HM Treasury

Treasury Minutes

The Government responses on the First, the Third to the Fifth, the Seventh to the Twelfth, and the Fifteenth and Sixteenth Reports from the Committee of Public Accounts. Session 2013-14.

Cm8697

September 2013

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Government responses on the First, the Third to the Fifth, the Seventh to the Twelfth, and the Fifteenth and Sixteenth Reports from the Committee of Public Accounts. Session 2013-14.

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TREASURY MINUTES DATED 12 SEPTEMBER 2013 ON THE FIRST, THE THIRD TO THE FIFTH, THE SEVENTH TO THE TWELFTH, AND THE FIFTEENTH AND SIXTEENTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2012-13

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First Report

Ministry of Defence

Equipment Plan 2012-2022 and Major Projects Report 2012

Context

The department's ten-year Equipment Plan sets out its forecast expenditure plans to deliver and support the equipment the Armed Forces require to meet the objectives set out in the *National Security Strategy* over the ten years from 1 April 2012 to 31 March 2022. This is the first time the department has reported to Parliament on the affordability of its ten-year forward plan to purchase and support military equipment.

The plan covers forecast expenditure within a planned budget of £159 billion. The Equipment Plan is split between equipment procurement (£73 billion) and support expenditure (£86 billion). The department's Equipment Plan budget is not ring-fenced and must be managed within the spending limits set by the Treasury along with non-equipment expenditure. The Equipment Plan budget for 2012-13 is 39% of the department's total core funding for the year and the department plans to increase it to 45% by 2021-22.

On the basis of two reports by the NAO, the Committee took evidence from the Ministry of Defence on the affordability of its Equipment Plan 2012-22 and the performance of its major projects in 2012 on 4 February 2013. The Committee published its report on 14 May 2013.

Resources

- NAO report: *Equipment Plan 2012 to 2022* Session 2012-13 (HC 886)
- NAO report: *The Major Projects Report 2012* - Session 2012-13 (HC 684)
- PAC report: *Equipment Plan 2012-22 and Major Projects Report 2012* – Session 2013-14 (HC 53)

Government response to the Committee

1: Committee of Public Accounts recommendation

In preparing the next Equipment Plan, the department should demonstrate further improvement by using the performance metrics set out in the NAO report to collect evidence which shows progress in its cost management and forecasting.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The department has already agreed with the NAO that more detailed financial information will be made available for the next annual review of the Equipment Plan. The department will continue to make improvements by gathering detailed information on spend during the current financial year that will allow the department to track more closely how its performance matches the plan.

2: Committee of Public Accounts recommendation

The department needs to make sure that it proactively addresses risks to its key affordability assumptions by scenario planning and having options to further reduce costs should its budget assumptions prove over-optimistic.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department agrees that the affordability of the Equipment Plan is sensitive to assumptions about future budget levels as well as inflation or currency exchange rates; and plans on the basis of the best available estimates. If budget assumptions need to change in a material way, this would be addressed through the spending round, and Strategic Defence and Security Review processes with output / policy adjusted as necessary. Furthermore, the department has adopted an approach to maintain a contingency worth around £4.8 billion over the next ten years as well as headroom in the later years of the decade. The department will commit to new programmes when it is needed and when the department is confident that it is affordable.

3: Committee of Public Accounts recommendation

The department needs to identify and quantify all significant risks to costs at both project and aggregate portfolio level, and use this to inform and justify the amount held centrally as a contingency provision.

3.1 The Government notes the Committee's comments.

Recommendation implemented.

3.2 The department has already explained in the addendum to the Equipment Plan publication how the £4.8 billion contingency was calculated and why it is confident that this is sufficient. The £4.8 billion of contingency funding represents the additional, centrally-held contingency that the department added into the programme. This is in addition to risk funding held within the budgets of individual projects, which totals some £8.4 billion across the ten year planning period. In total, more than 8% of the total equipment budget is allocated to risk and contingency. Beyond this, at departmental level, there is £2 billion of unallocated provision in the ten year forward plans. In addition, there is around £8 billion of headroom in the Equipment Plan for investment in capabilities contributing to the delivery of Future Force 2020, which is yet to be formally or contractually committed.

4: Committee of Public Accounts recommendation

Subject to genuine national security considerations, the department should detail in its annual Affordability Statement the level of capability risk it is bearing and its mitigation plans.

4.1 The Government notes the Committee's comments.

Recommendation implemented.

4.2 The department has published details of specific capability gaps, such as the steps taken to mitigate the capability gap when the Nimrod MR2 was taken out of service and its replacement cancelled. The department will consider what further steps it can do to offer assurances to the NAO and the Committee that it is managing capability risk appropriately. Overall assessments of capability risk are for the Defence Board to consider, and their release could harm national security by compromising the operational effectiveness of the Armed Forces.

5: Committee of Public Accounts recommendation

As part of its contractual arrangements with suppliers, the department should put in place performance metrics which enable it to monitor project progress and hold industry to account for delivery to agreed timescales, particularly in relation to software projects.

5.1 The Government agrees with the Committee's recommendation.

Work in progress: implementation 2014.

5.2 The department understands the importance of setting clear contractual requirements and minimising changes, which can cause delays; increase costs; and allow industry opportunities to blur contract liabilities. The *Better Defence Acquisition* White Paper sets out proposals for systemic defence reforms. The reforms will adopt rigorous change control processes, and an incentive to recognise skills and expertise to perform an intelligent client role and manage industry effectively (in project management, commercial, financial, engineering and technical specialisms). The decision on the future operating model is expected in summer 2014 with implementation phased over several years.

Third Report

Department for Communities and Local Government

Financial Sustainability of Local Authorities

Context

In the 2010 Spending Review, the Treasury set out plans to reduce central Government's funding to local authorities (excluding education, police, and fire) by 26% (£7.6 billion) in real terms over four years - from £29.7 billion in 2010-11 to £22.1 billion in 2014-15. In addition, local authorities are facing constraints on their ability to increase the income they can raise locally. In some cases, this is the result of Government policy - for instance, the statutory regulation that local authorities must seek a referendum if they wish to raise council tax beyond a certain limit (2% in 2013-14). In others, it is the result of wider economic conditions - depressing the potential income from charging for leisure services, for example. Overall, the projected reduction in local authority income is 14% in real terms over four years, once council tax income is taken into account.

During this period the Department for Communities and Local Government (the Department) is also introducing a series of changes to the way in which local authorities are funded. Notably, from 2013-14, local authorities will retain approximately 50% of the Business Rates income they raise locally from shops, offices, and other non-residential properties. Previously, all Business Rates revenue (which amounted to £21.5 billion in 2010-11) was pooled nationally.

On the basis of the report by the NAO, the Committee took evidence from the Department of Communities and Local Government on the 25 February 2013 on the financial sustainability of local authorities. The Committee published its report on 4 June 2013.

Resources

- NAO report: *Financial Sustainability of Local Authorities* – Session 2012-13 (HC 888)
- PAC report: *Department for Communities and Local Government: Financial Sustainability of Local Authorities* – Session 2013-14 (HC 134)

Government response to the Committee

1: Committee of Public Accounts recommendation

The department needs to work with other departments to improve central Government's assessment of the effects of funding reductions and reforms - including how they interact with each other - before the next Spending Review. The department should also work with other departments to ensure monies voted by Parliament for a particular purpose are used to fulfil that purpose.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The department already works closely with other Government departments, and did so ahead of the 2013 Spending Review. In particular, policy announcements on adult social care, children's services and the education support grant were developed closely with the Department for Health and Department for Education, with input from other departments. Funding voted by Parliament for local government is an unhypothecated grant, which is not attributed to specific services or objectives. It is Government policy to scale back and reduce ring fencing to give councils freedom over the money they receive and allows them to make spending decisions based on local priorities.

