HM Treasury

Treasury Minutes

Government responses on the Twenty Seventh, the Twenty Eighth, the Thirty First, the Thirty Second and the Thirty Fourth Reports from the Committee of Public Accounts
Session 2013-14

Cm 8819 February 2014

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Government responses on the Twenty Seventh, the Twenty Eighth, the Thirty First, the Thirty Second and the Thirty Fourth Reports from the Committee of Public Accounts - Session 2013-14

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

Cm 8819 February 2014

TREASURY MINUTES DATED 27 FEBRUARY 2014 ON THE TWENTY SEVENTH, THE TWENTY EIGHTH, THE THIRTY FIRST, THE THIRTY SECOND AND THE THIRTY FOURTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS - SESSION 2013-14.

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Twenty Seventh Report

Cabinet Office

Charges for customer telephone lines

1: Committee of Public Accounts conclusion

In 2012–13 central government handled at least 208 million telephone calls. The Department for Work and Pensions received 100 million calls and HM Revenue and Customs received 68 million calls. Some 63% of calls to central government were to higher rate telephone numbers. The estimated cost to callers of these calls in 2012–13 was £56 million. Callers to higher rate lines paid £26 million in call charges while waiting to speak to an adviser.

Costs of phone calls using 0845 or other higher rate phone numbers hit the poorest the hardest, particularly because they are most likely to be using mobile phones where the charges are even higher. Departments do not have a clear idea of the extra revenue generated from higher rate numbers. Despite Cabinet Office guidance, departments do not monitor the call revenues that third party providers receive.

1.1 On the basis a report by the NAO, the Committee took evidence, on 2 September 2013, from the Cabinet Office; HM Revenue and Customs; and the Department for Work and Pensions on the charges that people are paying to call Government customer telephone lines. The Committee published its report on 11 November 2013.

Resources

- NAO report: *Cross-Government: charges for customer telephone lines* - Session 2013-14 (HC 541)
- PAC report: *Charges for customer telephone lines* - Session 2013-14 (HC 617)

Government response to the Committee

2: Committee of Public Accounts concern:

A piecemeal approach by departments to customer telephone lines has produced a confusing and inconsistent system for charging callers.

Recommendation:

The Cabinet Office must urgently establish clear principles on charging for telephone calls, providing access to low cost alternatives to high rate numbers particularly for services accessed by vulnerable people and informing callers of the costs involved. These principles should also apply to arms-length bodies (like the Student Loans Company) and private contractors delivering public services. The Cabinet Office must also set out how application of these principles will be monitored and enforced in practice.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Government published guidance[1], in December 2013, which set out principles for departments, including that, for core services, departments should use prefixes offering a geographic rate call as a default policy position. Departments remain responsible for their number prefix choice, but are required to write to the Minister for Civil Society if they do not adopt this position. The cross-departmental group convened by Cabinet Office will publish a status report each year and departments will be asked to provide or publish information on number prefixes. The guidance is aimed at central government departments, public bodies

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/268785/hmg-guidance-customer-service-lines.pdf

within their organisational hierarchy and services provided by external private partners on behalf of the parent department.

3: Committee of Public Accounts concern:
Higher rate telephone lines have a disproportionate impact on vulnerable and low-income groups who are deterred from calling, limiting access to essential services.

Recommendation:
The Cabinet Office should mandate that telephone lines serving vulnerable and low-income groups should never be charged above the geographic rate and ensure that 03 numbers are available for all government telephone lines within 6 to 12 months, prioritising any which predominantly serve vulnerable and low-income groups.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

3.2 The Government published guidance, in December 2013, which set out clear principles for departments, noting that it is inappropriate for callers to pay substantial charges for accessing core public services, particularly for vulnerable and low income groups. There is a strong expectation that departments will follow the principles.

3.3 For core services, departments should use prefixes offering a geographic rate call as a default policy position. However 0845 numbers can currently provide lower charges for callers than 0345 in certain circumstances from some providers, and therefore departments could use a dual numbering system. Cabinet Office has not prescribed specific prefixes, as departments remain responsible for their prefix choice, but departments have been asked to review their prefixes by March 2014, prioritising those serving vulnerable and low income groups.

