games and Paralympic Games: post-Games review

Committee of Public Accounts report summary

The London 2012 Olympic Games and Paralympic Games were a great triumph for London and the whole country. Our athletes excelled tens of thousands of volunteers made a fantastic contribution, and the opening and closing ceremonies were widely praised.

The success of the Games demonstrates that it is possible for government departments to work together and with other bodies effectively to deliver complex programmes. The government's preparations were led by the Department for Culture, Media and Sport (the Department); the Olympic Delivery Authority delivered the construction programme on time and within budget; and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG) ensured that the events themselves were so well organised. The Committee now expects the Government to build on the success of the Games by putting the lessons learned from delivering the Games to the best possible effect in delivering other major projects. In this report the Committee makes a number of observations and recommendations which are designed to ensure that this happens.

The £9.298 billion Public Sector Funding Package for the Games is set to be under spent. The Committee welcomes the Department's commitment to reflect on what more it can do to present costs in a way that goes further and brings out those costs associated with the Games and the legacy that are not covered by the Funding Package.

The notable blemish on planning for the Games was venue security, which was a sorry episode. The costs and scale of venue security were vastly underestimated before 2011, and could only be met from the Public Sector Funding Package due to underspends elsewhere. G4S then agreed a contract for providing the necessary security guards, but failed to deliver fully. Thankfully, the armed forces and police were ready and able to step in – the Committee acknowledges their very impressive ability to do so at short notice, and the huge contribution they made to the successful security operation, which passed off without any major problems.

During the Games a large number of accredited seats went unused at events for which the public demand for tickets could not be met, and it is a shame that so few tickets for popular events were available to the UK public. For example, only 51% of tickets for the men's 100 metres final were available to the UK public and only 47% of tickets for the track cycling. International sports bodies and media organisations wield a lot of power and it cannot be easy for individual event organisers to push back at their demands. But, learning from the experience of the London Games, the government, possibly alongside other governments and event organisers, should challenge demands for large numbers of accredited seats.

It is now up to the London Legacy Development Corporation to attract investment in the Olympic Park and generate the promised returns to funders. The Committee is concerned that the lottery good causes do not have any clear influence over decisions about future sales, despite these decisions directly affecting how much will be available to them and when.

On the wider legacy, the Committee looks to the Cabinet Office to provide strong leadership to ensure delivery of the longer term benefits, on which basis the public spending was justified, including opportunities for business, tourism and increased sports participation on the back of the Games. The Committee is keen to see the Government building on the success of the volunteering programme, but are not convinced that it is doing all it can to learn and disseminate lessons and to encourage volunteering opportunities both within sport and beyond.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence from the Department for Culture, Media and Sport, the Home Office, LOCOG, the Ministry of Defence, G4S, the London Legacy Development Corporation and the Cabinet Office on the staging of the Games and plans for delivering the legacy on 12 December 2012. The Committee published its report on 19 April 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The £9.298 billion Public Sector Funding Package is set to be under spent by £377 million, but there is no comprehensive picture that includes all of the wider costs associated with delivering the Games and their legacy. The Department for Culture, Media and Sport (the department) has always reported against costs covered by the Public Sector Funding Package, but this does not include other public sector costs associated with the Games and legacy. The Committee welcomes the department's written explanation of the costs outside the Funding Package.

In its formal response to this report, the department should set out its plans for how it will publicly report the wider costs, and how it will take account of the associated public sector costs in any evaluation of benefits secured from the Games.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 In summer 2013, the department will publish the final report of the *Meta Evaluation of the Impacts and Legacy of the London 2012 Olympic and Paralympic Games*. This report will make an assessment of the impact of individual legacy programmes (both publicly and privately funded) including stating their budgets and sources of funding. *Report 3 of the Meta Evaluation*, published in January 2012, provided a qualitative assessment of how additional these programmes are and whether they are new, existing, enhanced, or brought forward.

PAC CONCLUSION AND RECOMMENDATION 2

Venue security was a sorry episode – poor planning, and then poor delivery. The scale of the requirement for venue security was vastly underestimated, and the estimated cost –over £500 million at the time of our hearing – could only be met from the Public Sector Funding package due to underspends elsewhere. In the event, G4S failed to provide the full number of guards required, and has paid a price for that failure.

The Home Office should capture and share the lessons from the letting and delivery of the security contract to prevent such a failure happening again, focusing on the importance of taking early and timely decisions, developing a full understanding of capabilities, capacity and costs, and ensuring adequate public transparency around any settlements.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The total provision for security in the Public Sector Funding Package established in 2007 was £1,192 million. However, total spending on security from the Package will be £1,072 million, taking full account of spending on venue security by LOCOG. The contract with G4S was not let by the Government and no extra costs to the public purse have arisen from G4S' failure. Although G4S was unable to provide the contracted level of security personnel, the contingency plans initiated by the Government worked well and venue security operations were effectively delivered by LOCOG with support from the Armed Forces, police and contracted staff.

2.3 The Home Office has already assessed and shared the lessons from Olympic and Paralympic security planning and operations with those planning major events here and abroad.

PAC CONCLUSION 3

It is important for public confidence that the full legacy is delivered and the whole of government shares this responsibility. Many central and local Government organisations have responsibility for projects in the legacy programme and the Cabinet Office is now responsible for co-ordinating and assuring delivery of the legacy as a whole.

PAC RECOMMENDATION 3

The Cabinet Office should report publically at the end of September 2013, and each year thereafter for the rest of the decade, on progress with implementing legacy commitments.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Government has already committed to producing annual updates to the legacy plan published in December 2010.

3.3 The Cabinet Office's Olympic and Paralympic Legacy Unit drives and monitors delivery of the joint UK Government and Mayor of London legacy programme. The unit supports Lord Coe as the Prime Minister's Olympic and Paralympic Legacy Ambassador; supports DCMS Ministers as lead Ministers on the Games' legacy; services the Cabinet Committee on Olympic and Paralympic Legacy, chaired by the Prime Minister; monitors delivery of the legacy plans of individual departments and part of the GLA family; and supports communication of the Government and Mayor's legacy plans and achievements. It is producing a written report for publication in July 2013 which will set out progress on Games' legacy delivery in the year since the Games.

3.4 The Games' legacy is a long-term programme. Elements are already subject to separate public reporting. For example: the Active People survey provides six-monthly updates on participation in sports in England and the Minister for Sports and Tourism has set out his ten-point plan for a sporting legacy on which he provides regular updates to Parliament. The Government recognises the need for clear information to be provided publicly about the legacy, although the format of reporting may change over time.

PAC CONCLUSION AND RECOMMENDATION 4

The Cabinet Office risks missing the boat on capitalising on the success of the volunteering programme. The volunteers at the Games did a fantastic job and LOCOG is to be congratulated for organising the volunteering programme so effectively. The Committee was told about programme to support local sports clubs and their effective use of volunteers, and about the work of the Join In Trust to encourage volunteering more widely. But the Committee is not convinced that as much as possible is being done to build a lasting volunteering legacy.