2: Committee of Public Accounts recommendation

The department needs to improve its understanding of the impacts of funding changes on individual councils, focusing in particular on the outliers which would be worst affected. This must include an understanding of what the impact could be for vulnerable groups

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department understands the potential impact of funding changes on individual council's income. The new measure of spending power looks at the income available to councils from a wide range of sources and measures the cumulative impact of the range of changes affecting them. In the first three years of the spending review, the department has limited reductions in spending power to 8.8%.

3: Committee of Public Accounts recommendation

The department must clarify its role and responsibilities in the event of multiple financial failures of local authorities, and draw up contingency plans for intervention.

3.1 The Government agrees with the Committee's recommendation, although disagrees that the department should draw up contingency plans for intervention.

Recommendation implemented.

3.2 The Department is responsible for the overall system of accountability, as set out in the Accountability Statement. Local authorities are individually required to and responsible for managing and setting balanced budgets within a clear set of regulatory principles and requirements. This includes them having full responsibility for managing their cash budgets within each financial year. Councils have considerable flexibilities to set income and spending levels and to move money between years to achieve this. They can also draw on sector led targeted support to individual needs. On this basis, it is not for the department to draw up contingency plans.

4: Committee of Public Accounts recommendation

The department needs urgently to engage with other departments, local government, and the public in a transparent dialogue as to what services councils will be expected to provide in a prolonged period of declining. This may involve renewed discussion about councils' statutory duties.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The department has engaged closely with other government departments during the 2013 Spending Round and addressed these issues:

- the announcement of £3.8 billion of pooled funding to deliver faster and deeper integration of health and social care, developed with the Department of Health, and working with NHS England and the Local Government Association;
- a new £100 million fund to support service transformation;
- more systematic evidence gathering on the costs of children's services with the Department of Education; and
- consideration by all departments of the opportunities for removing or reducing statutory duties.

5: Committee of Public Accounts recommendation

The department must define how it assures itself that local authorities are delivering value for money. In doing this, it should set out what data it will collect, as well as the standards that published data on council performance should meet to provide proper accountability.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The Government has published a single data list on the information it collects from local authorities. The department has consulted on revising the *Code of Recommended Practice for Local Authorities on Data Transparency* and its intention to make Regulations requiring local authorities to publish key information including information on spending over £500. Top-down processes such as Comprehensive Area Assessment, the National Indicator Set / Best Value Performance Indicators and Local Area Agreements have been abolished to be replaced with measures to increase local transparency, and to improve local accountability to councillors, the press and the public.

Fourth Report
HM Revenue and Customs
Tax Credits Error and Fraud

Context

Working tax credits and child tax credits (tax credits) are payments to support workers on low incomes and those with responsibility for children and young people. HMRC (the department) paid £30 billion in tax credits in 2011-12, providing support to just under six million individuals and families. The system of tax credits is extremely complex. The department calculates the value of claims based on a range of factors, including hours worked, the number of dependent children, childcare costs, disability and household income. Claimants need to keep the department up to date with their circumstances, but can find it difficult to understand the system and what they are required to report. This leads to the department making incorrect payments based on incomplete, outdated, or wrong information.

Although the tax credits system was launched in April 2003, the department has made very little progress in reducing levels of error and fraud which are very high in comparison to other benefits and payments made by other government departments

On the basis of a report by the NAO, the Committee took evidence from HM Revenue and Customs, and Citizens Advice on tax credits error and fraud on 6 March 2013. The Committee published its report on 22 May 2013.

Resources

- NAO report: *Tackling tax credits error and fraud* - Session 2012-13 (HC 891)
- PAC report: *HM Revenue and Customs: tax credits error and fraud* – Session 2013-14 (HC 135)

Government response to the Committee

1: Committee of Public Accounts recommendation

HMRC should agree with the Treasury a new target for savings from reducing tax credit error and fraud, up to the end of the scheme in 2017 and the Treasury should hold HMRC to account to ensure real savings are delivered.

1.1 The Government disagrees with the Committee's recommendation.

1.2 The department has a target for the 2010 Spending Review period to 2014-15 that it has not achieved. It has already published figures for the losses it now expects to identify and prevent as part of its strategy for tackling tax credits error and fraud over the remainder of the 2010 Spending Review period in its Departmental Business Plan 2013.[1] The Government will consider what targets might be appropriate for the years beyond 2014-15 as more detailed plans for stopping tax credits and the roll out of the new Universal Credit are developed.

2: Committee of Public Accounts recommendation

HMRC should work with the Department for Work and Pensions (DWP) to ensure a consistent approach to measuring error and fraud throughout the welfare system.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The department has changed its model for quantifying the amount of losses identified in year as a result of its interventions, and will review the model and associated assumptions each year. The department will track a sample of cases each year to better establish the impact of its work. The department's formal estimates of tax credits error and fraud are calculated and published in line with the Code of Practice for Official Statistics, published by the UK Statistics Authority, and are consistent with the methodology used by DWP.

[1] http://transparency.number10.gov.uk/business-plan/13/75

3: Committee of Public Accounts recommendation

HMRC should produce a plan setting out the actions it will take to tackle losses occurring due to individuals' change of circumstances.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department plans to use data from employers submitted through its Real Time Information System (RTI) and this is already being piloted. It also plans to increase internal data matching between tax credits and Child Benefit systems, make improvements to its rules-based system for handling changes reported by telephone, and to engage with third parties in the private sector to make better use of additional data sources. These initiatives will help the department to focus effort more effectively on the risks associated with changes in circumstances and income.

4: Committee of Public Accounts recommendation

HMRC should systematically review the guidance and support it provides for claimants and staff with stakeholder groups, including Citizens Advice, and front-line staff, to identify and address the areas where improvements are required.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The department will continue to systematically review the guidance and support it provides to claimants and staff and welcomes the considerable support, advice and involvement it already receives from front line staff and stakeholders.

5: Committee of Public Accounts recommendation

HMRC needs to review its appeals process to minimise delays and ensure that when changing its approach to checking claims, it has adequate resources to handle any increases in the volume of appeals.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department has reviewed its handling of tax credits appeals and has further streamlined its internal processes. As a result it has significantly reduced both the number of unresolved appeals and the length of time claimants have to wait for the department to respond. Where, the department is unable to reach agreement with the claimant following initial review and reconsideration, then the case is referred to an independent appeal tribunal. The timing of any subsequent tribunal hearing and the final outcome of the appeal is not a matter within the control of the department.

6: Committee of Public Accounts recommendation

HMRC should systematically review what internal and external data sources are available, for each of its six risk categories, before Parliament's Summer Recess and develop a credible plan for reducing error and fraud losses in each category.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 Since the Committee's report, the department has, published estimates of the amount of error and fraud within the tax credits system as identified by its 2011-12 Error and Fraud Analytical Programme, broken down into each risk category. The department is now undertaking a detailed analysis of this new information to inform the further development of its planning, including how it can best access and exploit both the internal and external data sources it has identified.

Fifth Report

Department for Work & Pensions

Responding to change in jobcentres

Context

The Department for Work and Pensions (the department) is responsible for the management of jobcentres, which provide critical support to the unemployed, including those on Jobseeker's Allowance. In 2011-12, nearly 37,000 jobcentre staff across 740 jobcentres supported a caseload of some five million people at a cost of £1.4 billion. In 2011-12, jobcentres helped around 3.6 million jobseekers set up new claims for Jobseeker's Allowance and helped 3.5 million people to leave Jobseeker's Allowance.

At the start of the economic downturn the number of Jobseeker's Allowance claimants increased from 0.9 million in September 2008 to 1.5 million in March 2009. Jobcentres responded to the increased demand for their services by prioritising activities to check eligibility for benefits and referring more people to other sources of support. The number of people claiming Jobseeker's Allowance has remained broadly constant at around 1.5 million since March 2009. The department monitors the performance of jobcentres by measuring the rate at which people stop claiming benefits rather than the number of people who find employment.