4: Committee of Public Accounts concern:
Customer service levels are unacceptable and calls take too long to answer.

Recommendation:
The Cabinet Office should establish the principle that public service performance is always measured against industry standards of customer service. Departments should be required to publish on an annual basis their performance against industry standards and where there are shortfalls set out what steps they are taking to improve service levels.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The Cabinet Office does not have the expertise to set out how operational departments should best manage the performance of their customer service lines – this is for departments to set out, given the specific circumstances of the service in question. However the cross-departmental group will consider by spring 2014 whether there are further supporting materials that can be shared to support departments in managing the performance of their lines.

5: Committee of Public Accounts concern:
Departments' arrangements with telephone service suppliers lack the transparency needed to demonstrate whether value for money is being achieved.

Recommendation:
The Cabinet Office must require open-book arrangements for all government contracts where suppliers generate extra money from higher rates. Contracts should require a consistent set of metrics so performance levels can be compared. The Cabinet Office should establish transparent benchmarking arrangements to help departments achieve value for money.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

5.2 Government published guidance in December 2013 which encouraged departments to consider, where the size or complexity of the contract sustains the costs associated in establishing and managing such systems, the use and enforcement of open book arrangements. Departments are required to use Government Procurement Service Framework Agreements to buy numbering services unless there are exceptional circumstances. The features of each framework vary. The PSN Services Framework provides for transparency on charges; inclusion of appropriate metrics; detailed management information; benchmarking and open book facilities. The cross-departmental group will consider sharing further materials to support departments in managing the performance of their lines, but it is for departments to select appropriate performance metrics.

Twenty Eighth Report

Department for International Development

Fight against Malaria

1: Committee of Public Accounts conclusion

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

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

Resources

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

Government response to the Committee

2: Committee of Public Accounts concern:
The department does not presently allocate its resources according to need.

Recommendation:

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

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2014.

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

3: Committee of Public Accounts concern:
The department does not yet understand sufficiently the variations in cost effectiveness between each of its country programmes

Recommendation:

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

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2014.

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

4: Committee of Public Accounts concern:
The department has not been sufficiently selective in allocating money to its country offices.

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

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

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

5: Committee of Public Accounts concern:
The department's on-going growth in expenditure to combat malaria risks creating protracted dependency on UK funding.

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

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

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

6: Committee of Public Accounts concern:
The mass distribution of free or subsidised bed nets suppresses local commercial markets

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

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

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

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

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

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

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

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

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

8.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015.

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

Thirty First Report

Home Office

The Border Force: securing the border

1: Committee of Public Accounts conclusion

The Border Force's 7,600 staff operate immigration and customs controls at 138 air, sea and rail ports across the UK, and in France and Belgium, to prevent 'harmful' individuals and goods entering the UK. In March 2012, the Border Force was transferred from the then UK Border Agency to the Home Office to strengthen management oversight following criticism around relaxation of border controls. The Border Force had five different heads in the 18 months to March 2013, when the current Director General, Sir Charles Montgomery, was appointed. The Border Force has a budget of £604 million for 2013-14, but is facing cuts as part of wider reductions in the Home Office's resources agreed in the Spending Review settlement for 2015-16.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 9 October 2013, from the Home Office and Border Force on the progress and performance of Border Force since its transfer to the department in 2012. The Committee published its report on 10 December 2013.

Resources

- NAO report: *The Border Force: securing the border* - Session 2013-14 (HC 540)
- PAC report: *The Border Force: securing the border* - Session 2013-14 (HC 663)

Government response to the Committee

2: Committee of Public Accounts concern:
The Border Force has had to prioritise passenger checks at the expense of its other duties thereby weakening security at the border.

Recommendation:
The Border Force needs to set out how it will ensure that it delivers its full range of duties across all ports to provide the required level of national security.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2014.