The Cabinet Office should publish a strategy for how it will build a lasting volunteering legacy both within sport and beyond, including measures of success.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The Government is committed to ensuring that there is a long-term legacy of volunteering which continues following the 2012 Games and that this can be seen at all levels of sport and community organisations. In 2013 the *"Join In"* initiative will build on the expertise and enthusiasm of the 2012 volunteers using £2.1 million from Cabinet Office and a further £1.5 million from the Big Lottery Fund and additional corporate sponsorship to run 10,000 events in the anniversary period between 27 July and 9 September 2013, attracting 500,000 people and signing up 100,000 volunteers.

4.3 The Government has established initiatives to build on the spirit of Games-time volunteering and plans to publish a strategy in November 2013 outlining the achievements and plans to maintain a lasting volunteering legacy. This will include the on-going work to maintain the legacy of volunteering. The Government has invested £155 million in "*Places People Play,*" a programme which includes themes to inspire volunteering and to encourage thousands of people to make sport happen in their area. Within that, the "*Sport Makers*" programme is recruiting tens of thousands of new volunteers, aged 16 and over to organise and lead community sporting events across the UK. Over 50,000 people have registered so far.

4.4 To maintain the momentum from London 2012 the Government will encourage the organisers of major sporting events to use volunteers at these events wherever possible. Similarly, the Scottish Government will be relying on volunteers for the 2014 Commonwealth Games in Glasgow. Further initiatives are supported by the Big Lottery Fund

PAC CONCLUSION AND RECOMMENDATION 5

In the early days of competition there were unused accredited seats which could have been sold to the public. While the Committee recognises the need for some accredited seats, the 12%-15% set aside proved to be excessive and the empty seats added to the disappointment of those who could not buy tickets for sold out events. Each empty seat also represented revenue foregone.

Learning from this experience, the Government, possibly alongside other governments and event organisers, should challenge the demands of the international sports bodies and media organisations for large numbers of accredited seats.

5.1 The Government disagrees with the Committee's recommendation.

5.2 Accredited seats are provided under terms of the Host City Contract required by the International Olympic Committee (IOC). The challenge has to come from the respective Organising Committee of the Games (OCOG), supported by the Government, rather than the Government seeking to challenge directly. In this context LOCOG negotiated over two years with the various client groups to see if they could reduce the amount of accredited seating.

5.3 The lesson for the Games organisers of future Games both in the UK and abroad is to ensure early on that the OCOG, with the support of the Government, is pressing down as vigorously as possible on the amount of accredited seating. Governments and OCOGs will need to work closely together on this but it is important that the OCOGs continue to be in the lead on this.

PAC CONCLUSION AND RECOMMENDATION 6

The Committee is not convinced that the Lottery and Exchequer interests in securing financial returns from the development of the Olympic Park will be sufficiently protected by the existing arrangements. The diversion of funds away from lottery good causes to the Public Sector Funding Package for the Games is meant to be offset by them sharing in future returns from development of the Olympic Park site. But lottery bodies are not involved in decisions about the timing and value of sales, which will be made by the London Legacy Development Corporation (a mayoral body) over the next two decades. On current projections the Development Corporation predicts that the first payment to the Lottery will not be until the mid 2020s.

The Government should develop a mechanism to ensure that the London Legacy Development Corporation's decisions are transparent, that decisions prioritise the interests of the Lottery, and that returns to the Lottery are closely tracked over the years to come.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Government is clear that prioritisation of the interests of the National Lottery means applying the mechanisms, which have already been put in place by the Government under the legal agreement between the Government and the GLA, to ensure that receipts from land sales in the former Olympic Park are shared between the GLA and the National Lottery in the proportions agreed. These mechanisms recognise that the timing of land sales in the Olympic Park is a matter for the London Legacy Development Corporation (LLDC) and that the key to delivering receipts and achieving regeneration objectives is getting the best possible value for money outcome from its development programme.

6.3 The LLDC will weigh up a number of regeneration objectives and government policy drivers such as housing need, the creation of balanced communities, the regeneration benefits to be delivered in Stratford and the wider east end of London, the percentage of affordable housing, the creation of jobs and the stimulation of growth, all of which can affect the pace and volume of receipts.

6.4 On tracking, the legal agreement between the Secretary of State and the Mayor requires the GLA to notify the Secretary of State and the Treasury immediately on exchange of contracts in respect of land transaction details, including the land and property to which the transaction relates, completion date, sale price, tax and disposal costs; and within 30 days of receiving the proceeds of land transactions to pay or secure payment by the LLDC to the Secretary of State. On transparency the decisions of the LLDC are already transparent to the extent that they follow the GLA / Local Authority governance procedures, including holding meetings in public. In addition, GLA have an obligation to notify DCMS on all land sales.

PAC CONCLUSION AND RECOMMENDATION 7

There is a real opportunity for other projects to benefit from the experience and skills gained in delivering the Olympic and Paralympic Games. The lessons include those already set out by the Olympic Delivery Authority and by the NAO in its most recent report, and include areas where the Committee has seen weaknesses in other public sector projects. Of particular importance, in our view are the benefits of: investment in up-front planning; designing bespoke delivery models; getting the right people; continuity of senior staff; strict project and risk management; and tight financial control. The government now has the Major Projects Authority to lead on best practice but must not passively rely on the Major Projects Authority as the answer to its problems.

The Government should formalise the collation and dissemination of lessons from the Games to aid delivery of other major projects, and make it a priority to deploy people in roles that use their experience and skills gained from involvement in the Games.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 The key lessons are that more time should be spent on developing and checking an initial detailed total budget; risk needs to be properly understood and its financial implications carefully managed; there need to be strong incentives and controls to ensure savings are maximised. It is essential to have the right individuals with the right skills in the right roles at the right time. Quick decisions and robust but flexible governance structures are critical to effectiveness in a multi-funder multi-agency world. Transparency is key to delivering to time and budget. These conclusions have been conveyed through a high level seminars and discussions.

7.3 Lessons from the Olympic Delivery Authority's management of the large scale Olympic construction and infrastructure project have been passed to the Major Projects Authority (MPA) which hosts the ODA Learning Legacy website.[6] The aim is that the many important lessons from the successful delivery of the Olympics are applied to other major projects. MPA is examining options for a digital "one stop shop" platform that stores lessons learnt from a wide range of projects in an easily searchable resource library. This would ensure best practice is disseminated widely. MPA are also looking at how best practice from the private sector can be applied to Government projects.