On the basis of a report by the NAO, the Committee took evidence from the Department for Work and Pensions, and the Citizens Advice Bureau on responding to change in jobcentres on 11 March 2013. The Committee published its report on 19 June 2013.

Resources

- NAO report: *Responding to change in jobcentres* - Session 2012-13 (HC 995)
- PAC report: *Responding to change in jobcentres* – Session 2013-14 (HC 136)

Government response to the Committee

1: Committee of Public Accounts recommendation

The department should identify which indicators it will use to ensure it has a full understanding of the performance of jobcentres under Universal Credit and the destination of claimants, and use this information to better understand whether its interventions are delivering a long-term reduction in the number claiming benefits.

1.1 The Government agrees with the Committee's recommendation.

Work in progress: April 2015 (or once the department has sufficient amount of UC data to develop robust measures)

1.2 The current performance metrics, focussing on off-flows, make best use of the data currently available to the department, but do not track people once they leave benefit, as this is neither cost-effective nor timely. For Universal Credit the department will have prompt access to real-time income information from HM Revenue and Customs for people that move into work. Measures are being developed to make full use of this information in order to drive performance in Jobcentre Plus.

2: Committee of Public Accounts recommendation

The department should give claimants written warning that they may be sanctioned and should monitor and publish the rate of sanctions by claimant group and jobcentre.

2.1 The Government agrees with the Committee's recommendation.

Work in progress: April 2014.

2.2 The ES40 new claimant booklet and claimant commitment in Universal Credit clearly set out the requirements and potential sanctions. The department is reviewing the literature issued to claimants to ensure it is clear about the consequences of non compliance. The department has published sanctions statistics up to October 2012 with breakdowns available by claimant group and local office. The Government commissioned an independent review into the operation of JSA sanctions, which will focus on the clarity of information given to claimants. The review will report to the Secretary of State in March 2014.

3: Committee of Public Accounts recommendation

The department should gather information on how different jobcentres are managing caseloads and play a stronger role in identifying, evaluating and disseminating good practice.

3.1 The Government agrees with the Committee's recommendation.

Work in Progress: Autumn 2013.

3.2 The department has developed a new "active caseload indicator". This will allow for a more consistent and improved quality of analysis on the size of caseloads and the reasons for variation across the organisation and down to individual Jobcentres. *Get Britain Working* increased the scope to tailor elements of the national regime to meet individual needs and is subject to formal evaluation. Additionally, *Freedoms and Flexibilities* enables Jobcentres to deliver local services innovatively, to meet local circumstances. This is also subject to proportionate evaluation, and supported by a governance framework, which captures and disseminates local learning.

4: Committee of Public Accounts recommendation

The department should review its ability to support disabled claimants, particularly in light of low outcomes for these groups on the Work Programme, and it should follow up in future evaluation work to test more rigorously whether 'parking' of claimants is occurring.

4.1 The Government agrees with the Committee's recommendation.

Work in progress: late 2013.

4.2 The Government is planning to review its support to help disabled people into employment. Many people are well adjusted to their disability and do not require the specific intervention of a Disability Employment Adviser - their personal adviser works successfully with them. The Jobcentre Plus Offer evaluation reported ESA claimants as no more likely to complain of insufficient time with a personal adviser than JSA claimants in the early stages of the Offer. Evaluation of the Offers' later stages will be published Autumn 2013 enabling a further opportunity to review this issue.

5: Committee of Public Accounts recommendation

The department should ensure that there is sufficient support in place to assist vulnerable claimants. It should also include an assessment of the burden on third party advisers in helping people online as part of its monitoring of online take-up under Universal Credit and predecessors such as Jobseeker's Allowance Online.

5.1 The Government agrees with the Committee's recommendation.

Work in progress: Autumn 2014.

5.2 The department expects the majority of customers will interact through online channels in the future. Government is not currently planning to remove other channels for claiming benefits. As noted in the Government's statement on assisted digital services in December 2012, customers will continue to be supported if they are unable to access services online. In February 2013, the department published the Universal Credit Local Support Services Framework, which outlines arrangements for partnership working including ensuring adequate support for claimants in managing their account online. This will be updated in October 2013 with a final version in Autumn 2014.

Seventh Report
Charity Commission
Cup Trust and tax avoidance

Context

The Charity Commission (the Commission) registers and regulates around 160,000 charities in England and Wales, with 20-25 organisations seeking to register as new charities every day. The Commission decides whether to register organisations as charitable according to their stated purposes. If an organisation's purposes are *exclusively* charitable and those purposes are in the public benefit then they qualify as charities under the Charities Act 2011.

The Cup Trust (the Trust) was established by trust deed in March 2009 and the Commission registered it as a charity in April 2009. The Trust has a single trustee, a company called Mountstar, registered in the British Virgin Islands. The Trust operated in the following way:

- The Trust purchased £176 million of government gilts and sold them to 'donors' for only £17,000.
- The 'donors' sold the gilts, donated proceeds roughly equal to the cost of purchase back to the Trust, and could claim tax relief for the donation if they were higher rate taxpayers.
- The Trust claimed Gift Aid of £46 million from HMRC on these donations.
- The Trust donated only £55,000 - equivalent to 3p in every £100 it received in donations - to charitable purposes.

On the basis of the report by the NAO, the Committee took evidence from the Charity Commission and HM Revenue and Customs on the Cup Trust and the Commission's procedures for regulating charities on 7 March 2013. The Committee published its report on 4 June 2013.

Government response to the Committee

1: Committee of Public Accounts recommendation

The Commission should publish the evidence that led it to register the Cup Trust in the first instance and to allow the Trust to remain registered, and should review urgently its conclusion that the Trust meets the legal definition of a charity. If the Commission continues to conclude that the Trust is legally a charity, it should identify ways the law should be changed to ensure that organisations like the Trust are not granted charitable status.

1.1 The Commission agrees with the Committee's recommendation.

1.2 The Commission has reviewed its conclusion that the Cup Trust meets the legal definition of a charity and reached the same conclusion. The Commission will publish justification for this decision after its statutory inquiry, currently the subject of litigation in the Charity Tribunal, is concluded.

Target implementation date: 2014.

1.3 The Commission had to register The Cup Trust, since it was legally established for exclusively charitable purposes for public benefit and fell within the jurisdiction of the High Court, as confirmed by independent legal advice. The public benefit requirement relates to the purposes of an organisation seeking registration, not its subsequent activities. The Commission is currently unable to publish the justification for its decision, as this is subject to a statutory inquiry which is being challenged in the Charity Tribunal, but intends to publish it as part of the report of the inquiry when it is concluded. The Commission is currently reviewing its regulatory remit and powers to act where charities engage in tax schemes, although it is not responsible for administering tax reliefs.

2: Committee of Public Accounts recommendation

The Commission should review its procedures to ensure it undertakes proper and appropriate checks before registering a new charity. It should liaise with HMRC before registering any charities where there are 'red flags' that raise concerns about trustees or where charities are based in tax havens.

2.1 The Commission agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Commission works closely with HMRC, and is developing a joint portal to apply simultaneously for registration as a charity with the Charity Commission and recognition as a "charity for tax purposes" by HMRC. Having information retrospectively on the corporate trustee and linked individuals has not altered the legal view that the Cup Trust was established for exclusively charitable purposes. Registration processes have developed since then. A new risk framework and assessment process identifies as high risk any complex structures, including links to other companies, so appropriate additional questioning would occur. Where charitable status is satisfied, but concerns remain, charities are monitored.

