



## **Treasury Minutes on the Twenty-sixth, Twenty-ninth to the Thirty-second and the Thirty-fourth Reports from the Committee of Public Accounts 2002-2003**

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**Presented to Parliament by the Financial Secretary  
to the Treasury by Command of Her Majesty  
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THE TWENTY-SIXTH, TWENTY-NINTH TO THE  
THIRTY-SECOND AND THIRTY-FOURTH REPORTS  
FROM THE COMMITTEE OF PUBLIC ACCOUNTS,  
SESSION 2002-2003.

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# Twenty-sixth Report

## Medicines and Healthcare products Regulatory Agency (MHRA)

### Safety, Quality, Efficacy – Regulating Medicines in the UK

#### *The committee's main conclusions*

**There has been a lack of dynamism in the efforts of the Agency to drive further improvements in the protection of public health. The Agency has been one of the leaders in its field internationally, but, at home, efforts to improve the reporting of adverse reactions by health professionals have had limited success. The quality of many information leaflets and labels, designed to alert patients and doctors to potential risks, is poor. There is also a widespread but unmonitored practice of prescribing to children drugs that, while licensed, are not specifically approved for paediatric use.**

The Agency has always been at the forefront of the development of medicines regulation in order to safeguard public health and has had a proactive approach in the protection of public health. To this end, the Agency has taken steps to strengthen reporting arrangements for adverse drug reactions by extension of the Yellow Card Scheme to all nurses, the introduction of a pilot scheme for patient reporting via NHS Direct and web based reporting, enabling a both speedy and easy route of reporting for all health professionals.

However, adverse reaction reporting by health care professionals on Yellow Cards is only one of the methods used to ensure drug safety. Yellow Cards provide valuable information of signals of possible adverse reactions caused by drugs and this must be further examined by other established methods. For example, in 2000 the Agency acquired the General Practice Research Database (GPRD), the largest source of general practice information in the world and this is now a mainstay for examining the safety of medicines in clinical use. In 2002, the Agency established its own laboratory function to ensure rapid testing of possible contaminated and counterfeit medicines.

Thus, while it is important that the quality of information on Yellow Cards is maintained and improved, the number of Yellow Cards received is not the main determinant of their usefulness.

With the 40th anniversary of the Yellow Card Scheme approaching, Ministers have announced an independent review of access to data in the Yellow Card Scheme the results of which will be issued for public consultation.

The Agency accepts the need to improve further the quality of patient information leaflets and labels and sought the advice of the Committee on Safety of Medicines (CSM) in March 2003 on a proposed strategy for improving the quality of the information provided to patients with their medicines. A CSM Expert Working Group has been established to deliver the strategy. The Agency, in conjunction with, healthcare professionals, patients and industry representatives, has also published a best practice guidance document on the labelling and packaging of medicines.

The Government has been successful in negotiating amendments to the European Commission's legislative proposals, which will require user testing of patient information and further enhance the presentation of information to patients. The UK is also leading the development of guidance on risk communications with a working group of the Heads of Agencies (comprising of the heads of the 15 regulatory agencies of the European Union). Through this group, the Agency has championed the "excellence model" of pharmacovigilance developed in the UK by the MHRA.

Patients, the public, health professionals and the Government are all concerned about the relative lack of medicines licensed specifically for use in children. The Agency has put in place a range of measures at a national level to address paediatric licensing of medicines. However, the longer term solution lies in introducing measures to ensure that pharmaceutical companies undertake relevant clinical trials in children. The Government has been pressing the European Commission, which is in the process of drafting legislative proposals, to act quickly to address these concerns.

**The Agency has tended to take a narrow view of its role as a provider of information and has no public profile to help it put across safety messages. Although it has a mission to "provide information to contribute to the safe and effective use of medicines", the Agency has not sought to develop a relationship with the public through awareness campaigns or advertising, unlike the United States Food and Drug Administration. Doctors too appear to have little awareness of the Agency and its role because it has not reached out to them effectively. The Medicines and Healthcare products Regulatory Agency should take early steps to develop and implement a communications and awareness strategy.**

In the past, it was not the policy of the Agency to adopt a high public profile but to use the CSM as its public face. It has now accepted that this must change. With the merging of the Medicines Control Agency (MCA) and the Medical Devices Agency (MDA) on 1 April 2003 to form the MHRA, increasing the public profile of the new merged Agency was at the top of the agenda. The newly created post of Chairman of the merged Agency has as one of its main responsibilities representing the Agency and its decisions in public, facilitating the effective communication of safety messages. An example of this was in the press briefing held in June 2003 by the Agency to communicate important new safety information on paroxetine (Seroxat) in paediatric use.

The Chairman has already commissioned a review of communications and awareness which, will report in the autumn. The review will analyse stakeholder needs and expectations and make proposals for the establishment of a communications function to manage internal and external communications and the "re-branding" of the Agency. The Agency is looking at best practice overseas and has sought external assistance and advice on the presentation of key messages on specific public health issues. A formal launch of the MHRA is also planned for the autumn.

**The merger and creation of the Medicines and Healthcare products Regulatory Agency provides the opportunity to strengthen and clarify the regulatory function. As well as its mission to protect public health, the Agency also had a remit to help develop a successful pharmaceutical industry, giving some potential for conflict of interest. It is also entirely funded by drug company fees, though activities such as safety monitoring, public information, and representing the UK in Europe serve wider interests than those of the industry.**

**The new Agency needs to have a clear focus on improved public health, with performance measures that reflect its contribution to public health objectives.**

The Government accepts there must be public health benefits from the merger of the MCA and the MDA, to form the MHRA, but not the need for major changes in the way that the regulation of medicines or devices is organised or financed.

Most European medicines regulatory agencies, including the European Medicines Evaluation Agency (EMA), derive a substantial element of their funding from the pharmaceutical industry in the form of fees for services rendered. The MCA is not alone in deriving 100 per cent of its operating income from this source and the regulation of medicines in the UK will continue to be funded in this way. While a cause of concern to some stakeholders, potential conflict of interest from the perceived role in helping develop a successful pharmaceutical industry is limited by effective internal control mechanisms. The Agency must provide a service to industry without undue regulatory burdens in order to maximise both the benefits that having access to safe, high quality medicines brings to patients and the economic benefit derived from having a strong pharmaceutical industry based in the UK.

The Agency has always had, first and foremost, a focus on the protection of public health through ensuring access to medicines which are safe, high quality and effective. It carries out this role together with the Department of Health, the NHS, individual healthcare practitioners and patients and has played a key role in initiatives such as the NHS Plan and “Building a Safer NHS for Patients” with important public health outcomes. If this has not always been fully recognised, it is, at least in part, because judging the public health outcome of some actions, is difficult because of the number of key players involved. The Agency is working with the NAO and others to ensure that, as the performance management system of the new Agency matures, this contribution can be better reflected.

*The detailed conclusions and recommendations*

**PAC conclusion (i): There is a low level of participation by health professionals in the Agency’s Yellow Card Scheme for reporting adverse drug reactions. The Scheme underpins the Agency’s work on monitoring medicines’ safety but a large proportion of doctors do not contribute reports, some because they do not think it is their responsibility or are too busy. The .... Agency should increase awareness of the arrangements by working with Royal Colleges and universities to develop training on medicines’ safety monitoring and integrating it into doctors’ professional education.**

1. The Agency accepts that an increase in the quality of information obtained from Yellow Cards must be kept under close and continual review. Since the function of the scheme is to identify “signals”, it is not vital to collect 100 per cent of suspected adverse drug reactions (ADRs) in order to detect drug safety concerns. The Scheme relies on reporters identifying a suspicion of a link between symptom and drug therapy and then being proactive in reporting their suspicions. However, the Agency has progressively taken action to improve reporting rates by extending the scheme to wider numbers of healthcare professionals and by making reporting easier, for example, by the introduction of an electronic on line form for all healthcare professionals. In addition, the Agency has introduced a pilot programme of patient reporting through NHS Direct which, if successful, will be rolled out across the UK.

2. The main approach to encourage reporting will be education of health professionals for undergraduate and postgraduate training, the introduction of distance learning packs on ADR reporting and feedback on performance. The Agency has approached some of the organisations responsible for training healthcare professionals. As a result, drug safety and pharmacovigilance have been introduced as part of the curriculum for training medical and pharmacy students. The amount of teaching time on drug safety is, however, variable between institutions and there is no doubt that the profile of drug safety could be further raised by MHRA and CSM working with those responsible for both undergraduate and postgraduate teaching. Specific training programmes for nurses have been developed in the context of nurse prescribing.

3. Ministers announced in July an independent review of access to Yellow Card data. The result of the Review will be publicly consulted on which will act to increase the profile of the Scheme further. The 40th anniversary of the Scheme in 2004 will also present an opportunity, which the Agency will take, for publicity initiatives around that theme.

**PAC conclusion (ii): The Medicines and Healthcare products Regulatory Agency should expand the work it does to measure the effectiveness of the safety alerts and warnings it issues in changing prescribing habits. The impact should be monitored in all cases where there is a significant risk to public health.**

4. The Agency accepts that the work it does to measure the effectiveness of safety alerts and warnings issued should be expanded. While it is notoriously difficult to develop universal measures, the Agency will endeavour to develop outcome measures to monitor the effectiveness of the messages it communicates. This might include monitoring the level of reported ADRs as the Agency did with Zyban or by reviewing research into specific areas, for example, when the Agency monitored the effect of pack size restrictions of aspirin and paracetamol on suicide rate.

**PAC conclusion (iii): The Agency does not make use of the information it has on prescribing practice to give feedback to doctors. The Medicines and Healthcare products Regulatory Agency should develop and implement a method for providing direct feedback to doctors where there is evidence of risky prescribing practice.**

5. The Agency accepts that it should make better use of the information available on prescribing practice to give feedback to doctors and will endeavour to develop and implement a method for providing direct feedback to doctors where there is evidence that could impact on prescribing practice, and this will form part of the proposed Communication Strategy. This could be done by making better use of the Chief Medical Officer's Public Health Link, the MHRA's website and publications such as Current Problems in Pharmacovigilance.

6. Direct feedback to individual doctors is not, however, within the remit of the Agency and this function falls more properly to medical professional bodies, Defence Unions and the General Medical Council.