2.2 Border Force is transforming to support its frontline to fulfil its full range of duties, with intelligence enabling the right intervention, by the right resource, at the right time. The Transformation Programme will ensure that this happens through the Target Operating Model, which sets out the organisation's priorities and how they will all be met; the Border Intelligence Review, explaining how we will make response decisions well before targets enter the country, and how improved targeting will focus resources on the highest-risk goods and passengers; and the Operating Mandate, setting out the checks which must always be carried out.

3: Committee of Public Accounts concern:
It is not clear how the Border Force will cope with the growing demands placed on it to secure the border given the limited resourcing at its disposal.

Recommendation:
The Border Force must demonstrate through effective, realistic planning that it can deliver its workload within the resources available.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2015-16

3.2 Border Force is improving the use of technology through investment in next generation e-gates and more sophisticated detection equipment. Strengthening intelligence will increase effective targeting and improve results for less resource. Progress has been made at Heathrow and the programme will be rolled out across BF sites over the next 24 months. Introduction of a workforce planning tool using detailed management information will enable Border Force to efficiently match and deploy resources to forecast demand.

4: Committee of Public Accounts concern:
It was frustrating to the Committee to only see the Independent Chief Inspector's report on e borders on the morning of our hearing.

Recommendation:
The department must ensure that the Public Accounts Committee has proper and timely access to all reports which provide information relevant to the issues the Committee will consider during its hearing.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 Border Force will ensure that the Committee Clerk receives all relevant reports in good time before future hearings.

5: Committee of Public Accounts concern:
Good intelligence is required to control who and what enters the UK, yet there are worrying gaps in the data available to the Border Force to secure the border.

Recommendation:
The Border Force must address the gaps in the data it receives on people arriving in the UK, and the existing data needs to be cleansed to increase the quality, reliability and usefulness of the intelligence generated, to help the Border Force better align its resources to its priorities.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

5.2 Advance Passenger Information coverage has increased since the time of the Committee hearing to just under 80%. Of this commercial air, maritime and rail coverage now stands at approximately 95%, 20% and 0%, respectively. By the end of March 2015, it is envisaged that overall coverage will increase to just over 85%, with maritime rising to over 60%. Over the next 12 months, Border Force will continue to work with the General Aviation community to improve submission of advance data and develop a tool to determine non-compliant flights.

6: Committee of Public Accounts concern:
The Border Force's IT systems are inadequate and its future development plans seem to be unrealistic.

Recommendation:
The Border Force must set out how, and by when, it will have in place the functional IT systems it needs to underpin the security of the UK border.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: late 2014.

6.2 A substantial reappraisal of the Border Systems Programme (most notably the replacement of Warnings Index and Semaphore) is in progress and is due to conclude shortly. Shorter term changes to improve the stability and resilience of the Warnings Index are scheduled in a rolling programme, which will conclude in October 2014.

7: Committee of Public Accounts concern:
The lack of flexibility available to deploy staff and poor morale threaten the productivity improvements required for the Border Force to meet all its duties.

Recommendation:
Senior management in the Border Force must provide the strong and stable leadership needed to provide the organisation with a clear sense of purpose and tackle those barriers which inhibit the flexible and effective deployment of its staff.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: 2014-15.

7.2 The new Director General took command of Border Force in April 2013. His vision, 'to create the best Border Force in the world' is underpinned by clear strategic aims and objectives. The DG has identified leadership as a key enabler to deliver best in the world status and is investing heavily in Border Force's most crucial asset; its people. Work has begun to up-skill the leadership cadre at all levels. The introduction of Border Force Values will energise the workforce and set clear standards across the organisation.

Thirty Second Report
HM Treasury
Whole of Government Accounts 2011-12

1: Committee of Public Accounts conclusion

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

1.1 The Committee took evidence, on 21 October 2013, from the Treasury on the Whole of Government Accounts. The Committee published its report on 12 December 2013.

Resources

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

Government response to the Committee

2: Committee of Public Accounts concern:
Despite some progress the public sector is not yet making sufficient use of the information in the WGA.

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

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 July 2015

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

3: Committee of Public Accounts concern:
The accounts need to be simpler to understand.