3: Committee of Public Accounts recommendation

The Commission should review whether it has investigated all of the cases identified by HMRC and, if not, should do so. The results of this review should be published, setting out clearly how many charities have been deregistered.

3.1 The Commission agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Of the eight potential tax avoidance schemes, there is one charity the Commission is investigating. The report into this will be published at the end of the inquiry. None of the remaining seven involve charities in England or Wales. The 300 cases are not tax avoidance schemes similar to The Cup Trust. HMRC has provided information about relevant charities of concern under the statutory gateway, including the names of 12 charities they are investigating for possible criminal prosecution. The Commission has one inquiry and one compliance case into these charities. Three charities are no longer registered.

4: Committee of Public Accounts recommendation

The Committee welcomes the C&AGs agreement to examine the Commission's approach to regulation. The C&AG's review should include the Commission's approach to the timeliness and effectiveness of enforcement action, its approach to tackling fraud in the sector, and its arrangements for sharing information with HMRC.

4.1 The Commission agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The Commission takes proportionate and effective regulatory action to ensure that trustees meet their legal obligations. In 2012, the Commission directly protected £1.8 million of assets and conducted over 90 face to face regulatory meetings. The Commission is a civil regulator, but in 2012 exchanged information with law enforcement agencies 1132 times. The number of trustees removed is low partly because trustees resign pre-emptively to avoid the legal consequences of removal. Legislation has been sought to deal with this. The Commission recognises the need to focus its resources on high risk cases.

Eighth Report

Department for Business, Innovation and Skills

Regulating Consumer Credit

Context

In 2011-12 UK consumers borrowed £176 billion from consumer credit providers such as banks, credit card companies and payday lenders. The UK consumer credit market is one of the largest in Europe - a survey in 2008 showed that UK consumers borrowed more in credit as a proportion of GDP than any other major European economy. While mainstream lenders provide most consumer credit the market is changing. Since the financial crisis mainstream lenders have been lending less and the use of other types of lending has increased.

Consumer Credit Regulation

The Government has set out its vision for a more transparent consumer credit market, which includes: firms meeting the standards expected of them; lending responsibly; and offering competitively designed and priced products that meet consumers' needs. To help achieve this, consumer credit regulation is being transferred to the Financial Conduct Authority (FCA) in April 2014. During this interim period, the Office of Fair Trading (OFT) has been given a significant new power to protect consumers through suspending firms' licences.
The new regulatory regime aims to achieve a balance between ensuring consumer protection and fairness, and applying proportionate burdens on firms. Based on the Financial Services and Markets Act 2000, the new regulator will be better resourced and able to monitor the market for emerging risks and intervene early and decisively where it sees evidence of consumer harm.

From September 2013 firms can start to register with the FCA for interim permission, allowing them to operate legally from 1 April 2014. During Autumn 2013, the FCA will consult on rules for all consumer credit firms, which will be published early in 2014; and consult on fees. On 1 April 2014, regulation transfers to the FCA. The first set of firms with interim permissions – including payday lenders - will be required to apply for authorisation from October 2014. All firms must have applied for authorisation by April 2016.

On the basis of the report by the NAO, the Committee took evidence from Office of Fair Trading, the Financial Services Authority (now Financial Conduct Authority as of 1 April 2013), and companies which lend to consumers on the subject of consumer credit regulation on 16 January 2013 and 23 January 2013. The Committee published its report on 29 May 2013.

Resources

- NAO report: *Office of Fair Trading: Regulating consumer credit* - Session 2012-13 (HC 685)
- PAC report: *Regulating Consumer Credit*– Session 2013-14 (HC 165), incorporating HC 866 of session 2013-2014.

Government response to the Committee

1: Committee of Public Accounts recommendation

The regulators must ensure that they have up to date and complete information on firms lending in the market and on the directors running these firms.

1.1 The Government agrees with the Committee's recommendation.

Work in progress: 2016.

1.2 In July 2013, the OFT and FCA advised licence-holders to update their licence details before they register for interim FCA permissions. The OFT has gathered extensive information on firms from its clampdowns on compliance in the debt management and payday lending sectors, which is being shared with the FCA. By 2016, all licensees will pass through the FCA's authorisations process, involving greater scrutiny of business models and individuals in key positions in higher-risk firms. Once authorised, firms will report annually on their activities to the FCA.

2: Committee of Public Accounts recommendation

The regulators need a much better understanding of how different consumers use credit, and how they may be at risk of harm, so that resources can be properly targeted, especially in such a fast-paced, changing market.

2.1 The Government agrees with the Committee's recommendation.

Work in progress: Spring 2014.

2.2 The OFT has improved its understanding of credit markets and the problems faced by consumers, using intelligence from consumer bodies and debt charities among others. The OFT has focused its resources on protecting those at most risk. This intelligence will be shared with the FCA, which is developing a more robust approach to supervision, including gathering more data and refining its analysis of market failures. After the regulation transfers, the FCA will publish the key risks and priorities for intervention in the short and medium-term.

3: Committee of Public Accounts recommendation

The regulators must be more proactive both in identifying concerns and in revoking the licences of non-compliant firms in months not years.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The OFT proactively gathers intelligence to identify emerging issues and prioritise actions, and under new powers has the ability to move quickly. In February 2013, the Government gave OFT a licence suspension power, where there is an urgent need to protect consumers, which the OFT has used twice. The FCA has a proactive, risk-based, supervisory regime for its regulated firms, which will be adopted for consumer credit. When the FCA has identified risks, it will be able to protect consumers by taking swift action to stop firms from engaging in specific activities or banning products.

4: Committee of Public Accounts recommendation

Building on the NAO's analysis of the level of risk to consumers, the regulators must determine the optimal amount of funding needed to proactively protect consumers, and, vary the licence fee charged accordingly.

4.1 The Government agrees with the Committee's recommendation.

Work in progress: Spring 2014.

4.2 Since the introduction of the self-funding regime in 2008-09, the fees charged by the OFT have more than doubled. It did consider differential fee charging, but this was put on hold in the context of the Government's wider review of the case for regulatory change. The FCA already has a differentiated regime for the firms it regulates, apportioning the cost of regulating each group of firms to that group on an annual basis. It is likely to adopt a similar approach with consumer credit and will set out its proposals during autumn 2013, which will be subject to consultation.

5: Committee of Public Accounts recommendation

The regulator should strictly enforce the EC Consumer Credit Directive to provide clarity on cash costs, in both advertising and in credit agreements.

5.1 The Government agrees with the Committee's recommendation.

Work in progress: engagement with the Commission will begin in Autumn 2013.

5.2 It is important for consumers to be able to compare easily the cost of credit products, regulations already requiring the total amount payable to be stated in specified circumstances. As the Consumer Credit Directive (CCD) is a maximum harmonisation measure, it is not open to the Government to mandate this in all cases or to require the cost of credit to be stated in addition to APR. The EU Commission is currently reviewing CCD implementation, and Government will take the Committee's findings, and related evidence, to the Commission as part of that review.

6: Committee of Public Accounts recommendation

The regulators must do more to protect consumers from poor practice and the Committee expects to see firm plans for how they will crack down on home credit selling practices, rollover and multiple loans, and the inappropriate use of CPA, where it is not transparent or is misused.

6.1 The Government agrees with the Committee's recommendation.

Work in progress: 2014

6.2 In June 2013, the FCA completed a review of banks and secured a commitment that their customers can easily cancel CPAs with their bank. Rollovers, multiple loans and the inappropriate use of CPA appear most commonly in payday lending and are being tackled by the OFT in follow up to its compliance review. The FCA plans to consult on new rules to help address problems in these areas during autumn 2013. Home credit is already deemed higher risk of harming consumers and the FCA will take this into account in considering its future priorities.