**PAC conclusion (iv): To highlight and respond to cases where prescribing habits may be putting patients at risk of adverse drug reactions, the Department should facilitate the transfer of information between the Medicines and Healthcare products Regulatory Agency and the National Patient Safety Agency.**

7. The Agency accepts that the transfer of information between the MHRA and the National Patient Safety Agency (NPSA) is important. The NPSA and the MHRA agreed a concordat in December 2002 and are working on joint working protocols to ensure that there are both good communication and close collaborative working. A regular update on key issues where joint working is ongoing between the Agencies is exchanged each month. The MHRA has provided support to NPSA groups looking at specific issues, for example on methotrexate, as well as participating in meetings on an ad hoc basis as necessary.

8. The Agency recognises that there is great potential for joined up working to ensure that patient safety is best served. The new merged Agency is focused on being more outward facing to achieve the potential benefits offered.

**PAC conclusion (v): To promote better medicines safety, the Medicines and Healthcare products Regulatory Agency should obtain better information on the extent of adverse reactions resulting from the prescription to children of medicines which are licensed but not specifically approved for paediatric use. It should use this information to devise guidance for prescribers in the UK and to exert more influence on industry and the European Union to bring in changes that will increase the number of medicines specifically approved for use with children.**

9. The Agency accepts that, in order to promote better medicines safety, high quality information is necessary on the extent of ADRs resulting from the prescription to children of medicines, which are not licensed for paediatric use. The Agency is working to strengthen its capability to detect emerging safety issues in children.

10. The Agency is committed to improving availability of paediatric medicines within the existing legislative framework and, working with the CSM, has drawn up a strategy to do so. The Government has also been pressing for European legislation to introduce obligations on licence applications to submit paediatric development programmes and to offer realistic incentives for relevant research. The UK is playing a full role in a Commission working group on developing proposals for the relevant European legislation.

11. A cross-Agency paediatric network has also been established to facilitate the sharing of information on paediatric medicines and to promote a co-ordinated approach. This is high priority for the Agency.

**PAC conclusion (vi): EU legislation on improving patient information leaflets and labelling is still some way off. In the meantime the Medicines and Healthcare products Regulatory Agency needs to set targets for compliance with the voluntary good practice guidance and work with manufacturers to meet them.**

12. The Agency accepts the importance of compliance with the voluntary good practice guidance and is working with manufacturers to achieve it. The Agency has worked within the current regulatory framework to make improvements in the quality of information provided to healthcare professionals and patients. It has also recently sought the advice of the CSM on a strategy for improving the quality of the information provided to patients with their medicines. This includes the creation of a Working Group to consider policy and assessment of patient information leaflets and to advise the Agency. The Agency is also working to involve patient groups more in the design and testing of patient information. The UK has been successful



in arguing for changes in the European legislation, which will improve the quality of the information provided to patients. This includes a requirement for user-testing and for manufactures to act on the results of those tests.

**PAC conclusion (vii): The Agency has been working to introduce both a national rules scheme for registration of homeopathic medicines and, in due course, EU legislation on compulsory registration of herbal medicines. The Medicines and Healthcare products Regulatory Agency should identify the resources needed to cope with applications when these schemes come in to force, and build these into planning assumptions.**

### **Homeopathic National Rules**

13. When the Agency has finalised its proposals for the ‘national rules’ scheme, if they are approved by Ministers, they will be the subject of a public consultation. This consultation will also be used to gather further information about the likely uptake of the scheme and the results of the consultation will be used as a basis for resource planning.

### **Directive on Traditional Herbal Medicinal Products**

14. The Agency accepts the importance of resource planning and is currently in detailed discussion with the herbals industry about the implications of implementing the proposed Directive on Traditional Herbal Medicinal Products. This includes its impact on the herbals industry, suppliers, practitioners and patients.



# Twenty-ninth Report

## Inland Revenue

### Tax credits and Tax Debt Management

*The Committee's main conclusions*

**The Department's special reconciliation of Tax Credit payments via employers to the amounts authorised for 2002-03 will need to demonstrate that payments made were in accordance with authorisations. From 2003-04 the Inland Revenue (the Department) need to be able to reconcile automatically the total amount paid by each employer under the new Tax Credits systems with what the Department has authorised for their employees in total.**

The Inland Revenue (the Department) is carrying out a reconciliation exercise in support of the 2002/03 accounts. This began in April 2003 and builds on the experiences learned in the equivalent exercise in support of the 2001/02 accounts. The exercise was planned in consultation with the staff of the Comptroller and Auditor General.

Under new tax credits, data are standardised between Inland Revenue systems – making it easier to compare payments made by employers with the amounts authorised for payment by the Department. The payment via employer (PVE) accounting and reconciliation regime has taken on board the lessons learnt from Working Families' Tax Credit (WFTC) and Disabled Persons' Tax Credit (DPTC) and aims automatically to calculate funding payments due to the employer, so that those payments closely match the actual needs of the employer; and reconcile both funding and the amount paid by the employer at the point when the employer's annual return figures are captured (in WFTC/DPTC, funding was reconciled at the point of capture, whereas tax credits paid were examined later in the year).

Additionally, sample checks will be carried out to reconcile the tax credits paid to employees with the amounts of authorised awards (and vice versa).

The Department is investigating the extent to which it can carry out this reconciliation automatically.

**The new Tax Credit schemes operating from April 2003 are very different in scale and scope from the previous schemes and the systems developed by the Department have been informed to an extent by the lessons of past schemes, including deficiencies pointed out by the C&AG. The Department are relying on more sophisticated risk management structures to minimise the errors and fraud that have characterised comparable benefit schemes in the past, and will need to demonstrate their effectiveness.**

The Tax Credits Act 2002 is designed to allow the Department to take an integrated approach to tax and tax credit compliance work – using a co-ordinated set of powers to carry out effective checks and tackle fraud. It includes enquiry and information powers to help uncover false claims, while the measure of income is much closer to that used for tax, making it easier to detect potential understatements of income which might result in claimants receiving tax credits to which they are not entitled. The Act provides for financial penalties where tax credits are claimed incorrectly and for a new criminal offence of tax credit fraud.

The Department's processes involve compliance activity at all stages. Pre-payment checks are made by automated verification of identity and automated risk assessment in 100 per cent of cases, with high risk cases being investigated before payment is made. Post payment checks are made (both in year and after the end of the year) by automated and manual risk assessment, including cross-checks against internal and external databases. And special checks are made in particular areas, again with high-risk cases being investigated.

**The Department have had some early successes with their tax debt management initiatives but they still do not have routinely generated data on the level of debt for each tax stream to help manage the debt overall. Furthermore, the Department's target for half of employers to pay over to the Exchequer by the statutory date the tax they deduct from their employees' earnings is insufficiently challenging for a flow of funds amounting to two thirds of all Revenue tax receipts and National Insurance contributions.**

The Department accepts that not all its computer systems are currently capable of providing accurate summaries, at common dates, of the debts owing to it. However, it is able to identify each individual debt, and it believes therefore that it is able to manage these effectively and efficiently. The Department accepts that the present position would benefit from further improvement and is working to ensure that all of its systems can in future supply summary totals regularly and routinely. In particular it intends to be in a position to generate reasonable totals in time for the 2004/05 Trust Statement, its first accruals-based tax account, which will be published in 2005 and consolidated into the Whole of Government Accounts for 2004/05. (The response on the target for Employers to pay over to the Exchequer by the statutory date is covered at (V) below.)

#### *On Tax Credits*

**PAC conclusion (i): The Department should state in their Annual Report the effectiveness of employer compliance checks for new Tax Credits in terms of the numbers of checks on Tax Credits carried out at employer visits and the proportion of such visits that include checks on Tax Credits.**

1. The Department's Management Information System does not currently record sufficient data to provide this information. Enhancements to the Management Information System are being developed with planned implementation in April 2004. Assuming that implementation goes to plan, the Department will be able to report the information for 2004/05.

**PAC conclusion (ii): For the interim period at the start of 2003-04, when payment through the Universal Banking Service are not available for all new Tax Credits, the Department needs to provide sound alternative reconciliations for payment streams and checks for payment diversion, and report material errors and losses.**

2. During the interim period, when only very limited use of the Post Office card account, part of the Universal Banking Services, is being made for tax credits, a minority of claimants are receiving payment by girocheque. The system design provides for controls to ensure that the payments made reconcile with the sums awarded.

3. Additionally, where payment is made by girocheque, Girobank provides the Department with details of each girocheque encashment for reconciliation against

the record of the issued girocheque. This process identifies any discrepancy or irregular encashment (which might be as a consequence of Bank/Post Office error or a fraudulent attempt to manipulate the girocheque).

4. Discrepancies will be investigated and action taken to recover any overpayment and/or to proceed against the perpetrator of the suspected fraud where appropriate. This process will enable the Department to identify diversion and report material errors and losses.

**PAC conclusion (iii): The Departments should compare the levels and types of fraud in Tax Credits with more traditional benefits to see whether there are patterns and trends – for example by region or employment sector – which might provide useful information and suggest guidance for protective measures.**

5. The Department notes the Committee's conclusion. The development of new tax credits provided an opportunity to learn from the operation of social security benefits and the administration of the tax and previous tax credits systems. Lessons have been taken into account in: designing the new tax credits, producing advice and guidance for claimants to encourage them to apply and helping them get it right first time and further developing approaches to tackling non-compliance.

6. The Department continues to develop its approach to maximising compliance across all its areas of business. This includes developing new approaches to spotting and evaluating risk and increasingly effective ways to counter it.

7. The Department recognises that monitoring is important not only in the initial months for a new area of responsibility such as tax credits, but also as an essential continuing function. This will enable the department to test the scope for highlighting trends across broad economic categories, provide some analysis of social and family arrangements across the claimant population, help test the effectiveness of the Department's strategy and identify and assess the need to respond to developments.

**PAC conclusion (iv): The Department should each year secure reliable and comprehensive evidence of the overall eligibility for Tax Credits, including Family Resource Survey data, against which to judge take-up and to thereby assess and report upon their effectiveness in getting Tax Credits to those entitled to them.**

8. The Department aims to secure the most reliable evidence of eligibility and to measure and publish the take-up rates of tax credits. In common with other departments who have worked to make such measurements for income-related benefits, the Department expects this work to be challenging, in particular because of the responsive nature of the new tax credits system. The Department will review whether the Family Resources Survey will provide the necessary information.