7.4 Through the MPA leadership programme Government is equipping project leaders with the skills needed to lead successful projects. MPA will support the deployment of project leaders to priority projects where they are needed and the removal of poor performers. MPA also host the civil service wide Project Leaders Network, experts who between them are building a profession of Project Leadership across the Civil Service. A number of staff working on London 2012 have been redeployed on projects that benefit from the expertise that they gained in their London 2012 roles including High Speed 2; Network Rail; the London Legacy Development Corporation; Transport for London and Universal Credit.

[6] http://learninglegacy.independent.gov.uk/

Forty First Report

Department for Education

Managing the expansion of the Academies Programme

Committee of Public Accounts report summary

Academies are publicly funded independent state schools. They are funded directly by central government, directly accountable to the Department for Education (the Department), and outside local authority control. They have greater financial freedoms than maintained schools, for example to set staff pay and conditions. In May 2010, the Government announced its intention to allow all schools to seek academy status. By September 2012 the number of open academies had increased tenfold, from 203 to 2,309.

Academies are the Department's chosen vehicle for school reform, but increasing schools' autonomy and removing them from local authority control gives the Department responsibility for ensuring value for money. The Department has a direct responsibility to ensure that taxpayers' funds are used wisely at academies. The Department has incurred significant costs from the complex and inefficient system it has used for funding the Academies Programme and its oversight of academies has had to play catch-up with the rapid growth in academy numbers. The Department and its funding agency need to increase their grip on the risks to public money as more and more schools become Academies.

In the two years from April 2010 to March 2012, the Department spent £8.3 billion on Academies; £1 billion of this was an additional cost to the Department not originally budgeted for this purpose. Some of this expenditure led to unnecessary extra money being used by the Department which was not recovered from local authorities. To give Parliament and the public confidence that the Programme is being properly run in the interests of taxpayers, the Department must improve the efficiency of its funding mechanisms and stop the growth in other costs.

Although the Department has decided to radically reduce its own running costs, it still needs to demonstrate that its oversight regime can keep pace with increasing academy numbers. It needs to ensure that accountabilities, roles and responsibilities are clear, and that it has robust mechanisms for identifying and tackling academic or financial failure in academies. Furthermore, the Department has yet to establish effective school-level financial accountability for academies operating within chains.

What will determine whether the Department ultimately achieves value for money is academies' impact on educational performance relative to the investment from the taxpayer. If the Department is to be held properly to account for its spending on academies, it must insist that every Academy Trust provides it with data showing school-level expenditure, including per-pupil costs, and with a level of detail comparable to that available for maintained schools. The Department must then publish this data so that proper judgments and comparisons can be made by Parliament and the public.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence on the expansion of the Programme from the New Schools Network and the Local Schools Network from the Department for Education, and the Education Funding Agency on 3 December 2012. The Committee published its report on 23 April 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The value for money of the Academies Programme will ultimately depend on its impact on educational performance relative to the investment from the taxpayer. The department has chosen to expand the Programme rapidly, incurring an additional cost of £1 billion since April 2010. While it is too early to assess the impact of the expansion on school performance, the department will need to be able to demonstrate whether value for money has been achieved. It has yet to state how it will do so, or when.

The department should set out what outcomes it aims to achieve from the expansion of the Programme, and how and when it will demonstrate whether progress is on track and value for money has been achieved.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2013.

1.2 The department's approach to assessing the value for money of the academies programme has already been set out in the Accountability System Statement.[7] This explains that the aim of the academies programme is to raise standards across the education system. Its success will be judged by the increase in the quality of educational outcomes for the financial investment. Educational achievement and outcomes are measured in the same way for all schools through test results and inspection.

1.3 The department has already published the principles of its value for money framework in its Accountability System Statement and will publish further details of the framework for academies on the Department's website by September 2013. The department will also highlight the importance of achieving value for money to academy trusts through the Academies Financial Handbook. Academy trust Accounting Officers will be asked to include a statement demonstrating achievement of value for money alongside their financial statements.

1.4 The department published the Academies Annual Report[8] on the progress of the academies programme which sets out the latest attainment data and performance trends. The consolidated expenditure of academies will be included in the department's Annual Report and Accounts, and academy trusts produce their own accounts. Increasing evidence for assessing value for money will become available over time and should be seen in the context of the economic and societal benefits the programme delivers.

PAC CONCLUSION AND RECOMMENDATION 2

Inefficient funding systems and poor cost control have driven up the cost of the Programme. A large part of the £1 billion additional cost since April 2010 has been caused by the excessively complex and inefficient academy funding system which has reportedly led to overpayments and errors in payments to Academies There was around £350 million extra paid to Academies which was not recovered from local authorities. This system does not operate effectively alongside the local authority system, and makes it hard for the department to prove that academies are not receiving more money than they should. The department has not yet brought other types of cost growth under control, for example academy insurance.

The department should report back to the Committee by the end of 2013-14 on how its funding reforms have reduced systemic problems such as the under-recovery of academy costs from local authorities, and on how far it has brought down other additional costs.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2014.

2.2 The department has already made good progress in reforming the inherited funding system in order to address inefficiencies. This includes simplifying and making more transparent local formulae from 2013-14, including the introduction of a standard pro-forma for local authorities to set out details of their formula. This will improve the basis for providing equivalent funding for academies. The department has also made changes to reduce the time lag in calculating budgets, which will reduce the difference between what the department pays to academies and what the department recovers from local authorities.

2.3 Costs have also been driven down in many areas of the academies programme, including reductions to start-up grant, introducing a new Education Services Grant to replace the previous Local Authority Central Spend Equivalent Grant (LACSEG) and reforming the arrangements for funding insurance costs in academies.

2.4 Many of these reforms will be implemented from September 2013. The department will write to the Committee on the impact of these changes on the cost of the programme in April 2014.

7 http://www.education.gov.uk/aboutdfe/departmentalinformation/reports/a00214167/system-statements

8 http://www.education.gov.uk/schools/leadership/typesof schools/academies/a00210582/annual-report-2010-11

PAC CONCLUSION AND RECOMMENDATION 3

The Committee is not yet satisfied that individual academies' expenditure is sufficiently transparent to parents, local communities or Parliament. Despite some improvements, key information on what academies actually spend is still only available at trust, rather than individual academy, level. This limits the ability of parents to scrutinise how their child's school is spending its money, and of communities to hold their local school to account. The department must publish data showing school-level expenditure, including per-pupil costs, and with a level of detail comparable to that available for maintained schools, so that proper judgments can be made and comparisons drawn to assess value for money.

The department should state how it will make robust, line-by-line information on individual academies' expenditure publicly available in the most cost-effective way.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2014.

3.2 Information is already publicly available on individual academies. The Education Funding Agency (EFA) allocates budgets at individual academy level within multi academy trusts and this information is published on the department's website and in the EFA e-bulletin. Information on the educational outcomes of individual academies is already available in performance tables and Ofsted reports.