7: Committee of Public Accounts recommendation

The FCA, Government and local authorities should provide more support to social enterprises, credit unions and charities which support the "credit poor" in times of crisis within an ethical framework.

7.1 The Government agrees with the Committee's recommendation.

Work in progress: 2014.

7.2 Government action to support local provision for the credit poor includes:

- doubling the membership of credit unions to one million subscribers through the £38 million DWP Credit Union Expansion Project and an increase in the current credit union interest cap from 2% to 3%, with effect from April 2014;
- following abolition of the Social Fund, the creation of 'Local Welfare Provision' will enable local authorities to deliver tailored services to vulnerable residents; and
- a package of support for social enterprises including the creation of Big Society Capital and support through the Social Incubator Fund.

7.3 Taking account of its competition mandate, the FCA will consider how competition can improve outcomes for consumers in this market and reflect this analysis in its priorities for intervention.

8 Committee of Public Accounts recommendation

The OFT should set out what it has done to follow up on its recent report into payday lending - including what assurance it has that the offending lenders have taken remedial action, and what it is doing to revoke the licences of any who have failed to do so.

8.1 The Government notes the Committee's comments

8.2 Following OFT's compliance review, launched in February 2012, fifty payday lenders were sent detailed dossiers outlining the OFT's concerns, of which four have surrendered their licences and fifteen have withdrawn from payday lending. The remaining firms have supplied audits outlining the steps taken to improve compliance. The OFT is considering these to determine whether enforcement action is required and is maintaining pressure on the sector through three on-going enforcement cases. Since March 2013, six additional payday firms (not in the 50) have either surrendered their licences or had them revoked by the OFT.[2]

[2] http://oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review/

Ninth Report

HM Revenue and Customs

Tax Avoidance - Google

Context

To avoid UK corporation tax, Google relies on the deeply unconvincing argument that its sales to UK clients take place in Ireland, despite clear evidence that the vast majority of sales activity takes place in the UK. The big accountancy firms sell tax advice which promotes artificial tax structures, such as that used by Google and other multinationals, which serve to avoid UK taxes rather than to reflect the substance of the way business is actually conducted. HM Revenue and Customs (HMRC) is hampered by the complexity of existing laws, which leave so much scope for aggressive exploitation of loopholes, but it has not been sufficiently challenging of the manifestly artificial tax arrangements of multinationals. The Treasury needs to take a leading role in driving international action to update tax laws and combat tax avoidance.

On the basis of the report by the NAO, the Committee took evidence 16 May 2013 from HM Revenue and Customs, Ernst and Young, Deloitte, KPMG, PWC, Google, Starbucks, and Amazon on the subject corporation tax avoidance. The Committee published its report on 13 June 2013.

Resource

- PAC report: *Tax Avoidance - Google* – Session 2013-14 (HC 112)

Government response to the Committee

1: Committee of Public Accounts recommendation

Public confidence in Google will only be restored when it establishes a corporate structure that ensures Google pays tax where it generates profit. This should be addressed as a matter of urgency by Google and other companies with a similar corporate structure - the Committee will continue to pursue this issue over the course of the Parliament.

1.1 The Government notes the Committee's comments.

1.2 The Government expects companies to pay the tax that is due under the law and has championed the work of the OECD's Base Erosion and Profit Shifting (BEPS) project to modernise the international corporate tax framework so that it continues to tax companies profits effectively in the modern commercial and digital world, including building an international consensus for action in the G8 and G20.

2: Committee of Public Accounts recommendation

HMRC needs to be much more effective in challenging the artificial corporate structures created by multinationals with no other purpose than to avoid tax. HMRC should now fully investigate Google in the light of the evidence provided by whistleblowers.

2.1 The Government disagrees with the Committee's recommendation.

2.2 The department's approach to managing the compliance of large businesses is widely recognised as world-class. In the three years to 31 March 2013, it recovered £23 billion additional tax from large businesses. In the 2012 Autumn Statement, the Government announced £29 million additional funding for the department to increase its capacity to identify and challenge tax risks in large businesses, including additional resources to challenge the transfer pricing arrangements of multinationals.

2.3 The department welcomes information from people about possible avoidance or evasion of tax but cannot comment on any action it takes because of its statutory duty to keep taxpayer information confidential.

3: Committee of Public Accounts recommendation

HMRC and the Treasury should push for an international commitment to improve tax transparency, including by developing specific proposals to improve the quality and credibility of public information about companies tax affairs, and use that information to collect a fair share of tax from profits generated in each country. This data should include full information from companies based in tax havens

3.1 The Government disagrees with the Committee's recommendation.

3.2 The Government fully supports increased transparency of multinationals' tax affairs and, is seeking international agreement on this under its G8 presidency and through the G20. The OECD's BEPS project is taking this forward by developing a country by country reporting tool to capture information on global income allocation, economic activity and taxes paid. The project is also considering measures to require disclosure of aggressive tax planning and increased sharing of information on rulings related to preferential regimes. The Government considers that multinationals should be required to supply such information to tax administrations but should not be required to publish it.

4: Committee of Public Accounts recommendation

The Committee expects the big accountancy firms to recognise that the public mood on tax avoidance has changed. They should provide responsible advice to ensure that corporate arrangements reflect the substance of transactions and operations in the UK and enable their clients to be more transparent about where they make profits and pay tax. The professional bodies of the accountancy profession should emphasise the importance to accountancy firms of behaving responsibly in selling tax advice to clients, and in reaching audit judgements on the substance of their clients' UK operations and structures.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 It is recognised that accountancy firms and other tax advisers can play a vital role in helping taxpayers understand and comply with their tax obligations. The Government believes that tax advisers share a responsibility with businesses and other taxpayers for ensuring tax planning is reasonable, and acknowledges the advice issued by the ICAEW to its members on aggressive tax avoidance as part of the ICAEW Code of Ethics. Where there are attempts to undermine tax law by adopting avoidance schemes or other contentious interpretations of tax law, HMRC has a strong track record of tackling them robustly and will continue challenging them through the Courts, when appropriate.

Tenth Report of Session 2013-14

Serious Fraud Office

Redundancy and severance arrangements

Context

The Serious Fraud Office's (SFO) Director is also its Accounting Officer, directly accountable to Parliament for the money the SFO spends. Richard Alderman held the Director post from 2008 until 20 April 2012. David Green has held the Director post since 21 April 2012. In October 2012, the Comptroller and Auditor General (C&AG) qualified his audit opinion on the 2011-12 accounts of the SFO, because of the voluntary redundancy costs for the former Chief Executive Officer, Phillippa Williamson. Ms Williamson left the organisation on 16 April 2012, under a severance agreement which Mr Alderman entered into during 2011-12. The C&AG reported that there was no evidence that Mr Alderman had followed due process in instigating this voluntary redundancy. This would have involved, for example, determining whether alternative positions within the Civil Service were available, prior to the redundancy and severance payment.

The Chief Executive Officer's severance agreement provided for payment of £407,000 to MyCSP, which administers the Principal Civil Service Pension Scheme for the Government. The purpose of the payment was to cover all additional pension costs arising from her early departure. Mr Alderman was required to gain approval from the Cabinet Office for this payment, but the C&AG found no evidence that Cabinet Office approval was obtained. In addition, Mr Alderman agreed a £15,000 payment for Ms Williamson which, as a 'special severance payment' in excess of contractual amounts, would always require Treasury approval in advance. The C&AG had found no evidence that Mr Alderman had sought approval from either the Cabinet Office or the Treasury. The lack of Cabinet Office approval did not prevent the payment to MyCSP going ahead. In the absence of evidence, the payments associated with the Chief Executive Officer's departure are deemed to be 'irregular'.