#### *On Tax Debt Management*

**PAC conclusion (v): The Department should aim higher than their current target of half of employers paying over to the Exchequer by the statutory date the tax and National Insurance deducted from their employees each month.**

9. The Department agrees the number of employers who currently pay their tax and National Insurance Contributions on time needs to increase. Late payments of PAYE have not previously attracted interest or other sanction and the Department believes that this has made it difficult to achieve the much higher levels of payment

compliance seen for other taxes. Changes introduced in this year's Finance Act will make it mandatory, from the tax year 2004/05, for employers with 250 or more employees to pay their PAYE electronically. This is coupled with a new surcharge regime for persistent late payment which the Department believes will improve payment performance amongst large employers and allow it to target better performance overall.

**PAC conclusion (vi): The Department has earmarked £31 million to improve management information from 2003-2007 and to provide a cohesive performance indicator framework. Designers of new systems and system enhancements should incorporate good quality management information, and existing systems should be improved to generate the management information needed for effective control over the operation of those systems.**

10. The Department accepts this recommendation. It has appointed a Director of Information Resources, adopted a Departmental Information Resources Strategy, and set up a new programme to provide better performance and management information, and to ensure that a cohesive approach to designing, delivering and using it is taken across the Department.

**PAC conclusion (vii): To maintain the confidence of taxpayers, the treatment of unauthorised staff access to taxpayer information as a disciplinary offence should be upheld, taking account of changing risks and challenges posed by changes in information technology.**

11. The Department agrees with this recommendation. Its customers have a right to expect that the information they give the Department will be treated with the utmost confidentiality at all times. If a member of staff accesses a customer record without having a proper and legitimate reason for doing so it will be treated as a disciplinary offence. Staff access to customer records is monitored and the Department's methods of monitoring allow flexibility to take account of both changing risks and changes in technology.

# Thirtieth Report

## Department for International Development

### Maximising Impact in the Water Sector

#### *The Committee's main conclusions*

**The Department should base its bilateral assistance in each country on a rigorous assessment of the country's poverty needs and, in individual sectors, should seek to encourage a co-ordinated international donor response. In 2001–02, the Department spent £1.5 billion on its bilateral aid programme. Its individual country aid programmes are framed by and supportive of the Millennium Development Goals. But it is unclear whether such decisions are always based on a thorough and timely assessment of poverty needs and, in the water sector, a full understanding of the approaches of other donors.**

The Department for International Development (DFID) notes the Committee's concerns. DFID uses its partner-countries' own assessment of poverty needs as a basis for planning and providing support through our programmes. These assessments are summarised in DFID's Country Assistance Plans. We believe that aid will be more effective if donors align their support behind a poverty reduction plan agreed by developing countries themselves – rather than designing separate programmes of support. We work in each country and through the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) to ensure that donor approaches are coordinated and harmonised so as to maximise their impact on poverty. This is the case for the water sector and for all others which we support.

**The Department should undertake explicit risk assessments and apply consistently the good practice criteria that are being developed to address the risks inherent in the provision of aid. The Department is concerned that its assistance is used effectively. Risk is inherent in the provision of aid, and different methods of disbursing aid create different risks which need to be managed. In particular, the Department is thinking about the safeguards needed to provide assurance on the use of funds provided through budget support, and needs to be able to demonstrate that good practice is being applied consistently and transparently. Specifically, it should carry out explicit assessments of the risks to UK funds and obtain robust and timely data on the use of these funds; and develop monitoring arrangements to evaluate progress towards poverty targets.**

The Department for International Development agrees that risk assessments (and management) should be applied in the provision of aid. Risk assessment and management is an integral part of project/programme design, monitoring and evaluation. Changes in the impact that a risk might have on the successful outcome of the project/programme are identified during regular project monitoring activities and if necessary approaches are adapted to address these risks.

Over the last 12 months, DFID has also made risk assessment and management an integral part of its business planning and strategy formulation processes at the

country and divisional levels. New country and divisional plans now all have a section on risks faced and proposed mitigation strategies. A corporate level risk register has also been developed, which identifies the key strategic risks to achieving the Public Service Agreement (PSA) targets. Each of the strategic risks in the register have a risk owner at the Management Board level. The risk register is reviewed and discussed with DFID's Management Board on a quarterly basis.

The Department also agrees that Direct Budgetary Support presents a particular set of fiduciary risks for the Department to manage and safeguard against. Our approach to assessment of these risks and their management is set out in response to the Committee's recommendation (iii) below. Monitoring arrangements to evaluate progress towards poverty targets are now in place as part of the Department's performance management system. International data is used to track progress against the poverty targets set out in our PSA targets (which are based on the Millennium Development Goals). Country teams are now starting to monitor progress on an annual basis against key milestone activities which will contribute to achievement of the overall poverty targets as part of their country planning process.

**The Department should give greater attention to evaluating the impact of its assistance and to identifying the factors that increase the chances of sustainability. Achieving a lasting beneficial impact in poor countries is one of the Department's key aims, but there is a lack of evidence on the extent to which the Department's projects have achieved a sustainable impact. The Department should address the weaknesses in its current approach, by more frequent follow-up of projects; greater coverage of projects through ex-post evaluations; incorporating monitoring procedures from the project design stage; and tracking UK funds to assess whether they have had the intended impact.**

The Department notes the Committee's recommendation. We accept certain weaknesses in the activities examined and have sought to address these through strengthening of the project management system, particularly in respect of more robust and mandatory performance reporting procedures. It should be recognised however that measurement of impact and sustainability cannot be assessed on project outcomes alone. In common with other donors, it is difficult to isolate the impact of UK funds from the collective performance of governments, multi- and bilateral donors. As a result, evaluation work is increasingly undertaken in conjunction with key stakeholders. Furthermore, the independent programme of evaluation has changed focus to primarily address thematic, sectoral and policy level issues.

*Contributing to international targets whilst addressing country needs*

**PAC conclusion (i): In many developing countries the involvement of other donors and the development of joint donor-government approaches has been effective particularly in the health and education sectors. The Department should ensure that its contribution to the water sector complements the programmes of other international development agencies. In countries where the Department has a dedicated water programme, it should take the initiative in developing a joint action plan with key stakeholders to address the country's water and sanitation needs.**

1. The Department notes the Committee's concern. However, as restated at the 2003 G8 Summit at Kananaskis, developing country governments need to take the lead in developing their own strategies and action plans, including in the water sector, which complement wider Poverty Reduction Strategies. If requested, donors



(including DFID) should provide technical assistance to support government action, particularly in monitoring and evaluation. Governments should coordinate donor inputs.

2. DFID is actively engaged in promoting government leadership and donor harmonisation in the water sector at a number of different levels. Examples of this include: providing budget support in Uganda; supporting legislative and institutional reform in China, and South Africa; channelling support through UNICEF in Nigeria, India and Bangladesh; working with other donors on the EU Water Initiative and the Global Water Partnership; and, supporting NEPAD-(New Partnership for African Development) as stated in the G8 Africa Action Plan.

**PAC conclusion (ii): There is scope to make better use of the Department's research into the impact of development assistance. The Department should explore innovative methods of disseminating research results and raising awareness of its applicability. The uptake of research should be monitored. The Department should also give greater emphasis to proposed dissemination techniques when assessing the merits of research proposals.**

3. The Department agrees with the Committee's conclusion. The Department has recently undertaken a major reorganisation of its Policy Division, including its centrally funded research programmes, which have now been brought together under one Central Research Team. This team is currently performing two main tasks, one relating to managing ongoing research and one developing a new research strategy. Within both, the Department is now prioritising communication of research and has established a communications section to take this work forward. The Department is increasing its investment in innovative work that raises awareness amongst the international development community of the results of its research. This includes wide use of the Internet and ICT (Information and Communications Technology), and the broadcast and print media. The Department is seeking to identify mechanisms that will stimulate pro-poor demand for research and capture that demand, linking these wherever possible to national policy frameworks. DFID is also seeking to develop iterative research communication, learning, monitoring and evaluation processes. Networks are being strengthened with developing countries taking a lead role in the transfer of knowledge across practitioners and local, national and international groups.

*Managing the risks involved in the provision of aid*

**PAC conclusion (iii): The Department should conduct annual reviews of the measures that have been implemented to mitigate the risks of budget support and the progress made by the recipient government in strengthening its systems. The Department should be able to provide reasonable assurance that funds provided through budget support have been used for the purposes intended, and to act decisively when doubts over the use of funds arise.**

4. The Department agrees that it should conduct regular, though not necessarily annual, reviews of progress against the measures implemented to mitigate the risks of budget support by the recipient government. Progress against these measures provides evidence that budget support, and the technical assistance usually associated with it, is contributing to the development of government systems and is an indicator of government commitment. We are working with the wider international community to develop a new framework for measuring progress in public financial management.



5. The Department agrees that it should be able to provide reasonable assurance that funds provided through budget support have been used for the purposes intended. DFID has sought to balance the use of specific interventions to tackle the causes of corruption with the development of internal controls to reduce the risk of funds being misused. The bilateral aid programme is used to improve good governance in developing countries and to support partner government efforts to reduce corruption. At the same time, internal safeguard measures have been implemented within DFID to protect UK funds from the risk of funds misuse. These include an assessment at country level of the fiduciary risk environment and the design of a programme accordingly. There is then a robust control of funds up to and including the point of transfer into the partner country's budgetary system. DFID's policy on managing fiduciary risk requires that the recipient government has a credible programme to improve financial management. Where there are particular weaknesses a range of safeguards may be introduced, depending on the nature and extent of the weaknesses and the risks associated with them. Examples of safeguards which are being used include regular tracking studies which provide assurance that funds are reaching priority areas, the monitoring of reports comparing actual expenditure against planned expenditure at national government levels (and below) and reports from the country's supreme audit institution (possibly supplemented with additional support).

6. The Department also agrees that it needs to act when there are doubts about the use of funds provided in the form of direct budget support. Given the long term commitment to a country which budget support signals, such action may not mean withdrawal of budget support. There are a wide range of scenarios which raise concerns over the use of budget support funds. DFID needs to retain flexibility in the light of unforeseen events. There is unlikely to be merit in DFID making a definitive statement on the circumstances that will lead to the withdrawal or suspension of budget support. We are however working to develop in broad terms scenarios where continuation of budget support would not be tolerated. These will draw on cases where budget support has been temporarily suspended to several partner countries in the past.