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

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: June 2014.

3.2 The Treasury will develop the presentation of the National Accounts reconciliation tables for the 2012-13 Whole of Government Accounts publication to ensure the differences between the two measures are more clearly set out and explained. The Treasury will include additional narrative in chapter three to explain the differences, so that the readers of the accounts can understand why WGA data differs from the National Accounts. The 2013-14 account will also clarify how the directly controlled expenditure figures have been derived.

4: Committee of Public Accounts concern:
Taxpayer losses due to fraud and error are worryingly high.

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

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 July 2015

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

5: Committee of Public Accounts concern:
The credibility of the WGA continues to be undermined by the number of issues that have again led the Comptroller and Auditor General to qualify his audit opinion on the accounts

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

5.1 The Government disagrees with the Committee's recommendation.

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

6: Committee of Public Accounts concern:
Poor quality data still affects the usefulness of the WGA

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

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: 31 March 2015.

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

7: Committee of Public Accounts concern:
Greater transparency of 'off-payroll' arrangements is needed, particularly in the health and local government sector.

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

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

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

Thirty Fourth Report

HM Revenue and Customs

HMRC Tax Collection: Annual Report and Accounts 2012-13

1: Committee of Public Accounts conclusion

HMRC is responsible for collecting UK taxes and duties from businesses and individuals and providing financial support to taxpayers through tax credits. It aims to deliver three strategic priorities: to improve customer service; to reduce operating costs; and to reinvest money from its efficiency savings to generate increased tax revenue. In 2012-13, HMRC reported that it had brought in £475.6 billion of revenue, an increase of £1.4 billion or 0.3% in cash terms compared to 2011-12. Tax revenue therefore fell in real terms in 2012/13 as compared to 2011-12.

1.1 On the basis a report by the NAO, the Committee took evidence, on 16 October 2013, from HM Revenue and Customs on its progress in dealing with various personal tax, business tax and tax avoidance issues. The Committee published its report on 19 December 2013.

Resources

- NAO report: *HM Revenue and Customs 2012-13 Accounts*
- PAC report: *HMRC Tax Collection: Annual Report and Accounts 2012-13* - Session 2013-14 (HC 666)

Government response to the Committee

2: Committee of Public Accounts concern:
The tax gap is a theoretical concept to assess tax revenues lost to the Exchequer.

Recommendation:
HMRC should be explicit about the limitations of its current measure of the tax gap and gather intelligence about the value of tax lost through aggressive tax avoidance schemes. When there are firm plans to change international tax laws to tackle avoidance, HMRC should use this intelligence to assess how much additional tax revenue the changes would generate within the UK.

2.1 The Government disagrees with the Committee's recommendation.

2.2 The tax gap definition, calculation and the limitations are described in detail in the departments' annual tax gap publication.[2] The tax gap measures compliance with existing tax law and is informed by the intelligence the department gathers on the use of avoidance schemes. It does not cover how much tax might be paid if tax laws were different.

3: Committee of Public Accounts concern:
HMRC needs to demonstrate that it deals robustly with individuals and companies who deliberately mislead it.

Recommendation:
HMRC should be more willing to pursue prosecutions against individuals and large businesses to test the boundaries of the law and to demonstrate firm action against those who have knowingly misled or withheld information.

3.1 The Government disagrees with the Committee's recommendation.

3.2 The department already demonstrates firm action against those who cheat the system. It deploys its criminal capabilities, as part of a wider compliance approach and in line with its customer strategy to tackle losses and change behaviours of those targeted. When the behaviour of a taxpayer merits the use of criminal powers the department uses those powers.

[2] http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2013.pdf and http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-annex2013.pdf

4: Committee of Public Accounts concern:
HMRC massively over-estimated how much it could collect from UK holders of Swiss bank accounts and has not been sufficiently vigorous in pursuing outstanding liabilities.