3.3 The department is enhancing transparency further by increasing the range of information and its ease of public access. Each year the EFA issues an Accounts Direction setting out the information required in academy trust annual accounts. From 2012-13, this information will include:

- **an analysis of central services:** this will require multi-academy trusts to include in their financial statements: the types of central services they provided to their constituent academies during the year; the basis on which they made the charges; and the amounts charged to each constituent academy for those services;

- **an analysis of the fund balances held by each academy within a trust at the year end:** this will require multi-academy trusts to include a table in their financial statements that shows how much of their overall cumulative surplus or deficit related to each constituent academy at 31 August. Where an academy is in deficit the trust will be required to describe the reasons for the deficit and the action the trust is taking to deal with it. The department is also requesting single academy trusts to include such a description in their financial statements;

- **analysis of academies by cost:** this will require multi-academy trusts to include a table in their financial statements that shows how much each constituent academy has spent, and for completeness how much was spent on central services, during the year to include: teaching and educational support staff; other support staff; educational supplies; and other costs, excluding depreciation. The disclosures will form part of the financial statements and will be subject to statutory audit.

3.4 Academy trusts are also required to complete an annual benchmarking return which includes a more detailed breakdown of academy trust expenditure. It is subject to audit although this is limited in scope as the return does not form part of the statutory accounts for the trust.

PAC CONCLUSION 4

New governance, compliance and oversight arrangements for academies remain vulnerable to failure. Some serious cases of governance failure and financial impropriety in academies have gone undetected by the department's monitoring, raising concerns that central government may be too distant to oversee individual academies effectively. Irregular expenditure by academies and gaps in the oversight framework led the Comptroller and Auditor General to qualify the 2011-12 accounts of the department and the Young People's Learning Agency. Academies' compliance with mandatory monitoring is not good enough, and it is not yet clear how well revised audit arrangements will address these issues in future.

PAC RECOMMENDATION 4

The department and the Education Funding Agency should review the operation of the new audit and oversight regime put in place this year, and assess whether it is reducing risks to regularity, propriety and good governance.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2014.

4.2 The Accountability System Statement sets out the department's approach to ensuring accountability, which includes systems and processes for reducing risks to regularity, propriety and good governance. The implementation of regularity audit for 2011-12 academy trust accounts provided greater assurance over the use of public funds. A greater proportion of trusts submitted audited accounts for 2011-12 on time than ever before and all those that were expected have been received by the EFA. Overall the number of significant issues raised by auditors on 2011-12 trust accounts was low.

4.3 The EFA has worked together with the NAO to assess the regularity audit outcomes and this has influenced the development of the regularity audit process for 2012-13. Guidance for accounting officers and auditors was included in the 2012-13 Accounts Direction, issued at the end of May 2013. The EFA is reinforcing this guidance with a series of sector-led events for academies and auditors over the summer period. The EFA will review these arrangements once they have received the 2012-13 academies accounts.

4.4 In addition to the increased regularity assurance, the department and the EFA have a robust process for investigating suspected cases of fraud and financial and governance irregularity. The findings from the EFA's own anti-fraud activities are regularly assessed by their Audit Committee.

PAC CONCLUSION AND RECOMMENDATION 5

Forthcoming staff cuts at the department and its agencies may threaten effective oversight as the Programme continues to expand. We are sceptical that the department has sufficient resources to properly oversee the expanding Programme, especially as schools now joining are less high-performing and may require greater oversight and scrutiny.

The department should review the Programme's central resource requirements, and the extent to which efficiency savings expected from new IT systems and assurance processes are being realised, and are sufficient to offset the need for further resources.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2015.

5.2 The department has undertaken a comprehensive review of its functions and is now implementing the findings of that review. The review was designed to ensure that the department is able to oversee the education system in an effective and efficient way. It identified as a key issue the need to manage growing numbers of academies without a corresponding increase in central resources.

5.3 As a result the department has been reviewing all the processes relating to academies. It is increasingly differentiating projects according to the level of risk and has already introduced a ''fast track" route for particular projects. It is standardising and automating processes, reducing the resource required, meaning staff can be re-deployed into work with open academies. The department is also improving its assessment and monitoring of the capacity and capability of academy trusts and sponsors, and is working with external auditors to ensure that assurance arrangements for academy trusts are robust.

5.4 The department will continue to regularly review all business processes to ensure they are as effective as possible. The department is also investing significantly in new IT systems to deliver efficiency savings and will continually review these plans and their implementation.

PAC CONCLUSION AND RECOMMENDATION 6

The department has still not made completely clear the roles, responsibilities and accountabilities of different organisations across the changing schools system. Roles previously carried out by local authorities around accountability, performance monitoring and intervention are unlikely to be operating consistently and effectively across different localities and academy structures. We are particularly concerned that interventions in failing academies may be delayed if the respective roles of central and local government, as well as academies and academy trusts, are not clear.

The department should clarify and properly communicate the roles and responsibilities of local authorities, academy sponsors, the Education Funding Agency, the department, the Office of the Schools Commissioner and Ofsted regarding these aspects of the Programme.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The roles, responsibilities and accountabilities of the department, EFA, academy trusts and academy sponsors, Ofsted and local authorities, in relation to academies and other types of schools, have already been set out in the Permanent Secretary's Accountability System Statement in 2012.

6.3 The department also set out the position in two pieces of revised statutory guidance in 2012. "*Schools causing concern - guidance for local authorities*" is clear about the department's expectations of local authorities where schools are either underperforming or failing.[9] "*Statutory Guidance on the Roles and Responsibilities of the Director of Children's Services and the Lead Member for Children's Services*" outlines wider expectations in relation to the education system and ensuring achievement for all children.[10]

6.4 The department was clear in its 2010 White Paper[11], and has been clear in all its subsequent communications with local authorities, that they should raise any concerns about an academy's performance either with the sponsor, Ofsted, or direct with the Secretary of State so that early and effective action can be taken. Ofsted, as an independent inspectorate, publishes its policy in relation to the inspection of academies and other schools on its website.[12]

6.5 The department is actively intervening with academies where necessary and does not believe that action has been delayed by any lack of clarity in the roles, responsibilities and accountability of local authorities, academy trusts, the department and Ofsted.

[9] http://www.education.gov.uk/aboutdfe/statutory/g00192418/scc

[10] http://www.education.gov.uk/aboutdfe/statutory/g00206029/statutory-guidance-on-the-roles-and-responsibilities-of-the-director-of-childrens-services-and-the-lead-member-for-childrens-services

[11] https://www.gov.uk/government/publications/the-importance-of-teaching-the-schools-white-paper-2010

[12] http://www.ofsted.gov.uk

Forty Second Report

HM Treasury

Planning economic infrastructure

Committee of Public Accounts report summary

Infrastructure UK, an advisory unit within the Treasury, was established in 2010 with a remit to specify what economic infrastructure is needed in the UK, to identify the key barriers to achieving that investment and to mobilise systems and resources, both public and private to make it happen. The first National Infrastructure Plan was published in 2010. The latest update of the plan, published in December 2012, comprised over 500 prospective programmes and projects for new economic infrastructure expected to cost £310 billion. Some 64% of this amount is expected to be spent on infrastructure that will be wholly owned and financed by the private sector. Consumers will bear most of the cost of this new infrastructure through bills for utilities and other services.