**PAC conclusion (iv): Budget support offers the potential for the harmonisation of donor practices. Given the Department's international standing, it should take the lead amongst bilateral donors to develop a common set of reporting requirements for budget support funds.**

7. The Department notes the Committee's recommendation and agrees that increasing use of budget support by donors would offer scope to harmonise their procedures and practices. We strongly support implementation of the good practices on enhancement of donor operational procedures recently approved by the OECD Development Assistance Committee (DAC) and now published in the DAC Guidelines and Reference Series as "Harmonising Donor Practices for Effective Aid Delivery". Among the good practices proposed in the area of reporting and monitoring are, firstly, promotion of locally designed and conducted reporting and monitoring systems that are of international standard; and, secondly, that use by donors of partner country systems be a success criterion for this. The good practice paper also proposes that donors help to develop partner country reporting systems where these are inadequate. In the Departments' view therefore, the key role and responsibility for developing a reporting structure for budget support provision should rest with the partner government rather than donors. An appropriate role for donors, including DFID, is to work with and support partner governments in developing a reporting structure acceptable to all parties.

**PAC conclusion (v): The poverty reduction strategies of poor countries do not always reflect fully their water needs. The Department should determine whether there is a coherent, credible government plan for meeting water and sanitation targets, and should employ appropriate expertise in its country teams.**

8. The Department notes the Committee's recommendation. Developing country governments should lead in developing strategies and action plans, including in the water sector, which complement wider Poverty Reduction Strategies (PRSs) or equivalent. PRSs themselves are analysed jointly by staff of the World Bank and the International Monetary Fund. Where there are perceived weaknesses, it is for the donor community to work with governments to address these. DFID aligns its support behind the priorities identified by the locally-owned strategy and if requested, provides technical assistance to support government action, particularly in monitoring and evaluation. Our country teams comprise expertise relevant to support our contribution to delivery of the poverty reduction plan of our partner countries, as set out in our Country Assistance Plans.

9. DFID has also commissioned research and advocacy in sub-Saharan Africa to investigate how resources allocated to water supply and sanitation in PRSs in five countries (Kenya, Malawi, Zambia, Madagascar and Uganda) are converting into expenditure on water and sanitation outputs. The work is an important opportunity to support sustainable improvements in local capacity in a way that is consistent with nationally owned efforts to reduce poverty.

**PAC conclusion (vi): A key risk factor in delivering better public services in poor countries is the lack of capacity in local government to manage and spend resources effectively. To date, the Department has focused predominantly on strengthening the financial management and reporting systems of central government. The Department should recognise the importance of local government capacity to deliver public services in considering the case for budget support.**

10. The Department notes the Committee's recommendation and agrees that strengthening the financial management capacity of all levels of government is an important factor in ensuring the effective and efficient delivery of public services.

11. While our bilateral aid programme has concentrated attention on the key activities undertaken within the central Ministry of Finance, there are a number of important examples where UK funds directed to individual sectors have been used to strengthen financial systems within them. In Ghana, for example alongside UK support for the central Ministry of Finance there has been considerable support for financial management for the Ministries of Education and Health both at the Headquarters level and in the 110 Districts around the country. Significant improvements have taken place which both have a clear developmental benefit as well as providing increased reassurance that bilateral funds are being used effectively at the local level to deliver priority services.

12. DFID produced guidelines on public expenditure management in 2001. While these reflect the attention on central government systems, new guidelines are under preparation, which will focus attention on both the sectoral and decentralised level. These will be available by the end of 2003.

**PAC conclusion (vii): The Department needs to be able to form a clear view in each country on the progress being made towards poverty reduction targets. In**

**many poor countries, government statistics do not provide reliable data on the true extent of poverty. The use of budget support places greater emphasis on the need to create timely and reliable data to measure progress towards targets.**

13. The Department agrees with the Committee's conclusions. We have embedded poverty reduction targets for many key partner countries in our 2003-06 PSA. These targets have furthermore been internalised within DFID through our performance management system and progress towards them is monitored annually. DFID's response to national objectives, as articulated in PRSs or equivalents, are set out in our Country Assistance Plans which are themselves informed by comprehensive poverty assessments.

14. DFID recognises that government statistics in many countries fall far short of what is required for them to monitor poverty effectively. It is also accepted that donor requirements for information, to ensure accountability for the funds disbursed and help improve development effectiveness, will increase as they loosen direct control over aid interventions by moving towards budget support. However we would underline that the priority for strengthening statistical systems should be to meet national information needs. Donors are now both working to align their support to partner countries behind the strategies of each partner country and to harmonise their procedures to improve aid effectiveness. Donor information requirements should not undermine national information needs nor seek to distort these priorities for their own purposes or seek to build duplicate systems.

15. DFID is responding to the data problems at multiple levels. At the national level we are increasing the resources delivered through our bilateral programmes to help build policy relevant statistical systems with an emphasis on poverty monitoring. Internationally we are working with the PARIS 21 (Partnerships in Statistics for the 21st Century) consortium of donors, developing countries and multilateral agencies to raise awareness of the problems linked to inadequate statistics and providing targeted support to help countries assess their statistical requirements for poverty monitoring. We are also working with the International Financial Institutions and UN system to increase the resources devoted to building statistical capacity in developing countries and to ensure a coordinated and consistent programme for monitoring progress towards the Millennium Development Goals.

*Achieving a sustainable impact from projects*

**PAC conclusion (viii): The Department has identified the key components that increase the chances of achieving a sustainable impact and should take these factors into account in the design of projects.**

16. The Department agrees with the Committee's recommendation. All our projects and programmes are designed to be sustainable so that they will continue to deliver benefits in the long term.

17. To ensure that lessons about sustainability feed into project design, DFID's projects under implementation above a certain threshold (£1 million from April 2002) are assessed annually through DFID's Performance Reporting Information System for Management (PRISM). To give us a more accurate picture of performance, we break our projects down according to a risk assessment. Each project is then given a score ranging from 1 to 5 based on the likelihood of their achieving their intended objectives. For the purposes of this exercise, we judge projects receiving a score of 1 or 2 to be successful. Projects receiving a lower score

may have achieved some of their objectives and so brought some sustainable development benefits. We have a target in our 2003-06 PSA to improve the performance of our projects in each risk category. Progress against this target will appear in our 2003 Autumn Performance Report.

**PAC main conclusion (ix): The Department's project evaluation should give greater attention to assessing wider impacts and sustainability. The Department should explore the potential for making greater use of tracking UK funds to assess whether they have had the intended impact. It should build evaluation requirements into projects at the outset and collect appropriate baseline information.**

18. The Department notes the Committee's recommendations. DFID has strengthened its project and programme management giving particular emphasis to the setting of clearer performance measures during the design phase and requiring more stringent reporting of progress. Improvements in project and programme management training have been implemented in support of these aims.

19. DFID's independent programme of evaluation performs a crucial complementary role to project management. The importance of this function within DFID has been underlined by the recent commitment of additional funding intended to double the scale of the evaluation programme over the next 4 years. Studies will continue to be focused on thematic, sectoral and policy level issues, enabling us to examine the wider impact of our activity. Where appropriate, studies will be undertaken in conjunction with key development partners.

20. It should be noted that with the continued growth in joint activities, particularly those based upon pooled funding, the explicit tracking of DFID funds to determine impact is increasingly difficult. This is addressed by ensuring that rigorous performance measurement and evaluation is undertaken for the overall project or programme. Having identified the impact of the overall activity, it is then possible to draw certain conclusions about DFID's contribution.

# Thirty-first Report

## Department for Work and Pensions

### Tackling Benefit Fraud

#### *The Committee's main conclusions*

**Although the Department have made some progress in reducing the losses from fraud and error on Income Support and Jobseeker's Allowance by 24% since 1997-98 the current level of loss is still not acceptable. The rate of reduction slowed in 2001-02, and the Department need to regain momentum. It is clearly not acceptable to have a situation where the Department's accounts have been qualified for the last 13 years, or that some regions have performed half as well as others. This variation suggests that fraud and error could be reduced by sharing good practice and better targeting of the Department's checks on claims and investigation work. The Department should agree performance improvement plans with each region.**

The Department for Work and Pensions (the Department) notes the conclusions reached by the Committee and accepts that further improvements need to be made in some areas reported on by the National Audit Office and considered at the Committee of Public Accounts hearing.

The Department is taking vigorous steps to reduce fraud and error in Income Support and Jobseekers Allowance and is paying particular attention to the need to tackle performance variation between regions. Each region within Jobcentre Plus has been set a specific target to reduce loss, collectively Jobcentre Plus is aiming to reduce the monetary value of loss from fraud and error, in Income Support and Jobseekers Allowance, to be no greater than 6.9 per cent of the benefit paid out during the year to March 2004. During 2002-03 Jobcentre Plus also established an updated performance management structure, which included the creation of Target Focus Groups, led by senior Field Managers at Deputy Director level, specifically to help improve overall performance against national targets and tackle regional variation through the sharing of good practice. These groups bring together the strength of field experience with national level policy support. They have allowed the Department increasingly to focus gateway and caseload interventions on those cases most productive in reducing error and fraud.

While progress in reducing loss in Income Support and Jobseekers Allowance slowed in a period of major organisational change, the Department did succeed in maintaining the improved level of performance achieved earlier. New working procedures now being progressively introduced will give increased face-to-face contact at critical stages in the benefit claiming process, supported by enhanced information technology that will give better access to claims history. These changes are outlined in more detail later in this Minute.

The Department has a target to reduce losses from fraud and error in Pension Credit by 20 per cent by 2006. Like Jobcentre Plus, The Pension Service also has Regional Programme Protection plans and governance structures in place (Performance Improvement Board and Technical Advisory Group). They have established a Programme Protection Support Unit to provide management information,

comparative analysis and to share good practice. This unit also provides a central point through which all pensioner fraud referrals are channelled.