On the basis of the report by the NAO, the Committee took evidence, on 7 March 2013, from the current and former Directors of the Serious Fraud Office to determine the background to the irregular payment and examine how the former Director had discharged his responsibilities as an Accounting Officer. The Committee published its report on 17 July 2013.

Resources

- NAO report: *Serious Fraud Office Accounts 2011-12* - Session 2012-13 (HC 995)
- PAC report: *Serious Fraud Office – redundancy and severance arrangements* – Session 2013-14 (HC 1026)

Government response to the Committee

1: Committee of Public Accounts recommendation

The Committee wants to see the rules in *Managing Public Money* strictly enforced to ensure compliance by the SFO and other public bodies. In particular, the requirement for Cabinet Office and Treasury approval for redundancy payments must be enforced by Boards. The Committee looks to the Cabinet Office and the Treasury for safeguards to ensure there is no repeat of this debacle.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The Government agrees that the guidance in MPM should be respected. The Chief Secretary has written to Cabinet to reinforce this message. The Cabinet Office have also written to HR Directors across the Civil Service setting out their responsibilities and to MyCSP informing them that under no circumstances should MyCSP process any payments without Cabinet Office approval – there are no exceptions to this rule. An effective compliance unit has been established and verification checks on approvals have been introduced within MyCSP. Therefore, irregular payments cannot be made without query. These processes are being monitored by the Cabinet Office.

2: Committee of Public Accounts recommendation

The new Director should ensure the recommendations from Sir Alex Allan's report are implemented, and that the Board and Audit Committee are kept fully informed and engaged in decision making.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Sir Alex Allan identified nine recommendations for reform in his Serious Fraud Office (SFO) inquiry.[3] The new senior management team at the SFO agreed with the recommendations and requested the SFO's Audit and Risk Committee to regularly review the progress to implement these. The implementation work is now complete. The Audit and Risk Committee will be requested to conduct a post-implementation review and to report its findings to the senior management team.

2.3 Internal communication of management decisions is frequent and direct. The senior management team has an open and collegiate style. All senior managers including the Chief Financial Officer, together with the non-executive directors, are members of a single management board.

3: Committee of Public Accounts recommendation

There is no evidence the former Director obtained the necessary Cabinet Office approval for the former Chief Executive Officer's redundancy package. Nevertheless, this did not stop a payment of £407,000 going to MyCSP to enhance her pension. The Cabinet Office and MyCSP should explain how this payment could proceed without approval being granted.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Departments originally were not required to seek authorisation before running exit schemes under the old Civil Service Compensation Scheme (CSCS). There was direct contact between employers and pension scheme administrators, including on the authorisation of payments. The Cabinet Office issued revised guidance when the scheme changed, although, in this case, the SFO has assumed that their pension scheme administrator could authorise a single redundancy package, and MyCSP did not check that Cabinet Office approval had been given. The Cabinet Office has implemented further verification procedures and strengthened administration control processes to ensure all CSCS payments have Cabinet Office approval.

4: Committee of Public Accounts recommendation

As the Treasury did not approve the payments, the new Director should explore all possibilities to minimise the cost to the taxpayer. This should include writing to recipients to request they repay the money.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The SFO Director wrote to the former Chief Executive Officer and former Chief Operating Officer on 17 July 2013 to ask them to consider paying back the ex gratia element of their exit payment. However, as the Director stated whilst giving evidence to the Committee on 7 March 2013, he took his own separate legal advice on this part of the payment and they were confirmed as enforceable contracts.

[3] http://www.sfo.gov.uk/media/242360/report_by_sir_alex_allan.pdf

Eleventh Report

Department of Health

Managing NHS hospital consultants

Context

NHS consultants, the majority of which work in hospitals, treat patients, manage clinical work in hospitals, and undertake work that benefits the NHS (for example, training future doctors). At September 2012, the NHS employed 40,394 consultants (38,197 on a full-time equivalent basis) across a range of speciality areas, making up 4% of the NHS workforce. In 2011-12, the total employment cost of consultants was £5.6 billion, some 13% of NHS employment costs.

In October 2003, the department introduced a new consultant contract with an explicit objective of increasing consultants' pay. In return the contract was intended to provide: a new career structure and remuneration package for consultants; a stronger contract framework to allow managers to better plan consultants' work; and better arrangements for consultants' professional development. By 2012, an estimated 97% of consultants were on the contract.

On the basis of a report by the NAO, the Committee took evidence from the Department of Health on the management of NHS hospital consultants on 18 March 2013. The Committee published its report on 2 July 2013.

Resources

- NAO report: *Managing NHS hospital consultants* – Session 2012-13 (HC 885)
- PAC report: *Serious Fraud Office – redundancy and severance arrangements* – Session 2013-14 (HC 358), incorporating HC 1030 of Session 2012-13.

Government response to the Committee

1: Committee of Public Accounts recommendation

In its business case supporting any future renegotiation of the contract, the department should set ambitious targets that deliver significant productivity growth.

1.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

1.2 The British Medical Association (BMA) will decide in September 2013, whether it is prepared to enter into negotiations on contract reform on the basis of Heads of Terms agreed with NHS Employers, which was published in July 2013.

1.3 The department expects negotiations to commence autumn 2013, with new arrangements introduced from 2014-15. Negotiation of changes to the contract will drive efficiency savings across the hospital sector, and improve the quality of care and outcomes to patients. The department will assess the costs, benefits and quality of care changes at hospital level. The department is working with the NAO on how best to measure these costs and benefits.

2: Committee of Public Accounts recommendation

In order to improve services for patients, the department must ensure that any future contract is flexible enough to allow seven day working and should set a maximum limit on payments for additional work.

2.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

2.2 NHS Employers and the BMA have drafted Heads of Terms for negotiations, which will explore any changes to facilitate seven day services, including the timing and rates of pay for work at different times; and the replacement of the right to opt-out of non-emergency work in premium time. Whilst free to determine terms for staff, the department expects Trusts will continue to use a national contract provided it remains fit for purpose.

3: Committee of Public Accounts recommendation

The department urgently needs to make sure that individual consultant performance is measured consistently and published in every speciality area, and support this with appropriate national guidance.

3.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

3.2 NHS England has committed to make significant progress in publishing outcome data for all major services by 2015. NHS England will have a summary of published findings and recommendations from ten specialties associated with outcome data by March 2014.

3.3 The first tranche of data, on ten specific specialties, was chosen because they were covered by a national clinical audit that was fit for purpose; and audits that could be developed to meet publication requirements. The initiative will be expanded to include other specialties. Each speciality had its own case mix methodology devised and approved by the relevant Royal College or Specialist Society. NHS England will review the publication process during summer 2013 and develop appropriate guidance. The relevance of the data, from a patient perspective, will be considered as part of the review.

4: Committee of Public Accounts recommendation

All trusts should improve the value for money of consultants by linking the achievement of job plan objectives and good clinical outcomes with the appraisal process and pay progression.

4.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

4.2 The Heads of Terms for negotiations allows parties to review their current pay progression arrangements; and explore potential new mechanisms for rewarding and recognising consultants' contributions and development. The department will seek improvements in job planning and reviews that support decisions on whether consultants have achieved the levels to enable them to qualify for progression and clinical excellence awards. Mandatory revalidation engages doctors in a process of structured annual appraisal and professional development that provides the framework for continuous improvements on the quality of their practice.

5: Committee of Public Accounts recommendation

The department must review the criteria for giving a Clinical Excellence Award to make sure it truly reflects exceptional performance above the norm and introduce more routine reviews of awards already made.

5.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

5.2 Reflecting the recommendations of the independent Review Body on Doctors' and Dentists' Remuneration, the Heads of Terms for negotiations will include: separate criteria for national and local awards, underpinned by improved job planning and review; fewer awards; and national and local awards on a time limited basis, without renewal procedures. Renewal arrangements for current awards will be addressed in the transitional arrangements.