Investment in economic infrastructure is needed to replace ageing assets, improve public services and stimulate economic growth. Many of the investment proposals impact on energy supply and are therefore particularly time critical. The Committee believes that this will lead to higher costs which will be borne by consumers. The Committee is particularly concerned at the impact of higher energy bills on those with low incomes. However, the Committee is not convinced that the current proposals represent a rigorous plan with clear priorities for action or with a clear programme for delivery.

The Treasury has identified 40 key projects and programmes. However, many of the programmes are broad categories and in total they include more than 200 individual projects. This does not suggest a properly targeted and prioritised infrastructure plan. The Treasury will need to work more forcefully with departments, regulators, contractors and investors to agree the priorities for the projects that will be undertaken and the ways in which the costs both for consumers, through bills, and taxpayers, through various forms of support, will be identified and contained. This needs to be addressed urgently.

The Government also needs to ensure that the legislative and regulatory framework provides sufficient certainty to secure the necessary private sector investment in a climate where the competition for capital is internationally competitive. In this regard the statutory framework provided by the Energy Bill is coming rather late in the day when the energy crunch is fast approaching. It is likely that the UK will buy ever more energy from overseas and at a higher price due to the failure to secure investment.

Most of the economic infrastructure investment required will be in the private sector using investment supported by the Government with households bearing the costs through higher bills or fares. In these circumstances greater transparency is needed over investors' costs, risks and rewards and more information is required on the long term costs falling on consumers in a form that will allow them to judge how they might respond.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence on Planning for Economic Infrastructure from participants in the infrastructure sector, the Treasury, the Department for Transport and the Department for Energy and Climate Change on 6 February 2013. The Committee published its report on 29 April 2013.

Government responses to the Committee's recommendations

PAC CONCLUSION 1

The Treasury's Infrastructure Plan is a list of projects, not a real plan with a strategic vision and clear priorities. The Committee is not convinced that a plan requiring £310 billion of investment in infrastructure is credible given the current economic climate, the cutbacks in public finances and the difficulty in raising private finance for projects on acceptable terms. The Treasury maintains that it has prioritised 40 projects and programmes, but as many of these programmes encompass broad areas this list covers over 200 individual projects whose relative priority is not clear.

PAC RECOMMENDATION 1

Given the financial constraints affecting both the Government and consumers' ability to fund infrastructure expenditure on this scale, the Treasury should assess how much investment can realistically be financed and develop a coherent strategy using tightly defined criteria to identify and prioritise projects.

1.1 The Government disagrees with the Committee's recommendation.

1.2 The National Infrastructure Plan (NIP) is far more than a list of projects, and represents a step-change in the Government's approach to infrastructure. It includes performance indicators for infrastructure sectors and sets out a comprehensive and detailed strategy for coordinating and planning public and private investment. In response to industry demands for greater visibility over the future Government funded construction projects and private sector infrastructure, an investment pipeline was also created as part of the NIP. This allows the private sector to make more informed decisions, and the public sector to employ better coordination. The Top 40 projects and programmes are a clear prioritisation of the UK's infrastructure needs. The list does contain a larger number of individual projects. However, this reflects the need to include significant programmes, such as roads, which are made up of multiple projects which individually would be too small to capture.

1.3 £33 billion of financing a year is currently being invested in infrastructure, largely through public expenditure and the use of corporate balance sheets, such as in the water sector. The financial challenge of securing infrastructure investment is limited to a smaller section of projects that amounts to far less than the £310 billion cited as many projects have already secured funding. Furthermore, most of the actual investment needed will be met by corporate balance sheets, public funds and Network Rail. Only a limited number of specific projects which need specialist structured finance solutions are at risk of not obtaining finance. To help these schemes, the Government has made available the UK Guarantees scheme to ensure they proceed, but is also encouraging long term investors into the market as a permanent source of funding for these types of schemes.

1.4 The Government focuses activity within the Top 40 projects through the Economic Affairs (Infrastructure) Cabinet sub Committee, Given the huge variety of projects and programmes across the UK economy, further prioritisation would not be useful or credible.

1.5 However, there is always room for improvement and the NIP is a constantly evolving document – for example, the department will consider making more use of independent advice to inform its infrastructure strategy and the NIP and investment pipeline will be updated in late 2013.

PAC CONCLUSION 2

Uncertainty over Government policy can deter or delay investment in infrastructure projects and lead to additional costs. Investors will be reluctant to invest in projects until the Government policy is clear and consistent. They will be reluctant to invest if they are concerned that future policy changes may affect them adversely or they may require a higher return to reflect this risk. The Government plans are inevitably subject to change, but unexpected changes create unnecessary investor uncertainty. The removal of the exemption from the 2009 Climate Change Levy for some combined heat and power plants in the 2012 Budget when investors had been assured the exemption would last until 2023 is an example of such a change that affected investment returns.

The Treasury should work with departments to ensure that the consideration of policy proposals takes into account their potential impact on infrastructure investment and that unexpected changes are minimised to provide greater certainty to investors over the Government plans.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Treasury already works with other Government departments to ensure that the impacts of policies are considered fully before implementation and that any unexpected changes are managed effectively and provide minimum disruption to investors. This is done through a variety of methods including the regulatory process, control periods such as those set by Ofgem, Ofwat and the ORR, and the Spending Review process, which sets firm expenditure plans for Government departments. For example: Ofgem regulates energy network companies through five-year price control periods which place curbs on expenditure and provide incentives to be both efficient and innovative. The price controls set the maximum amount of revenue which energy network owners can take through charges.

2.3 Lack of certainty for investors has been of greatest issue in the energy sector. The Government is working to provide clarity to investors. Through *Contracts for Difference*, the Government's *Electricity Market Reform* (EMR) will provide guaranteed and stable revenue for those investing in low-carbon generation. This will lower the cost of capital and help developers secure the large upfront capital required.

2.4 There will be transitional arrangements in place to avoid any potential investment hiatus created by uncertainty before the enduring EMR regime is in place – following Royal Assent to the Energy Bill in late 2013. Similarly, the *Carbon Price Floor* was introduced in Budget 2011 and active from April 2013, with a clear trajectory set. By increasing the cost of energy from carbon intensive generation, the Government is giving a clear signal to the market of the UK's commitment to low-carbon alternatives.