**There remain many deficiencies in the performance of local authorities in housing benefit administration and anti-fraud work, despite repeated commitments over the years by the Department to address the longstanding problems. The Department have now launched a number of further initiatives, for example new performance standards and an anti-fraud subsidy scheme, and they intend to review progress in joint working between Jobcentre Plus and local authorities. They need to demonstrate that these initiatives can deliver results, unlike some earlier initiatives.**

The Department has taken significant steps to improve Housing Benefit administration. The publication of Performance Standards, and increased support through the Help Team, have already begun to make a real difference in the standard of performance in many authorities. The Department has a commitment to improve Housing Benefit claims processing times in the slowest 60 local authorities by 33 per cent and to improve the national average processing time by 10 per cent by April 2006.

As part of the Spending Review 2002 outcome the Department has made the single biggest investment in Housing Benefit administration since the scheme began in 1988. This includes investing £200 million over three years in a standards fund to help local authorities fund improvements in the service and increasing the amount made available to combat fraud and error over three years by £63 million to £420 million.

The Department has a challenging target to reduce fraud and error in Housing Benefit for working age people. The Department is working with local authorities to achieve a 25 per cent reduction by March 2006.

The Department is already seeing some success from the work with local authorities to drive out fraud. For example, latest figures show that, in the last three years, local authorities have increased the number of prosecutions and sanctions for benefit fraud from 1,657 cases to 8,504 cases.

The introduction from April 2004 of enhanced data-matching and more sophisticated risk analysis is expected to increase the number of overpayments detected through Verification Framework interventions by at least 25 per cent.

**The Department's experience over the years suggests that the arrangements whereby local authorities pay housing benefit are insufficiently robust to deliver the benefit without substantial losses to the taxpayer. If the Department cannot make these arrangements work more effectively they will need to consider what alternative methods of delivery might align payments better with lawful entitlement.**

The Department agrees that the performance of a number of local authorities in paying housing benefit is weak as described above, and is seeking significant improvement. Through the provision of better data-matching and risk analysis, it is equipping local authorities to identify the areas of greatest risk. The abolition of benefit periods will free up their resource to concentrate on those areas, and the Verification Framework and Security Against Fraud and Error (SAFE) schemes are being adjusted to reward them to do this.



The Department has recognised that the existing Housing Benefit system is complex, making it difficult for tenants to understand and for local authorities to administer. Following its review of Housing Benefit, in October 2002 the Department announced a wide-ranging Housing Benefit reform programme in *Building choice and responsibility: a radical agenda for Housing Benefit*<sup>2</sup>. The reforms are designed to improve administration, promote choice and responsibility, enhance work incentives and reduce levels of fraud and error.

The reform programme will simplify Housing Benefit administration in several ways:

- the introduction of Local Housing Allowance, basing Housing Benefit payments on local rents and family size instead of actual rent paid, will remove the need to refer individual cases to the Rent Officer, making the new allowances more transparent for tenants, landlords and local authorities;
- the need to re-claim benefit periodically will be removed;
- the move to work will be treated as a change of circumstance; and
- the complex subsidy rules will be overhauled.

The new Local Housing Allowance will be tested in around 9 local authorities from the end of 2003. The pathfinders are expected to run for two years. Interim evaluation results will become available during the course of the pathfinders and a final report will be published six months after the end of the pathfinder phase.

**The complexity of the benefits system must be reduced if the Department are to make real, sustained progress in reducing fraud. Reducing complexity would help in restricting the opportunities for fraudsters to exploit the confusion faced by many claimants about their obligations and entitlement, and also in reducing the propensity for errors by Departmental staff in paying benefits. Simpler benefits may be less well targeted and perhaps more expensive, but the Department should seek to identify areas in which the costs might be mitigated by administrative savings and reductions in fraud.**

The Department actively seeks to simplify benefit regulations wherever possible. This commitment is reflected in recent reforms of two of the Department's key benefits. The introduction of Pension Credit, which from October 2003 is set to replace the Minimum Income Guarantee, represents a major simplification of the rules governing changes that pensioners are required to report. The Housing Benefit reform programme, which includes the introduction of the Local Housing Allowance, will make Housing Benefit more transparent for tenants, landlords and local authorities and will help ensure faster and simpler processing of claims.

However, the range of benefits and variety of circumstances the Department must cater for means that there will always be a level of complexity in the benefits' system. People's circumstances are complex and benefits are complex to reflect this, so that money is targeted at those who need it most.

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<sup>2</sup> [www.dwp.gov.uk/housingbenefit/publications/2002/buildingchoice/prospectus.pdf](http://www.dwp.gov.uk/housingbenefit/publications/2002/buildingchoice/prospectus.pdf)



### *Progress in reducing fraud*

**PAC conclusion (i): The recent reduction in anti-fraud activity is difficult to understand when the loss from fraud across all benefits is still £2 billion a year. The planned addition of 500 staff for this work is welcome but the Department need reliable regional information on the costs and results of prevention and investigation work if they are to use their resources to best effect.**

1. The reduction in anti-fraud activity co-incided with a period of major organisational change and was temporary. The Department already gathers a wide range of management information on its prevention and investigation work. The Department accepts, however, that improvements need to be made to its collection and use of regional management information, and has set up an implementation team to take forward the recommendations relating to management information that the National Audit Office made in its *Tackling Benefit Fraud* report.

2. First, the Department intends to ensure that data on fraud inspections becomes part of the mainstream management information provided to Jobcentre Plus District Managers. Secondly, the Department intends to put in place systematic benchmarking of counter-fraud performance, including the gathering of cost information on prevention and investigation work.

3. In the interim, the best indication of a region's performance on fraud and error is the annual publication of regional breakdowns of the Department's Public Service Agreement target results.

### *Action still needed*

**PAC conclusion (ii): The complexities of benefit regulations are a major constraint in tackling fraud, especially for means-tested benefits, such as Income Support, where entitlement depends upon many different aspects of a customer's circumstances. The Department are streamlining claims processes and simplifying some of the rules for Pension Credit and Housing Benefit, for example by limiting the number of circumstances when payments have to be changed. They should consider how far such changes would be applicable to other benefits such as Income Support and Jobseeker's Allowance.**

4. The Department agrees that it should keep under review options for simplifying Income Support and Jobseeker's Allowance wherever possible. However, the complexity of these benefits reflects the need to take account of all the relevant circumstances for each customer.

5. The Department is already taking steps to increase support for its customers during the claiming process. The customer-focused approach of Jobcentre Plus means that a customer's circumstances are fully discussed at the start of a claim. Whilst more regular contact with customers – through work-focused interviews – will help to ensure that changes of circumstances are regularly addressed. The new Customer Management System, which is being rolled out to Jobcentre Plus offices from this year, will allow staff to collect customer data electronically, improving both efficiency and customer service, and reducing the scope for error.

**PAC conclusion (iii): The Department's inadequate information technology systems have long been a significant constraint in tackling fraud. Staged improvements appear more realistic than wholesale replacement of existing systems. The Department now expect to make substantial gains by linking up existing systems, improving their access to customer information and making**

**greater use of data matching, particularly with the Inland Revenue. They should set specific milestones for these improvements, in terms of what benefits they expect to achieve and by when.**

6. The Department recognises that investment in information technology is crucial to its drive to reduce fraud and error. The Department has recently updated its Information Systems and Information Technology strategy. The update drew on industry best practice to strengthen the Department's ability to deliver change, focusing on:

- increasing the use of proven 'off the shelf' packages in preference to 'made to order' bespoke systems;
- reducing the size and complexity of individual projects and implementing an incremental approach to information technology; and
- integrating new technologies with existing systems to enable business requirements to be met.

7. In line with project best practice, the projects resulting from the updated Information Systems and Information Technology strategy will be required to fully set out what benefits they will deliver and associated timescales. These estimates will be kept under regular review throughout the projects' lifecycles to ensure that the strategy as a whole delivers value for money.

**PAC conclusion (iv): There are doubts whether the level and range of sanctions imposed on fraudsters provide a sufficient deterrent. The 98% conviction rate achieved suggests the department could prosecute more than the 7% of fraud cases currently pursued. The Department should increase the number of prosecutions and evaluate the deterrent effects of the different sanctions used, including whether fines and other penalties are enforced, and the level of re-offending. They should also assess the deterrent effect of their media campaigns on potential fraudsters.**

8. The Department's counter-fraud strategy focuses on preventing fraud and error entering the system in the first place, not just on sanctioning people after they have committed a crime. However, the Department accepts that the deterrent effect of sanctions has a role to play as part of this strategy. With this in mind, the Department has commissioned a full review of the deterrent effect of its current sanctions policy. The results of this review, which will be available in Spring 2004, will inform future policy in this area.

9. The Department is committed to full, independent evaluation of each phase of its *Targeting Fraud* advertising campaign. The most recent phase of the campaign, which began in June 2003, placed greater emphasis on targetting those involved or considering becoming involved with benefit fraud. Evaluation material assessing the impact of the first two phases of the campaign has been placed in the House of Commons Library.

*The special problems of Housing Benefit fraud*

**PAC conclusion (v): The Department have no up to date estimate of the level of fraud in Housing Benefit because of delays and errors in their measurement exercise which was intended to produce an estimate for 2001-02. They now plan to produce the first new measure by autumn 2003, based on 2002-03 data which will provide the baseline for assessing progress towards meeting their target for reducing fraud and error by 25% by 2006. In order to respond effectively to**

**changes in performance the Department need to produce this estimate and those for future years on time. The estimates should include up to date estimates on the level of landlord fraud.**

10. The Department is committed to putting in place a measurement system to provide up-to-date estimates of the level of fraud and error in Housing Benefit for the first time. The Housing Benefit Review is the most complex measurement exercise implemented to date.

11. The 2002-03 data will provide a baseline against which to assess the Department's challenging target for reducing fraud and error in Housing Benefit by 25 per cent by 2006. The data from the review will also provide indicative information on the prevalence of particular forms of fraud, including landlord fraud.

**PAC conclusion (vi): The Department's limited success in improving performance by local authorities over many years raises doubts over whether its influence on local authorities is sufficient to secure lasting improvements. For example, the Verification Framework project to improve local authorities' controls in preventing fraud is expected to take eight years to implement and the simple "Do not redirect scheme" introduced ten years ago is not yet universally applied. In their review of Housing Benefit funding the Department should consider what further incentives are needed to achieve more rapid implementation of good practice, such as a link between funding and the achievement of defined performance targets.**

12. The Department introduced Performance Standards for local authorities in April 2002. The standards cover the full range of administrative activity and describe what needs to be done effectively and securely to administer Housing Benefit and Council Tax Benefit. The Department is also investing £200 million over three years in a standards fund to help local authorities fund improvements to the service.