6: Committee of Public Accounts recommendation

The department should give consideration to stronger incentive mechanisms to attract consultants to geographical areas and specialities where there are shortages, without financially disadvantaging the organisations concerned.

6.1 The Government agrees with the Committee's recommendation.

Work in Progress: 2015.

6.2 The department will look to support employers to use local flexibilities such as recruitment and retention where appropriate - for example: Emergency Medicine, where increased remuneration might make a difference.

6.3 The department has established Health Education England (HEE) with a £4.9 billion budget to ensure the NHS has the right numbers of staff with the right skills, values and behaviours in the right location. Working with employers, HEE will focus on what works in different geographies and specialities to deliver the best possible patient care. HEE will deliver its five-year consolidated workforce plan by autumn 2013 to inform on 2014-15 investment decisions for workforce supply from 2017.

Twelfth Report

Department for Education

Capital funding for new school places

Context

The Department for Education (the department) is accountable for overall value for money delivered from its funding of new school places, and is responsible for the policy and statutory framework underpinning the funding and delivery of school places. The department has a strategic aim "to use available capital funding to best effect to provide sufficient places in schools parents want to send their children to" and makes a substantial financial contribution to the cost of delivering places - around £5 billion in capital funding to local authorities in the spending period up to March 2015. The legal responsibility for providing sufficient schools, and therefore school places, rests with local authorities. Local authorities can meet their obligations by inviting bids for new schools but will be curtailed by their inability to instruct free schools and academies to provide additional places.

Demand for school places has been increasing for a number of years, due to, over the years 2001 to 2011, the largest ten year increase in the birth rate since the 1950s. The growth in population and pupil numbers has been particularly concentrated in a number of local authority areas. At the same time some local authorities have faced additional demand for school places as a result of migration.

On the basis of the report by the NAO, the Committee took evidence from the Department for Education on its distribution of capital funding for new school places on 25 March 2013. The Committee published its report on 28 June 2013.

Resources

- NAO report: *Capital funding for new school places* - Session 2012-13 (HC 1042)
- PAC report: *Department for Education: Capital funding for new school places* - Session 2013-14 (HC 359)

Government response to the Committee

1: Committee of Public Accounts recommendation

The department must set out how it plans to use its new information on school places to ensure that capital funding is given to those local authorities that have the greatest need for extra school places. The department must also clarify how it will support and challenge local authorities and show that value for money is being achieved.

1.1 The Government agrees with the Committee's recommendation.

Work in progress: 2013.

1.2 The department has already moved to use more granular data to assess local demand for new school places – including recognising pockets of particular pressure – and will continue to do so. The department has started to collect information about how local authorities are using the funding provided which will allow for greater transparency and accountability in terms of the number of places created to meet demand, the proportion of those places which have been created in good or outstanding schools, and the cost of new school places. The department will set out a future strategy before the end of 2013.

2: Committee of Public Accounts recommendation

The department should, working with the Office for National Statistics (ONS), the Department of Health and local authorities, model different scenarios in order to manage emerging demand better in both primary and secondary schools.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The ONS is responsible for monitoring population change. The department already uses ONS-provided data, including variant modelling, to understand change at a national level. Local authority (LA) forecasts are informed by a variety of local factors, including ONS data on live births, local migration patterns and pupil yield from local housing developments. Many LAs also draw on data provided by local health bodies. Internal analysis of LA forecasting indicates that over 90% of authorities forecast pupil numbers for the next 1-2 years with a margin of error of less than 5%, and many are accurate to within 1%.

3: Committee of Public Accounts recommendation

The department must understand and reflect all appropriate costs incurred by local authorities in providing new school places.

3.1 The Government agrees with the Committee's recommendation.

Work in progress: April 2014.

3.2 The Education Funding Agency (EFA) is working to establish a clear understanding of these costs, drawing on baseline designs that meet the expected standards for school facilities, the costs set out in the national Contractors' Framework, and the costs of projects that have been procured by LAs. The department expects LAs to match the framework costs in order to deliver value for money. The EFA recognises that building costs differ across the country, and this is reflected in the calculations. The calculations do not include the costs of land, or locally-imposed requirements which go beyond national minimum standards.

4: Committee of Public Accounts recommendation

The department should develop more realistic assumptions about the level of financial contribution authorities can be expected to make to delivering school places, which take account of the wider financial challenges authorities face.

4.1 The Government disagrees with the Committee's recommendation.

4.2 The department recognises that local authorities face significant financial pressures. The department expects that the total basic need allocations, over the course of the Parliament, should be sufficient to meet the total cost of meeting demand for new school places. The department is collating information about local authorities' delivery of new school places, which will include data about the cost of these places, and how LAs use different funding streams.

5: Committee of Public Accounts recommendation

The Committee would like to receive greater reassurance about the actions the Department will take in order to help resolve matters to achieve the best value for money solutions in the event that local discussions break down.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department is confident that professionals work well together to meet the needs of a local community, and has seen no evidence where this has caused a significant problem. In many cases, schools expand to take on additional pupils. This is not always possible – schools cannot expand indefinitely, and many parents prefer a smaller school. Where a new school is needed, LAs have the power to invite proposals and open a new academy school. Many authorities have already done this, and more are doing so through the current Targeted Basic Need Programme. The department will keep this under close review.

6: Committee of Public Accounts recommendation

The department should set out how it intends to monitor the impact that current pressures to increase the number of school places are having on educational opportunities, quality and standards.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department, working with Ofsted, monitors the quality and standards of schools in England, and publishes its findings. Expanding a school (or establishing a new school) requires strong leadership and management. There has been an expansion of good and outstanding schools as well as the creation of a number of free schools with more in the pipeline. The department maintains a sharp focus on coasting and underperforming schools, with many stronger schools leading chains of academies, sharing their ethos and expertise to ensure that more pupils can benefit from an excellent education.

Fifteenth Report

Department of Health

The provision of the out of hours GP service in Cornwall

Context

Out-of-hours GP services allow people to see a doctor when they need to in the evenings, at weekends and on bank holidays, when GP surgeries are closed. In Cornwall, Serco runs the out-of-hours GP service. Until 31 March 2013, the service was provided under a contract with Cornwall and Isles of Scilly Primary Care Trust. With the abolition of the primary care trust under the Health and Social Care Act 2012, responsibility for the contract passed to Kernow Clinical Commissioning Group on 1 April 2013. Clinical commissioning groups are accountable to NHS England, which is responsible for the commissioning system as a whole. The Committee has emphasised before that regardless of what public money is spent on, or which bodies are spending it, it must be spent properly with due regard to value for money.

On the basis of the report by the NAO, the Committee took evidence, on 22 April 2013, from Serco, the former strategic health authority, the former primary care trust and the clinical commissioning group on the provision of the out-of-hours GP service in Cornwall. The Committee published its report on 11 July 2013.

Resources

- NAO report: *Memorandum on the provision of the out‐of‐hours GP service in Cornwall* Session 2012-13 (HC 1016)
- PAC report: *The provision of the out–of–hours GP service in Cornwall* Session 2013-14 (HC 471)

Government response to the Committee

1: Committee of Public Accounts recommendation

The Committee would welcome NHS England's observations on the following points and on what assurance it has that these issues are not replicated elsewhere in the commissioning system.

- **i. NHS England must also give clear guidance and respond promptly to requests for advice from clinical commissioning groups about whether services should be put out to tender.**
- **ii. The new clinical commissioning groups will need access to adequate procurement skills and advice when they put services out to tender to make sure contracts are well designed and secure value for money for the taxpayer.**
- **iii. Serco failed to investigate thoroughly when concerns were first raised and the way management responded made whistleblowers feel threatened and fearful of raising further concerns.**
- **iv. The terms of the severance agreements with the two members of staff who manipulated performance data included confidentiality clauses.**

1.1 The Government agrees with the Committee's recommendation.

Work in progress: 2013-14.