2.5 The Government also published its *Gas Generation Strategy* alongside Autumn Statement 2012. The strategy sets out the Government's expectations for the role of gas power in the UK's energy mix, allowing gas generators to also invest with confidence. The Government is committed to the grandfathering arrangement for all existing energy policies, so investors have confidence in the terms on which they have invested.

PAC CONCLUSION AND RECOMMENDATION 3

It is not clear what level of Government support will be required to ensure that these investment projects proceed. In order to attract the private finance required to implement these infrastructure projects at a reasonable cost the Government may have to provide different forms of support including direct grants, guaranteed prices for outputs, or agreeing to bear certain risks.

The Treasury and departments should identify the support that will be required and the costs involved. Government support will be paid for by either the taxpayer or the consumer so openness and clarity about the impact of Government decisions is essential.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Departments are actively engaged in identifying the level of support required to support infrastructure investment where appropriate.

3.3 The Treasury has launched the UK Guarantees scheme, which will provide up to £40 billion of government-backed guarantees to infrastructure projects that would normally have obtained financing, but have struggled because of constraints in the long term debt markets. A thorough risk management process ensures that potential costs to taxpayers are minimised. The Government has also reformed Private Finance Initiative (PFI), and launched its successor, Private Finance (PF2), which has increased transparency on all projects where Government holds a public sector equity stake.

3.4 In the energy sector, through its *Electricity Market Reform* (EMR) package, and in particular *Contracts for Difference* (CfDs), the Government is making clear the precise nature and level of support that it will provide to those investing in low-carbon electricity generation. CfDs are long term contracts that provide stable revenues for investors in low carbon energy projects at a fixed level known as a strike price. This works by topping generators up from the day ahead wholesale price (reference price), to the strike price. National Grid is undertaking the analytic work, on behalf of the Department of Energy and Climate Change, which will inform the setting of the strike prices.

3.5 The Government support for low carbon electricity generation through CfDs sits within the context of an overall Levy Control Framework (LCF). In November 2012, the Government announced that the LCF would rise to up to £7.6 billion in 2020 (2012 prices). This means that energy customers and investors alike can see with certainty the long term ambition of the UK to invest in low carbon energy and can identify the costs involved. The Government will shortly be publishing, alongside the EMR Delivery Plan, the profile of the LCF from 2015-16 to 2020-21. This will increase further visibility of the Government's plans for investment in the energy sector.

PAC CONCLUSION AND RECOMMENDATION 4

Investors must accept some degree of transparency over their costs, risks and rewards in delivering infrastructure projects given that the costs of government support will ultimately fall on taxpayers and consumers. Most economic infrastructure investment takes place in a private sector market where investor returns are often supported by Government and households bear the costs of infrastructure in their bills. In return, investors should provide sufficient information to show that their returns are reasonable and that any Government support is justified.

The Treasury should require investors to supply the information needed to facilitate this transparency and should reserve the right to audit such information.

4.1 The Government agrees that investors should be required to supply the information needed to facilitate transparency, but disagrees with the recommendation that this is a role for the Treasury

4.2 Where markets are regulated, such as water, regulators ensure returns are reasonable as part of their regulatory duty. For example, Ofwat is responsible for setting limits on the prices charged for water and sewerage services and takes account of proposed capital investment schemes (such as building new wastewater treatment works) to ensure that returns are reasonable. In the rail sector, as well as assessing Network Rail's plans for investment through the *High Level Output Specification*, the ORR is undertaking a transparency program to make the rail industry more accountable, including publishing official statistics and providing disaggregation of Network Rail's income and costs.

4.3 The Highways Agency (the Agency) has embarked upon a programme of improving their -Cost Intelligence. The Agency recruited commercial specialists, invested in systems and trawled historic cost data from some 65 major schemes. The Agency has built up a database which, alongside expert knowledge and judgement, enables the organisation to know what the construction of their future assets should cost. During 2011, the advantages of this approach became clear. The Agency is working with industry to agree savings of nearly £200 million from submitted tenders. Infrastructure UK has also undertaken a cost review of the costs of delivering infrastructure, which has identified efficiency savings of at least 15% by 2015, worth £2-£3 billion per annum.

4.4 The use of a *Regulated Asset Base* (RAB) also provides a means for determining charges and spreading impact on customers over time. It allows for a regulated rate of return and increases transparency on investments and assets in relevant sectors. Where markets are competitive it is for the competitive process to drive down costs, and in these circumstances it would not be for the Treasury to audit a private company.

4.5 PF2 has also increased transparency over their costs, risks and rewards in delivering infrastructure as it requires the private sector to provide actual and forecast equity return information for publication, and to publish an annual report detailing project and financial information on all projects where Government holds a public sector equity stake. Private sector equity funding competitions will further provide a transparent market price for public sector equity to be set. The Treasury will also publish an annual report on the public sector's investments, including actual and forecast equity returns of individual projects and of the portfolio.

PAC CONCLUSION AND RECOMMENDATION 5

Consumers will bear the brunt of the costs of the projects in the Infrastructure Plan through higher charges but the burden they face has not been quantified. Most of the costs of economic infrastructure will fall on citizens as consumers rather than taxpayers. With household budgets under pressure consumers have limited scope for adjusting their spending on costs arising from infrastructure investment in many areas such as utility bills and fares.

The Treasury should identify the impact of planned infrastructure expenditure on the disposable incomes of different types of households.

5.1 The Government agrees with the Committee's recommendation. The Government agrees that the impact of planned infrastructure expenditure on the disposable incomes of different types of households should be identified, but disagrees with the recommendation that this is solely a role for the Treasury

5.2 Whilst the Government understands the pressure on households in difficult economic times, it believes that the impact of bills is best managed at a sectoral level taking into account a range of cost inputs of which infrastructure is only one component. For the majority of sectors, an independent regulator will look at impacts across different types of households. For example, every five years Ofwat set limits on the prices which UK water companies can charge to their customers in a price review.

5.3 The Government then supplements this work through a variety of schemes to help vulnerable households manage their bills. In the energy sector these include initiatives such as the *Warm Home Discount* which requires energy companies by law to give a discount on energy bills to more of their most vulnerable customers, *Cold Weather Payments* of £25 per week triggered by extended periods of cold weather and given to a defined group of means-tested vulnerable households, and the *Winter Fuel Payment* for households with elderly members.

5.4 In addition, the Government has introduced the *Levy Control Framework* and placed a cap on the cost of policies funded through energy bills to ensure that the need for high levels of investment in energy does not impact unduly on consumers. Examples from other sectors include the Water Industry (Financial Assistance) Act 2012 which enabled delivery of the commitment to reduce bills for all household customer of South West Water by £50 per year from April 2013, and a cap on average regulated rail fares increases to the RPI rate of inflation plus 3% has been announced for the years 2012, 2013 and 2014.

5.5 In other sectors, competitive pressure drives down costs, such as in telecoms, and there is no need for Government intervention.