13. The Department intends that the Verification Framework will cover 100 per cent of Housing Benefit expenditure by 2006. 82 per cent of local authorities have now applied for or have received funding to operate the Verification Framework, with 70 per cent of local authorities being fully compliant, and a further 8 per cent compliant with one or more modules. £160 million has so far been made available to local authorities who wish to take up the scheme; this has increased to £223 million for the three years from April 2003. Since April 2003, local authorities have had the opportunity to set up contracts with appropriate Registered Social Landlords to do verification on behalf of the authority.

14. 98 per cent (401 out of 408) of local authorities are now operating the Departments' Royal Mail 'Do Not Redirect' Scheme. Some authorities not operating this scheme have entered into local arrangements with the Post Office.

15. The Department is also reviewing the effectiveness of its anti-fraud incentive schemes to ensure that efforts are focused on the right areas to achieve the greatest results. This will be completed over the summer 2003, with any changes being announced in October 2003 for implementation in April 2004.

**PAC conclusion (vii): The level of prosecutions by local authorities for fraud against Housing Benefit, at around 2% of detected frauds, is much lower than the 7% of detected frauds prosecuted by the Department. Housing Benefit fraudsters should face the same chance of being prosecuted as other benefit fraudsters. The Department should work with those authorities which bring no**

**or few prosecutions to identify cases which could be pursued through the Department's own prosecution service.**

16. The Department is working closely with local authorities to increase the number of prosecutions and sanctions for benefit fraud. As part of this work, since January 2003, the Department has extended the services of its Solicitors to assist local authorities in England and Wales with prosecutions. To date 128 local authorities have signed up to this service provided by the Solicitor's Office free of charge. In 2001-02 the Department invested £2.1 million in training for up to 900 local authority fraud investigators. A further £920,000 was made available in 2002-03.

17. This joint effort has led to local authorities increasing prosecutions and sanctions for benefit fraud in the last three years from 1,657 cases to 8,504 cases, with more than half of all local authorities completing Housing Benefit or Council Tax Benefit fraud prosecutions in 2002-03.

**PAC conclusion (viii): The low level of claims by local authorities under the Department's new anti-fraud subsidy scheme during the first six months of 2002-03 raises doubt about its effectiveness. The Department should identify why the take-up has been low.**

18. Since April 2002 Local Authorities have operated the Department's anti-fraud subsidy scheme, Security Against Fraud and Error (SAFE). The scheme encourages high quality investigations, deterrence, detection and prosecution of fraud and provides increased benefits for authorities that have adopted the Verification Framework.

19. From the information that is available for 2002-03, 97 per cent of local authorities have submitted claims for SAFE scheme rewards and 78 per cent of local authorities have received subsidy as a result of meeting their threshold. This compares favourably with the expectation that 75 per cent of local authorities will meet their threshold.

20. The Department will continue to review performance of the SAFE scheme to focus local authorities' efforts on the most cost-effective activities.

# Thirty-second Report

## Highways Agency

### Maintaining England's Motorways and Trunk Roads

*The Committee's main conclusions*

**....The Agency should set regional road condition targets and review its funding allocations to reduce variations in road conditions across the country.**

The Agency accepts this recommendation.

Funding allocations are already set to reduce variations in road conditions across the country. Regional road condition targets will be set for 2004-05.

**....The Agency should assess the risks associated with its new maintenance contracting arrangements as a whole, and set out a strategy for managing these risks.**

The Agency accepts this recommendation.

The Agency considers that its new arrangements for the management and delivery of the maintenance programme, which are in line with best practice in government procurement, will deliver better value-for-money.

The Agency's "Paving the Way" consultation document considered the risks associated with the new arrangements for maintenance.

A note on the strategy for managing these risks is at Annex A.

**....The Agency will need to demonstrate that these new [maintenance contracting] arrangements are as effective as lane rentals in reducing the time taken to carry out maintenance work and in minimising disruption to the motorist.**

The Agency accepts this recommendation.

The Agency still makes use of lane rental contracts but considers there are ways of delivering better value through partnering and target cost contracts. Concerns have been expressed about the pressures faced by the workforce on lane rental contracts.

Target cost contracts achieve an incentive to prompt completion with less risk to the workforce. Should the contractor exceed the target costs, he will have to pay a percentage of the extra costs. Traffic management is a significant cost and therefore there is an incentive to finish the work in a timely manner.

The Agency's new maintenance contracting arrangements include performance indicators for defects, safety, cost predictability, time predictability, product satisfaction and service satisfaction. Under the indicator for time predictability, one of the measures reviews "lane occupancy". This records the percentage of the area network taken up by planned road works. A target maximum is set for this which is used as a measure for showing continuous improvement. If the actual percentage is above the maximum, the contractor will be required to explain the reasons and identify appropriate actions to bring it back to acceptable levels.

The performance indicators will be benchmarked to enable the Agency to compare performance between both the different maintenance areas and over time to ensure continuous improvement.

**The Agency needs to put in place more robust winter maintenance and emergency response procedures....The Agency needs to strengthen its gritting and emergency response capabilities....**

Please see the response to the Committee's conclusion (xiii).

**The Agency's data on [road and roadside] asset condition and maintenance history remain incomplete despite recommendations made by this Committee in 1991 and accepted by the government. ....The Agency should now act on these recommendations.**

The Agency accepts this recommendation.

New instructions have been sent to our agents to require completion of inventories of asset condition and maintenance history. Compliance with these instructions will be regularly audited. The Agency has developed a new database and performance indicator for electrical equipment. The Agency will introduce a database of lighting condition by April 2005. A rolling programme of Closed Circuit Television surveys of drainage systems will take place from April 2004, to enable a database of highway drainage systems to be completed.

*On delivery of the maintenance programme*

**PAC conclusion (i): The Agency does not directly assess whether the network is in a good, fair or poor condition, measuring instead how much of the network requires maintenance in the following year. The Agency did not introduce a direct measure of road condition in April 2003 as intended, but should now agree a firm deadline for doing so with the Department for Transport.**

1. The Agency and the Department accept this recommendation.
2. The Agency's existing maintenance performance indicator is derived from information collected from rolling surveys of network condition. New techniques for monitoring network condition have been introduced. These will be incorporated in a new indicator for pavement condition, which it is intended to introduce in the Agency's 2004-05 Business Plan.

**PAC conclusion (ii): The Agency's Road User Satisfaction Surveys show that a better road surface is the public's top priority for improving the network. The Agency should consider how best to reflect motorists' views in its road condition performance measures and in determining the optimal level of maintenance work to be carried out on the network.**

3. The Agency accepts this recommendation.
4. The standards that govern maintenance of the trunk road network are set at levels that should result in a good quality of road network, acceptable to road users and optimal in value-for-money terms. The Agency will investigate, through a research contract, motorists' views on road condition and whether user satisfaction can be taken into account in measuring network performance.

**PAC conclusion (iii): The Agency should provide agents with practical training in the use of its scoring system for evaluating maintenance proposals and,**



**through participation in Value Management workshops, seek better evidence to support agents' proposals, thereby improving the quality of maintenance proposals and the basis of its decisions between projects.**

5. The Agency accepts this recommendation.

6. The Agency has already held training workshops for its agents and will hold a further series from October 2003 to include maintenance best practice and value management.

**PAC conclusion (iv): The Agency should assess at the end of the first cycle of its Performance Review Improvement Delivery (PRIDe) inspections whether they provide adequate evidence about the quality of agents' work.**

7. The Agency accepts this recommendation.

8. To date, PRIDe has carried out, and reported on, two cycles of inspections of some of the Agency's maintenance areas. An internal audit of the PRIDe inspections has recently been carried out. The Agency will be acting on the audit report recommendations.

9. A third cycle of inspections, which began in September 2003, will cover all Highways Agency maintenance areas and the Dartford Crossing contract. A further audit of the PRIDe inspections will be carried out in 2004, after completion of this third cycle.

**PAC conclusion (v): The Agency should submit periodic reports to its Board on the management of individual project costs to demonstrate a stronger focus on cost control at senior management level. Such a report should consider the lifetime project costs, as well as in year spending compared to budget, and explanations for variances, wider lessons arising and actions proposed.**

10. The Agency accepts this recommendation.

11. A quarterly cost control report has now been introduced in the Agency to consider the control of lifetime project costs. The report is submitted to the Agency Finance Director's Performance Management Group meeting. The Finance Director reports quarterly to the main Agency Board on the findings from this report.

**PAC conclusion (vi): The Agency should demonstrate that the extra funding provided to agents at the project proposal stage is reducing variations between planned and actual work, and hence between planned and actual costs.**

12. The Agency accepts this recommendation.

13. A regular audit of the variation between planned and actual costs on maintenance projects will now be carried out.

**PAC conclusion (vii): The Agency should require agents to identify and prioritise small capital projects, and to demonstrate to the Agency that the work is genuinely urgent. The Agency should audit a sample of agents' submissions to check on need and urgency.**

14. The Agency accepts this recommendation.

15. Small capital projects form only about 10 per cent of the Agency's annual road maintenance spend. A proportion of this spend is to enable small-scale safety related urgent works arising during the year. The Agency accepts the need to introduce



improved systems of control and will introduce these from April 2004. The effectiveness of the new system will be assessed by audit.

**PAC conclusion (viii): The Agency is reducing the size of the network it manages by transferring responsibility to local authorities. The Agency should therefore review the level of its administration costs with the aim of reducing them proportionately wherever practical.**

16. The Agency accepts this recommendation.

17. The Agency continually reviews its administration costs using a resource model to inform the reviews. The resource model shows that the reduction in work from de-trunking is more than offset by new work on major schemes.

**PAC conclusion (ix): The Agency should work more closely with insurers, the police and other emergency services to identify motorists who cause damage to the network, and to recover the repair costs from them.**

18. The Agency accepts this recommendation.

19. The Agency is considering how best to improve the identification of motorists who cause damage to the network, for example using the Incident Response Teams employed by some of its agents. The Agency's new Traffic Manager role will include working more closely with the Police and other emergency services. This will provide further opportunities to improve the identification of motorists who cause damage to the network, which the Agency will explore.