1.2 NHS England supported Clinical Commissioning Groups (CCGs) across the country to ensure a robust planning and contracting round took place for 2013-14. Through this process, CCGs negotiated with providers from all sectors to ensure services are in place in 2013 that will reflect the needs of their populations. NHS England is working closely with CCGs to ensure plans are delivered, including through contracts held by CCGs. This includes a formal CCG assurance framework with quarterly performance reviews. Where CCGs are facing performance challenges, these discussions ensure that appropriate support is made available to ensure issues are addressed.

1.3 In response to (i), NHS England will publish, in autumn 2013, overarching best practice guidance for CCGs on procurement processes. Monitor's new responsibilities, as sector regulator, include enforcing the NHS (Procurement, Patient Choice and Competition) (No2) Regulations 2013. Monitor plans to offer advice to commissioners on meeting the requirements of these regulations. However, it is for individual CCGs to make decisions on their local approach to procurement, in line with regulations and guidance, but reflecting local priorities and requirements. It would not be appropriate for NHS England to advise CCGs on specific procurement decisions.

1.4 In response to (ii), CCGs can access experienced, professional procurement, contract negotiation and management advice and support through NHS Commissioning Support Units (CSSs). All out of hours services must be delivered according to National Quality Requirements and local providers have a legal requirement to make sure high quality out of hours care is in place. The issue of contractual incentives and sanctions is being addressed as part of the fundamental review of incentives, rewards and sanctions promised in *Everyone Counts*. This review is now under way, with a programme of stakeholder engagement, and will result in revised guidance and business rules for 2014-15.

1.5 In response to (iii) and (iv), CCGs are responsible for ensuring that Out of Hours providers respond appropriately to any concerns about quality of services; NHS England support and hold CCGs to account through the CCG assurance framework and quarterly performance reviews.

2: Committee of Public Accounts conclusion

Serco's performance on this contract has not met national standards. For example, 20% of calls were abandoned after 89 seconds against a national standard of 5% or fewer. Even where it has increased staffing it still has insufficient staff to fulfil clinical shifts.

2.1 The Government notes the Committee's comment.

3: Committee of Public Accounts recommendation

NHS England should seek assurance from all 111 service providers that they have fully assessed the likely impact of NHS Pathways, that they are confident they have sufficient staff in place, and that they have contingency plans in case staffing levels prove to be insufficient so that there are no adverse effects on patients.

3.1 The Government agrees with the Committee's recommendation.

Work in progress: 2013-14

3.2 NHS England has received assurances from all NHS 111 providers that they have appropriate levels of staff to run the NHS Pathways system safely and that all staff have the necessary training to meet licence requirements. This is subject to ongoing monitoring to ensure any changes to this situation are picked up. Monitoring of both call centre capacity and contingency arrangements is undertaken by commissioners and regional teams within NHS England. Regional Operations Directors review performance each week and pick up any local or national issues to be resolved.

3.3 Following previous poor performance, local commissioners put recovery plans in place with local providers, and additional contingency made available by utilising existing out of hours call handling or delaying the switch-off of NHS Direct's core 0845 4647 number. NHS England is also working with local commissioners to ensure suitable contingency is available during winter.

4: Committee of Public Accounts recommendation

NHS England should require clinical commissioning groups to publish comparable data (for out of hours care), in a common format, showing local performance against the national quality requirements to support transparency and accountability.

4.1 The Government agrees with the Committee's recommendation.

Work in progress: 2013-14.

4.2 The mandate from the Government to NHS England sets clear standards to ensure that people have a positive experience of care. One area on which the Government explicitly requires progress is patients' experience of primary care, including GP out-of-hours services and the NHS Outcomes Framework already contains a national indicator to measure this. NHS England will work with CCGs to agree how best to make additional information on out of hours care available to the public.

Sixteenth Report

Department for Communities and Local Government

FiReControl: update report

Context

The FiReControl project commenced in 2004 with the aim of improving national resilience and efficiency by replacing the control room functions of England's 46 local fire and rescue authorities with a network of nine purpose-built regional control centres using a single national computer system. Following a catalogue of problems, the project was terminated in December 2010 with a minimum of £482 million of taxpayers' money being wasted.

On the basis of a report by the NAO, the Committee took evidence on the project on 13 May 2013. The Committee published its report on 23 July 2013.

Resources

- NAO report: *Failure of the FiReControl Project* - Session 2010-12 (HC 1272)
- PAC report: *FiReControl: update report* – Session 2013-14 (HC 110)

Government response to the Committee

1: Committee of Public Accounts conclusion

The FiReControl project, to replace the control room functions of 46 local fire and rescue authorities with a network of nine regional control centres using a national computer system, was launched in 2004. But following a series of delays and difficulties, it was terminated in December 2010 with none of the original objectives achieved. Following the cancellation of FiReControl, the department made new money (£81 million) available to local fire and rescue authorities to support improvements in their control rooms.

1.1 The Government notes the Committee's comment.

2: Committee of Public Accounts recommendation

The department must set out how the new approach will achieve the required fire and rescue authority interoperability and resilience to meet national demand given the variability of local engagement and collaboration across the sector.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 In March 2012, the department published a national summary of future control room projects. This sets out the resilience, efficiency and interoperability benefits that will be delivered by the individual projects and how this will enhance national resilience by strengthening resilience from the local level. The department will publish an updated summary in September 2013. Information will also be provided on the work of 19 fire and rescue authorities who are working in a collaborative partnership to deliver common operational procedures. Benefits from this include improvements to cross-border working, and the ability to collaborate on training and procurement.

3: Committee of Public Accounts recommendation

The department needs to satisfy itself that the new local approach to improving control rooms and resilience is delivering national resilience and value for money by scrutinising local fire and rescue authorities more closely and, where necessary, challenging them more robustly.

3.1 The Government agrees with the Committee's recommendation.

Work in progress: March 2015.

3.2 Responsibility for spending the money and delivering improvements rests with fire and rescue authorities, who have significant experience in procuring control room systems. Their local contractual and procurement arrangements remain subject to audit. The department remains accountable for the value for money and success of the programme as a whole, and will continue to monitor the progress of all of the control room projects through the oversight arrangements that have been developed with the Chief Fire Officers Association's national resilience arm. These include a strategic board, a sector-led support team and robust challenge arrangements, including project updates and visits.

4: Committee of Public Accounts recommendation

When national summaries of project progress are prepared, the Committee would like the Accounting Officer to write setting out how he is mitigating the risk of further slippage and assuring value for money, and explaining the level of challenge being placed on fire authorities' reports of progress.

4.1 The Government agrees with the Committee's recommendation.

Work in progress: 30 September 2013.

4.2 The department will continue to publish, twice a year, an updated national summary on its website. The department will send a copy of future updated summaries to the Committee when they are published, with a covering letter highlighting any issues and how they have been, or will be, addressed. The next update is scheduled to be published by 30 September 2013.

5: Committee of Public Accounts recommendation

The department must minimise the costs it has to bear for the redundant regional control centres. In determining the extent of subsidies to offer to prospective public sector tenants, it should consider the wider costs to the public purse, not just the impact on its own accounts.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 Since 2012-13 running costs have been reduced by £1.1million per annum. The department has assigned four centres (London, Warrington, Fareham, Durham) to public sector bodies and agreed terms for a sub-lease on another centre. The department has also focussed on letting to the private sector, with interest shown at broadly comparable rates. The department agrees that it must continue to seek value for money for the wider public purse through lettings (as there were no break clauses in the contracts signed by the last Administration), showing due regard to previous commercial letting agreements. This strategy is reviewed every three months.

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