Forty Fourth Report

HM Treasury and HM Revenue and Customs

Tax avoidance: the role of large accountancy firms

Committee of Public Accounts report summary

Confidence in the UK tax system can only be maintained if every company and every individual is seen to be paying their fair share of tax. The Committee held hearings in 2012 to investigate why some multinational companies pay little corporation tax despite doing a large amount of business in the UK, and why some individuals can get away with using contrived schemes to avoid tax. The Committee is also concerned about the role of tax advisors and in January 2013, the Committee took evidence from Deloitte, Ernst and Young, KPMG, and PwC to understand more about the nature of the tax advice they provide.

HM Revenue & Customs (HMRC) appears to be fighting a battle it cannot win in tackling tax avoidance. Companies can devote considerable resource to ensure that they minimise their tax liability. There is a large market for advising companies on how to take advantage of international tax law, and on the tax implications of different global structures. The four firms employ nearly 9,000 people and earn £2 billion from their tax work in the UK, and earn around $25 billion from this work globally. HMRC has far fewer resources. In the area of transfer pricing alone there are four times as many staff working for the four firms than for HMRC.

The Committee was pleased that the four firms agreed that international tax rules are out of date and need to change to reflect the reality of modern business. Modern communications mean companies need as little as a computer and a handful of staff to set up a place of business in a tax haven. Under current tax rules, this can be enough to establish that they can pay their tax there, rather than where the business activity takes place. This is unfair to responsible companies based in the UK who do pay their fair share of tax. The Committee welcomes the Government's commitment to reforming international tax laws, but this will be a lengthy process and, until it happens, the Committee is concerned that companies will continue to find ways to avoid paying tax where they actually do business.

The Committee believes that simplicity is key to fighting tax avoidance. The four firms agreed that tax law is too complex and a simpler system is in everybody's interests. It is disappointing that the Treasury's Office of Tax Simplification is working with fewer than six full time staff and as a result has so far focused on abolishing unused tax reliefs, rather than being able to take a more radical approach to simplifying tax law. Removing unused reliefs may be good housekeeping, but it does little to tackle the problem of complexity and does not prevent the continued abuse of some tax reliefs, such as those to encourage investment in films or donations to charity. The Committee intends to examine those tax reliefs that are widely used and may be subject to abuse at a future hearing.

The four firms insisted that they no longer sell the type of very aggressive avoidance schemes that they sold ten years ago. While this may be the case, the Committee believes they have simply moved to advising on other forms of tax avoidance which are profitable for their clients; such as the complex operating models they offer to major corporate clients to minimise tax by exploiting the lowest international tax rates. The four firms have developed internal guidelines on where the line between tax planning and aggressive avoidance lies, but these principles do not stop them selling schemes with as little as a 50% chance of succeeding if challenged in court. Clearly HMRC has to consider the risk to the taxpayer of a protracted legal battle. It would appear that firms and tax avoiders are taking advantage of the constraints under which HMRC is obliged to operate. Furthermore, HMRC is always constrained by resources.

The close relationship that the four firms enjoy with government creates a perception that they wield undue influence on the tax system which they use to their advantage. They told the Committee that they second staff to Government to provide technical advice on changes to tax laws and that this has improved the quality of legislation. The witnesses conceded that this may give the perception that they are able to influence legislation to help their larger clients to the disadvantage of smaller UK businesses. More worryingly, the Committee has seen what look like cases of poacher, turned gamekeeper, turned poacher again, whereby individuals who advise government go back to their firms and advise their clients on how they can use those laws to reduce the amount of tax they pay.

Since the hearing, HMRC has announced that it is consulting on a set of draft rules to allow departments to ban tax-avoiding businesses from being awarded government contracts. This is a step in the right direction, but the draft rules as they stand are narrowly focused and would not cover those companies providing tax advice. The draft rules would allow firms to win government contracts whilst also advising on schemes that allow their clients to avoid tax. The Committee will want to monitor closely what rules emerge from the consultation process and how they are applied.

On the basis of a report by the Comptroller and Auditor General, the Committee took evidence on tax avoidance from Deloitte, Ernst and Young, KPMG, and PWC on 31 January 2013 to understand more about the nature of the tax advice they provide. The Committee published its report on 26 April 2013

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The UK tax system is too complex and a more radical approach to simplification is needed. Nearly 9,000 of the four firms' UK employees are engaged in tax work. The four firms agree that the tax system is too complex and stated that no-one benefits from this. The Office of Tax Simplification (OTS) is grossly understaffed and has focused on abolishing tax rules that are no longer necessary, rather than more radical simplification.

The Treasury and HMRC should work together to make more radical progress in simplifying the UK's tax code, and should equip the OTS with the resources and influence it needs to help them do so.

1.1 The Government disagrees with the Committee's recommendation.

1.2 The Government agrees that the UK tax system is too complex, but not that a more radical approach to simplification is warranted. The Government's aim is for a tax system that is simple to understand and easy to comply with. To this end, it created the Office of Tax Simplification (OTS) in July 2010 which has delivered significant reviews on small business tax, tax-advantaged and unapproved share schemes, pensioner taxation and tax reliefs. It has also made a number of wider-ranging recommendations for tax simplification that the Government has accepted, including for a single rate of corporation tax and a much simpler tax system for the smallest self-employed businesses.[13]

1.3 The Government believes that complexity in the tax system is not just about the tax rules. It is also about how those rules are administered, and the ease with which taxpayers can both calculate and pay their tax. To this end, the Government announced at the 2012 Autumn Statement that it would significantly expand HMRC's online services over the next three years to vastly improve taxpayers' experience of the tax system.

1.4 The Government believes that the OTS is sufficiently staffed to complete its planned work. In addition to its dedicated staff and secondees, the OTS draws considerable support, expertise and resources from HMRC, the Treasury, and from independent experts.

PAC CONCLUSION AND RECOMMENDATION 2

There is no clarity over where firms draw the line between acceptable tax planning and aggressive tax avoidance. The four firms stated that they would no longer engage in some of the schemes they devised ten years ago, such as the cases they have lost in court. The Committee heard about the guidelines that firms have to govern their tax advice, but they are still devising complex schemes that look artificial and their appetite for risk appears high selling schemes that they consider only have a 50% chance of being upheld in court.

The Treasury should introduce a code of conduct for tax advisers, setting out what it and HMRC consider acceptable in terms of tax planning. Compliance with this code should determine whether or not these firms can access both Government and wider public sector work.

[13] www.gov.uk/government/publications/small-business-tax-review

2.1 The Government disagrees with the Committee's recommendation.

2.2 The Confederation of British Industry (CBI) has published a draft *Statement of Tax Principles*[14] to promote responsible tax planning. This initiative is a valuable contribution to the ongoing national and international debate around corporate tax transparency.