20. The Agency will monitor the impact of these measures on the rate of recovery of repair costs.

**PAC conclusion (x): The Agency should assess the costs and actual working life of the 'thin surfacings' now routinely used on major road repairs, and compare them with those of more conventional surfacings to assess which offer better value for money, taking account of noise reduction benefits.**

21. The Agency accepts this recommendation.

22. Early studies have suggested that the average working lives of thin surfacings will be similar to those of conventional surfacing and that initial costs are reduced. Research has been commissioned and these findings will be reviewed on an annual basis.

*On reducing disruption for the motorist*

**PAC conclusion (xi): The Agency and the Department should revise the Road Users Charter targets to discourage or prohibit lanes from being coned-off where no works are ongoing and to aim for a higher percentage of roadworks where lanes are re-opened on time.**

23. The Agency and the Department accept this recommendation.

24. The Road Users Charter targets are being reviewed as part of a review of the charter itself, currently under way, and due to be completed in 2004 with the publication of a new charter document.

**PAC conclusion (xii): The Agency should assess whether it can provide better and more timely information to motorists about roadworks, by making greater use of radio, teletext, the Internet and mobile telephone text services, and**

**mobile roadside and gantry messaging boards. It should find out which media, or combination of media, work best.**

25. The Agency accepts this recommendation.

26. The Highways Agency's national Traffic Control Centre (TCC) will become operational by 31 March 2004. This public private partnership project will monitor the current situation on the trunk road network in order to provide high quality real time information. For planning trips, information will be provided through a website and a 24/7-telephone service. Once a journey has started, up to date advice and information will be available through the media, by making better use of Variable Message Signs, and potentially through commercial value added service providers.

27. To assess the effectiveness of the new information service, the Agency has commissioned a project to evaluate the effects of the improved traffic information in terms of traveller knowledge, traveller behaviour and network performance through a before and after comparison of measurable parameters. The results of this study will steer refinements to the service and allow comparisons of different combinations of information sources for travellers including mobile and gantry message boards and media.

**PAC conclusion (xiii): The Agency should consider with the police, local authorities, motoring associations and other emergency services how blockages on the network can be cleared more quickly to prevent motorists from being trapped in their vehicles for long periods of time.**

28. The Agency accepts this recommendation.

29. A thorough review of the events of 30/31 January has been undertaken. The problems that arose and the lessons learned will be fed back to all the Agency's service providers before next winter.

30. A framework of National, Regional and Area Contingency Plans has been established. These plans are now in place for all 14 of the Agency's areas. Exercises to test these plans will be based on extreme winter weather and be held in each one of these areas by the end of September. The local Police forces will be invited to attend each exercise. The results of these exercises will be used to revise the contingency plans by the end of November.

31. Following a joint review of roles and responsibilities by the Agency and the Association of Chief Police Officers, the Agency will be taking on greater responsibility for traffic operations and traffic management on the strategic road network, including the management of all non-injury incidents. This will be achieved by providing new regional control centres jointly staffed by the Agency and the Police and by providing on-road mobile patrols manned by Agency staff. It will provide the Agency with a substantial role in real time management of the network for the first time. As the Agency gains experience in this role, it expects to improve continuously the response to incidents and the service to motorists. A phased implementation programme has been agreed with the Police starting in the West Midlands in April 2004 with progressive roll out on the rest of the motorway network by the end of 2005.

32. The Agency is also investigating other ways of reducing the time taken to clear incidents and the consequent traffic disruption. These include improved reporting of the location of incidents, improved guidance on the use of diversion routes when roads are blocked and working with the Police on trials of different techniques which could reduce the time taken to carry out accident investigations.

## **Annex A**

### **Highways Agency strategy for managing risks associated with the new maintenance contracting arrangements.**

The maintenance supplier has to provide a Quality Management System that is self-audited. The Agency's area teams are then required to manage through audit to ensure that the supplier is complying with the Quality Management System and delivering the service required.

In line with this requirement, the new Managing Agent Contractor (MAC) contracts are self-evaluating in that the Provider monitors itself against set performance indicators and through a series of penalty points that increase (where problems occur) & decrease (where problems are put right) throughout the contract. If the points go above a certain threshold this triggers a third party audit regime undertaken by the Agency's internal Performance Review Improvement Delivery (PRIDe) team in order to identify the issues and assist in corrective action.

The Agency will use its PRIDe team to provide an assessment of value for money from the changed arrangements and to check compliance with its contracts. The PRIDe team also investigates the risks involved in a generic way, across all Agency contracts.

The Highways Agency is currently carrying out value for money studies to highlight any key issues as well as to ensure the current contracts are delivering best value.

For any specific issues that may arise or are identified, the Agency will undertake Area studies or reviews to look in detail at processes, procedures and communications in order to see how risks can be mitigated for the future.

The Agency provides continual training on new forms of contract for all Traffic Operations Directorate staff. In addition, training is given in specific areas as and when required through workshops and presentations. This training is given to both Highways Agency and its suppliers' staff.

When undertaking work, the Provider has to demonstrate to the Agency any differences between forecast costs and actual costs. This helps to identify any areas of risk and the best way of managing and mitigating these risks for future works.

The Agency is in the process of compiling a formal risk register and risk management strategy for its contracting arrangements.

# Thirty-fourth Report

## The Office of Fair Trading

### Progress in Protecting Consumers' Interests

The Office of Fair Trading (OFT) welcomes the Committee's report. We continue to work hard to protect the interests of consumers by taking regulatory action, publicising such action to inform consumers and businesses about undesirable business practices, providing advice and guidance to consumers and businesses, and working in partnership with trading standards services, other regulators, government and industry. Recent legislation is helping this effort.

The Committee's report provides a number of recommendations as to how we might improve our effectiveness, especially in relation to consumer credit licensing. In taking these recommendations forward we will work in partnership with other key players, notably trading standards services and the Department of Trade and Industry.

In particular, we fully accept that consumer credit licensing needs routine access to information on past convictions. This report has been helpful in taking this matter forward, to enable us to ensure that the consumer credit market works well for consumers by protecting them from those traders who are unfit to hold a licence.

#### *The Committee's main conclusions*

**It is still too easy for unsuitable people to obtain a consumer credit licence. The OFT has been slow to act on the views of our predecessor Committee that it was too easy for people such as unscrupulous lenders and debt collectors to obtain a licence. The OFT discounted our predecessor Committee's suggestions for strengthening checks on the identity of applicants but promised to introduce postcode matching software to improve its checking. It was only in March 2003 that it piloted a new application form to secure the full benefits of this software.**

We accept that it is still too easy for unsuitable people to obtain a consumer credit licence and that the introduction of postcode checking of personal identity has not been as rapid as desirable.

The predecessor Committee's suggestions for strengthening checks on the identity of applicants were fully reviewed before we judged that the best combination of effectiveness and efficiency was to carry out such checks using post code software. Post code software was introduced early in 2001 to confirm the business address. These addresses have always been required information on the application form. A revised application form to collect personal address information, as well as other information to improve screening, has been developed and tested in a pilot project. The introduction of this form for general use will allow full implementation of post code checking. This will take place early in 2004, for the reasons set out below.

The introduction of the new licence application form has been delayed because further amendment will be needed to implement the changes under discussion with Disclosure Scotland on criminal record checks (see below). This delay is regrettable but unavoidable. Introducing two new forms within a few months to implement first the postcode checking and then the introduction of additional criminal record checks would be undesirable. It would lead to confusion for business and would almost

certainly delay the issue of licences to the vast majority of businesses where there are no grounds for concern.

**The OFT has done little to prevent people with previous criminal convictions from obtaining a licence. The OFT still does not have routine access to centralised information on criminal convictions to check against applicants for consumer credit licences. Such information is in the public domain but the OFT can only readily access it from the Police National Computer or the Criminal Records Bureau. The authorities responsible for these systems have given apparently contradictory reasons for refusing the OFT routine access to the data. In the spirit of joined-up government the Home Office and the Department of Trade and Industry should work together with the relevant agencies to resolve this contradiction, and to provide the OFT with routine access in the interests of consumers.**

It is important that more should be done to prevent people with previous criminal convictions from obtaining a consumer credit licence. A number of measures are already in place. All applicants are required to disclose any previous unspent criminal convictions. All applications are cross checked against our existing records of regulatory and enforcement action and our Central Record of Convictions, which includes details of prosecutions by Trading Standards services for breach of certain consumer protection legislation. In addition all applications are referred to the relevant home authority trading standards service for advice on any adverse local information, including information about criminal records. Where these checks reveal undisclosed criminal convictions or other adverse information this is investigated.

Undisclosed criminal convictions, except of the most minor nature, invariably lead to the formal adjudication procedure to consider refusal of a licence or revocation if one has already been issued. The Consumer Credit Act does not, however, ban outright the holding of a consumer credit licence by an individual with a criminal record – but it does require that we give full consideration to evidence of this kind, which we naturally take very seriously.

In 2001 we applied for routine access to the Police National Computer (PNC) to strengthen the screening of all licence applicants. (Currently around 16,000 new licence applications are received each year.) This application for PNC access was turned down by a sub-committee of the Association of Chief Police Officers (ACPO). Authority was, however, given for us to have direct access to the PNC to check for a criminal record where we are already carrying out an investigation into fitness based on other adverse evidence. Typically we carry out some 400 such investigations each year.

At the same time it was proposed that the most appropriate means for us to make routine checks on applicants for consumer credit licences would be via the Criminal Records Bureau (CRB). The ACPO sub-committee had referred in particular to the future role of the CRB in performing checks for employment purposes. Checks in our regulatory context were not, however, for employment purposes as such. Subsequently, the Home Office advised that it was intended that the CRB would carry out checks not only for employment purposes but also for other reasons (including, as here, for regulatory purposes). In this instance, this would be done via a Basic Disclosure service. The CRB had expected this to come on stream in the summer of 2002, but it has since been delayed. It is the intention of the Home Office that the CRB's Basic Disclosure service should be introduced as soon as practicable,

but the first priority is for the CRB to meet in full the demand for higher-level (Standard and Enhanced) Disclosures which are already being produced.

A Basic Disclosure service is, however, already available from Disclosure Scotland. Following discussions with the Home Office, Disclosure Scotland has offered to provide this same service until the CRB is able to do so. This will enable us routinely to secure information about unspent criminal convictions in relation to the whole of the UK. We are discussing with Disclosure Scotland how best to implement this. A number of detailed matters remain to be settled. The licensing system will require a change in the procedure for applications for which it will be necessary to give notice to prospective applicants. We aim to be in a position to make an announcement giving notice of this change in the Autumn. We plan to implement the change in early 2004.