Recommendation:
HMRC must continue to press the Swiss authorities to provide accurate and complete information about amounts held there by UK taxpayers, and pursue more vigorously the amounts owed in unpaid tax.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The UK-Swiss agreement is raising revenue that would otherwise largely remain beyond the reach of UK authorities. The department continues to rigorously press the Swiss authorities to understand why receipts are lower than originally expected by either country. The department will also make full use of the enhanced exchange of information provisions under the Agreement to identify ongoing evasion, and is contacting every person whose details were disclosed under the Agreement to ensure that all tax, which should be paid, is paid.

5: Committee of Public Accounts concern:
In seeking to make the UK more attractive to business, HMRC has not considered adequately the impact that changes to the tax regime will have on the behaviour of large businesses.

Recommendation:
HMRC needs to better understand how companies and their advisers will react to new tax rules and legislation, and prevent unintended consequences. If the department is creating new incentives that may also enable international corporations to avoid tax, then it should be open about any such consequences.

5.1 The Government disagrees with the Committee's recommendation.

5.2 The department already makes extensive use of behavioural insight when formulating policy advice and designing tax legislation, and is continuously improving how it does this. Relevant knowledge is gathered through compliance work, by consulting widely and openly with interested parties on published proposals in line with the new approach to tax policy-making introduced by the Government in 2010, and, where necessary, by engaging private sector expertise. Detailed descriptions of the policy aims, of the expected impact and of the yield or costs of tax measures are published as part of the Budget process.

6: Committee of Public Accounts concern:
HMRC's implementation of its Real Time Information system has been encouraging overall, although some smaller businesses continue to struggle with the transition.

Recommendation:
HMRC should analyse the information it has from its customers to help it understand the problems faced by smaller businesses struggling to adopt RTI, so that it can continue to provide them with effective support.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 In December 2013 the department announced a package of support for the smallest employers, including the ability for employers with 9 or fewer employees to be able to report payments 'on or before' the last payday in the month, rather than every payday until April 16, thus giving them more time to adapt. Research with those who began reporting RTI in April 2013 shows that the majority of smaller employers are finding real time reporting easy. As a result of this package of support and research findings, we are treating this recommendation as implemented.

7: Committee of Public Accounts concern:
The lack of full disaster recovery arrangements in the RTI system means there is a risk that any system failure will delay or introduce errors in payments to Universal Credit claimants.

Recommendation:
HMRC must undertake work necessary to improve the provision for disaster recovery within the RTI system to ensure that correct payments to claimants will continue in the event of a system failure.

7.1 The Government disagrees with the Committee's recommendation.

7.2 The RTI IT systems are already built with high levels of resilience which have been designed based on the Department's assessment of the relative risk and cost. In undertaking its assessment, the department determined that full 24/7/365 disaster recovery was not necessary for tax purposes, and the cost of providing it was prohibitive. In the highly unlikely event of a disaster, arrangements are already in place to ensure that Universal Credit (UC) awards in Pathfinder areas continue. The department continues to work with DWP to assess whether further recovery solutions are needed to support full UC roll out.

8: Committee of Public Accounts concern:
Personal tax credit debt has increased since 2011-12, and HMRC has reduced markedly the amount it expects to recover.

Recommendation:
HMRC should undertake a thorough analysis to identify which tax credit debt is recoverable and write off that which is not, to provide a more accurate assessment of the position before tax credits are transferred to Universal Credit.

8.1 The Government disagrees with the Committee's recommendation.

8.2 The department already pursues all tax credit debts for collection, but does soon an ongoing basis. Those debts which cannot legally be recovered are written off. Those which are uneconomic to collect are remitted.

9: Committee of Public Accounts concern:
HMRC has not done enough to identify potential tax credit error and fraud, prosecute offenders and pursue overpayments.

Recommendation:
HMRC must analyse the cost-effectiveness of the various measures it uses to counter tax credits error and fraud, to establish which provide the best return on its investment.

9.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

9.2 The department analyses the effectiveness of its error and fraud strategy and the interventions that support it and modifies its approach to the changing nature of the risks it identifies accordingly. Its approach to tackling error and fraud in the tax credits system is to strike a balance between return on investment of particular interventions and maintaining coverage across the range of risks.

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