2.3 The ICAEW has also developed its own *Code of Ethics*[15], which it expects all of its members to follow. This Code encourages members to comply with its fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

2.4 Compliance with either the *Code of Ethics* or the *Statement of Tax Principles* will not determine whether or not firms can access government contracts. However, the Government has published separate new guidelines to give departments the discretion to terminate contracts with suppliers that have engaged in tax avoidance themselves.

PAC CONCLUSION AND RECOMMENDATION 3

It is inappropriate for individuals from firms to advise on tax law and then devise ways to avoid the tax. The four firms second staff to the Treasury to advise on technical issues in drafting legislation. They conceded that this may give rise to a perception that they have an influence on the formulation of tax policy that smaller businesses do not have. The four firms maintained that their involvement had improved the quality of legislation, but the Committee was concerned that the very people who provide this advice then go on to advise their clients how to use those laws to avoid tax. The Committee was told by the four firms that the advice they offer to clients in regard to specific tax laws is in line with what Parliament intended those laws to achieve.

The Treasury should ensure that the code of conduct the Committee has proposed for tax advisors sets out how conflicts of interest should be managed when a firm advises the Government on the formulation of tax law and subsequently provides tax advice to clients in related areas.

3.1 The Government disagrees with the Committee's recommendation to stipulate in a Code of Conduct how conflicts of interest should be managed, but agrees that adequate safeguards should be put in place to manage these.

3.2 The nature of the work of the Treasury means staff with specialist knowledge and skills are, on occasion, seconded from the private sector to assist with specific projects where such expertise is needed. That is well established practice right across Government. The Treasury is fully committed to securing benefits brought to the department by staff who have a greater depth and breadth of expertise and knowledge gained as a result of outside experience.

3.3 The Government is committed to better tax policy making and recognises the importance when developing policy of engaging fully with those that will have to operate the rules and with all other interested parties. The Government takes their views into consideration, but ultimately decisions on tax are for Ministers.

3.4 Safeguards are in place to ensure that official information is treated confidentially and that conflicts of interest are appropriately managed. Secondees must sign a tripartite agreement with the Treasury and their permanent employer, pledging to exercise due care in the use of information that they are privy to and not to disclose any confidential information to outside parties, other than in specific limited circumstances, such as where legally required to do so. In the event of any potential conflict of interest arising, secondees must immediately inform Treasury management. Any breach of this agreement may result in disciplinary action and in certain circumstances criminal or civil proceedings.

[14] www.cbi.org.uk/media/2051390/statement_of_principles.pdf
[15] www.icaew.com/en/members/regulations-standards-and-guidance/ethics

PAC CONCLUSION AND RECOMMENDATION 4

The Committee welcomed the four firms' agreement that tax laws are out of date and need revising. The Committee heard that international tax rules have not changed to reflect the way businesses operate globally and through the internet. It is too easy for companies to exploit these rules by setting up structures in low-tax jurisdictions, rather than pay tax where they actually conduct their business and sell their goods and services. The Committee heard helpful examples of ways of better matching taxation with economic activity, as used in some US states.

In line with the Committee's first recommendation in our Nineteenth report, the UK must take the lead in demanding the urgent reform of international tax **law*.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: OECD to publish action plan in July 2013.

4.2 The Government acknowledges that the international tax standards have remained largely the same since they were first established over 100 years ago and may no longer be fit for purpose in a modern globalised economy. That is why, in November 2012, the Chancellor issued a joint statement with the German and French Finance Ministers calling for concerted international cooperation to strengthen international tax standards.

4.3 The UK is taking the lead on this international action, through the G20 and OECD, to address issues relating to base erosion and profit shifting by multinationals. The OECD will be presenting a comprehensive action plan for tackling these issues to the G20 in July 2013.

PAC CONCLUSION AND RECOMMENDATION 5

Greater transparency over companies' tax affairs would increase the pressure on multinationals to pay a fair share of tax in the countries where they operate. The Committee was pleased that the four firms agree that there should be more transparency over where companies make profits and pay tax. The four firms stressed that this information needs to be readily understandable to enable fair comparisons. Tax returns are complicated documents and by themselves would not provide enough context and information for someone who is not a tax expert to interpret.

In the Committee's Nineteenth report, it recommended that companies should publish more information on their tax affairs. In response, the Government told the Committee "*HMRC will continue to work in partnership with the Treasury to ensure strong standards are developed and maintained through relevant international fora such as the OECD*."

The Committee thinks HMRC and the Treasury should push for an international commitment to improve transparency, including by developing specific proposals to improve the quality and credibility of public information about companies' tax affairs.

5.1 The Government agrees with the Committee's recommendation to improve transparency, but does not agree that companies should be forced to disclose details of their tax affairs publically.

Target implementation date: 2013.

5.2 The UK Government is fully committed to promoting international tax transparency and information exchange. The Government strongly supports the Multilateral Convention on Mutual Assistance in Tax Matters and are keen to see as many countries as possible join the Convention and benefit from multilateral information exchange.

5.3 Whilst the Government also welcomes greater transparency by businesses over their tax affairs, it is not persuaded of the case to make legislative changes to require this information to be released publically. HMRC has a statutory duty of taxpayer confidentiality and such disclosures may harm UK competitiveness. However, many businesses already voluntarily release data or other information relating to their tax payments.

PAC CONCLUSION AND RECOMMENDATION 6

HMRC is not able to defend the public interest effectively when its resources are more limited than those enjoyed by the big four firms. The four firms employ almost 9,000 people as part of their UK tax practice. For instance HMRC has 65 transfer pricing specialists whereas the big four firms alone have around 250. In the Committee's report on tackling marketed avoidance schemes, the Committee found that HMRC does not know what level of resource it commits to tackling tax avoidance.

Government must ensure that HMRC is properly resourced to challenge the advice given by the four firms and others to companies and individuals seeking to aggressively avoid tax.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

6.2 The Government considers that HMRC is sufficiently resourced to tackle tax avoidance. Since 2010 the Government has invested almost £1 billion in HMRC to tackle avoidance, evasion and reduction of losses from tax credit error, fraud and debt.

6.3 HMRC will raise total additional compliance revenues of £22 billion per annum by the end of 2014-15. That is £9 billion more in compliance revenues – a 70% increase since 2010-11, which would not have been possible without the Government's additional investment.

6.4 As a result of the combined investment at the 2010 Spending Review and Autumn Statement 2012, HMRC will have increased the number of its staff working on compliance by around 2,500 full time equivalents by the end of 2014-15 compared to 2010-11.

6.5 At the 2012 Autumn Statement, the Government announced funding for HMRC to expand its risk assessment capability across the large business sector and to increase its specialist transfer pricing resources to speed up its work to identify and challenge multinationals' transfer pricing arrangements. As a result of the new investment in HMRC there will be an extra 15 transfer pricing specialists bringing the total number of staff to 80 (almost 25% increase).

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ISBN 978-0-10-186522-7

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