**The rising trend in the number of complaints suggests that unfair contract terms are a serious problem area for consumers. The OFT has concentrated on specific market sectors and has also reduced the backlog of long-standing complaints that concerned our predecessor Committee. But there remain a significant number of cases over two years old outside the specific market sectors. It should eliminate this backlog as well as maintaining its drive to tackle contracts before they give rise to complaints.**

We agree that unfair contract terms still remain a problem area for consumers, notwithstanding the important improvements for consumers in major market sectors that we have achieved. We have taken a number of steps to improve our effectiveness, in particular to reduce the backlog of cases over two years old. We have increased the resources applied to this work and reinforced the management support of casework officers. We have also made more efficient use of resources by focussing enforcement effort on the types of unfair contract terms that are likely to cause most detriment to consumers.

As a result, we were able to bring about the deletion or satisfactory redrafting of 1,477 unfair contract terms in the last financial year against a target of 605. We also set ourselves a target to reduce the number of cases over two years old to 100 by April 2003. We succeeded in reducing the number to 125, and are applying further resources in order to do better in the current financial year.

About half of the cases over two years old remaining as at April 2003 fell into three sectors where we considered it more effective to take a sectoral approach involving the publication of guidance: care homes (13 cases); package travel (19); and tenancy and other land-related contracts (32). In the latter case, we mounted a concerted push to have our guidance on tenancy contracts, published in November 2001, reflected in publishers' standard tenancy contracts, which are widely used by landlords. This has had considerable effect, as nine publishers have now made changes in their published contracts to reflect our guidance. We expect to publish the guidance on care homes in September, and that on package travel early next year.

The backlog might well have been reduced more rapidly in numerical terms if we had adopted a case-by-case approach rather than a sectoral approach in these areas, but we judged that the sectoral approach would give better results for consumers overall. That said, we recognise the importance of timely action to deal with all unfair terms cases and we are committed to continuous improvement in performance, building on successes achieved to date.



**PAC conclusion (i): The OFT has not taken any traders to court for falsifying a licence application and it has not collected data on prosecutions brought by local enforcement agencies. There appears to be little to deter applicants from obtaining licences on the basis of false information and then trading until they are caught. The OFT should monitor the rates of prosecutions by local agencies and step in to initiate prosecutions itself until such time as local enforcement agencies can be relied upon to act against traders who falsify their applications.**

1. Providing false or misleading information on a consumer credit licence application is a criminal offence under section 7 of the Consumer Credit Act 1974 (CCA). We do monitor prosecutions brought by local authorities. Trading standards services are required by the CCA to notify us of the intention to prosecute for the provision of false information on a licence application. Four local authority prosecutions have occurred in the last five years: three in 2001 and one earlier this year.

2. We have not taken any prosecution cases ourselves in the last five years. This is because, in our view, the most effective action we can take where false information has been provided on a licence application is to consider this as evidence that is relevant to the fitness to hold a consumer credit licence. In many cases the information omitted has a direct bearing on the fitness of the trader. The most serious cases are those where a trader has not declared a bankruptcy or convictions for offences of fraud, other dishonesty or violence. In addition traders may conceal the identity of a key person in the business who has such convictions or has been made bankrupt. Although such convictions or bankruptcy do not represent an absolute bar to applying for a licence, they would raise serious doubts about fitness and immediately lead to the formal process to refuse or revoke a licence. The non-disclosure of that information would also be cited in our licensing action against the trader.

3. In deciding whether to bring a prosecution it is also appropriate to take account of whether the penalty will act as a deterrent. As the law stands the current level of fine for offences of this kind on summary conviction (maximum fine of £2,000) is too low to act as an effective deterrent. A more severe sentence is available where a prosecution is brought on indictment, (unlimited fines or up to two years imprisonment or both) but few cases are likely to be so serious as to merit this course. We have, therefore, called for DTI to review the level of fines in the CCA as a part of its review of the legislation.

**PAC conclusion (ii): The OFT's management of consumer credit licensing has been hampered by its 20 year old computer system. Its plans to replace this system have been frustrated by a Department of Trade and Industry review of consumer credit licensing announced in 1999 and not yet completed. Now that the Department has issued consultation papers on its emerging findings, the OFT should start to develop the replacement system so that procurement can start as soon as future arrangements are sufficiently clear.**

4. We have started initial preparatory work for the replacement of the licensing IT system at the Consumer Credit Licensing Bureau. Although DTI have issued consultation papers on possible changes to the licensing system, a White Paper on licensing is not due to be published until the autumn. More detailed work on the system design for the IT replacement project will start after publication of the White Paper, when we hope that the way ahead will indeed be clearer.



**PAC conclusion (iii): At the end of 2001 the OFT withdrew its support from 42 industry codes of practice which in response to our predecessor Committee's recommendations it had acknowledged to be of limited value. It then identified seven priority sectors for the development of new codes with more stringent criteria, but by March 2003 it had approved only four of these codes in principle. In the priority sector of funerals no revised code had even been submitted to the OFT. The OFT needs to secure faster progress from industry in future by giving a lead to trade associations and others in the drafting of worthwhile codes.**

5. We accept that faster progress from industry would be desirable and that we must give a lead to trade associations and others in the drafting of worthwhile codes. We have done so. While giving a lead in this and other ways, we cannot, however, determine the rate of progress. Codes of practice are a form of self-regulation, and code sponsors and businesses must ultimately make the running. For code sponsors, redrafting to meet the more demanding standards and convincing members of the need to move forward can take time, but we believe it is essential at the outset to establish the new ground rules and standards, and then to provide assistance and incentives for those standards to be met.

6. Following the national Launch to Business in February 2003, which generated considerable interest in the scheme, we have held a series of regional business seminars around the UK, promoting the scheme to businesses and to potential local code sponsors.

7. We have now received applications from all of the priority sectors including the funeral sector and more Stage One successes are expected shortly. The scheme has now been expanded beyond the original priority sectors and discussions have begun with other code sponsors who may wish to apply in future. The four codes that achieved Stage One status earlier this year are now working towards Stage Two approval.

**PAC conclusion (iv): In responding to the concerns of our predecessor Committee the OFT promised, in November 2000, to issue guidance for traders in sectors that generated a disproportionate number of complaints. It singled out for early attention used car dealers and debt collectors but subsequently gave greater priority to debt management. It did not publish its guidance on used car dealers until January 2003, and is still consulting on proposed guidance for debt collectors. The OFT should quickly determine whether guidance should be issued to some of the other sectors that generate large numbers of complaints and issue such guidance promptly.**

8. OFT accepts the need to identify business sectors where further licensing guidance is needed.

9. The debt management guidance was given priority over guidance for debt collectors and used car dealers because we became aware of a rapidly growing concern about consumer detriment in a new market affecting some of the most vulnerable consumer groups. Our priorities shifted in response to market developments. Guidance for used car dealers was published in February this year and final guidance on debt collection practice in July. Supplementary guidance on used cars is expected to be published later in the year and a review of the guidance for non status lending published in 1997 will begin.

10. A market study into debt consolidation loans was announced in June to look at potential issues. This report is due early next year and may lead to further licensing guidance and contribute to the review of the guidance on non status lending.

*Enforcing other legislation*

**PAC conclusion (v): Since June 2001 the OFT has had powers to issue Stop Now Orders, and by October 2002 it had used the threat of these powers to obtain some 58 voluntary undertakings from traders to desist from unlawful activity. The OFT had applied for court orders to back up these undertakings in only two cases because it preferred to obtain a satisfactory outcome without court action unless traders failed to honour their undertakings. The OFT should monitor consumer complaints to see whether voluntary undertakings are providing sufficient deterrent, and make greater use of its injunctive powers if not.**

11. Our aim is to get results effectively and efficiently for consumers. To that end we are entirely ready to take cases to court if necessary. But in most cases positive results can be achieved more effectively and efficiently without the need for court action. In our view that is a desirable state of affairs.

12. We agree that consumer complaints should be monitored for evidence of non-compliance with undertakings obtained by OFT. Trading Standards and other enforcers assist us in this. The Consumer Regulations Website (CRW), which we have developed, provides enforcers of consumer regulations in the UK with information about cases both current and completed, and will help in this monitoring (see below). We always follow through reports of breaches of undertakings and take court action if necessary.

**PAC conclusion (vi): In enforcing consumer protection legislation, the OFT places considerable weight on the advice of local authority trading standards services, and often relies on them to take the lead on local issues. But the unevenness in resources available to trading standards services means that they may not be in a position to support the OFT effectively. To secure consistent enforcement action across the country, the OFT should identify which services it can rely on and where it needs to take up more cases itself.**

13. We accept that the ability of different local authority trading standards services to support the OFT through enforcement work varies. We do not of course have the resources to substitute wherever there are weaknesses in local enforcement. Rather, our goal has been to maximise the ability of authorities to provide this support effectively, through training and facilitation of information exchange and cross-boundary working. We have achieved significant results through these activities so that overall effectiveness has been enhanced.

14. A rolling programme of training and workshops for enforcers led by the OFT is under way, where best practice is shared and information exchanged. Training is given both in the key enforcement issues that surround the legislation, particularly Part 8 of the Enterprise Act 2002, and also in the obligations on other enforcers to notify and consult the OFT appropriately. The programme includes advanced training in taking court action in the civil courts. In the past year, some 2,000 enforcement staff, representing nearly 50 per cent of those employed in the trading standards service, have received face to face training.

15. To aid this programme, a CD-Rom has been produced covering some of the key enforcement issues. Funded by the DTI's Modernisation Fund, the CD-Rom has been issued free of charge to all enforcement partners.

16. Trading standards services make daily use of our telephone support and advice service. We have also launched the Consumer Regulations Website (CRW), to which nearly fifty per cent of trading standards services have so far signed up. This system provides a shared (but protected by safeguards restricting access) national database for our enforcement partners that includes information on who has taken enforcement action against whom, and when.

17. These initiatives are showing positive results. More trading standards services are using the new powers and overall effectiveness is increasing. Where problems remain, we are targeting further support accordingly, and promoting new initiatives such as memoranda of understanding between individual local authority trading standards services.



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