HM TREASURY

TREASURY MINUTES

Government responses on the Fourteenth, the Seventeenth to the Nineteenth, and the Twenty First Reports from the Committee of Public Accounts Session: 2012-13

Cm 8556

February 2013

Treasury Minutes on the Fourteenth, the Seventeenth to the Nineteenth and the Twenty First Reports from the Committee of Public Accounts: Session 2012-13

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

February 2013

Cm 8556 **£16.00**

TREASURY MINUTES DATED 25 FEBRUARY 2013 ON THE FOURTEENTH, THE SEVENTEENTH TO THE NINETEENTH AND THE TWENTY FIRST REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2012-13

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

ISBN: 9780101855624

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

ID P02542516 02/13 27467 19585

Printed on paper containing 75% recycled fibre content minimum.

Fourteenth Report

HM Treasury and Cabinet Office

Assurance for major projects

Committee of Public Accounts report summary

The Major Projects Authority (the Authority) was set up in 2011 to address weaknesses in the central system for assuring major projects across Government. The Authority, a partnership between HM Treasury and the Cabinet Office, is responsible for examining and reporting on projects, and intervening where they are going off track. The Authority has made good progress in its first year, but, with only one third of major projects being delivered to time and budget, much more needs to be done.

The Authority spends £6 million to monitor over 200 projects worth £376 billion. It has much stronger powers but much less money than its predecessors. Clearly, the resources it has will affect its impact. It focuses its resources on the projects of highest cost and risk and it is dependent on engagement from departments to achieve its aims, but this is not always forthcoming. Some 62% of departments have adequate formal plans to provide assurance on projects, although the extent to which these are used to manage projects varies. The remaining departments have been slow to adopt the new assurance system. The Authority told the Committee that it is engaging with departments to ensure they understand the value of these tools in improving the performance of government projects.

The Authority's reports should inform HM Treasury's decisions on project funding, and there are signs that this is beginning to take place. The decisions to re-scope the National Programme for IT in the NHS and to cancel the first Carbon Capture and Storage competition were taken following reviews by the Authority. But a stronger link is needed between the results of the Authority's assurance reviews and the spending decisions made by HM Treasury.

Long-standing weaknesses in the project management skills of civil servants are being addressed by the training provided by the Authority's new Academy. However, retaining these skilled individuals in the public sector and ensuring they remain in the one job long enough to enable projects to succeed will be challenging.

The Authority has significantly improved the quality of management information available to Government on its projects, but this is not yet being used to best effect by HM Treasury to oversee spending on projects. The Authority has not met its commitment to publish information on project status; on-going discussions within Government are seriously delaying the publication of the Authority's annual report and calling into question the Government's commitment to transparency.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Major Projects Authority, HM Treasury, and an expert witness from the private sector, on how the new central assurance system was progressing on 25 June 2012. The Committee published its report on 16 October 2012.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

Departments' compliance with the Authority's procedures for assuring major projects is too variable. While some departments, such as the Ministry of Justice and the Department for Work and Pensions, are using assurance arrangements supported by the Authority, such as Integrated Assurance and Approval Plans (IAAPs), to help them manage their projects, others appear not to accept the benefits of doing so.

Departments should ensure that prioritizing the successful delivery of projects and compliance with the Authority's assurance arrangements, such as IAAPs, is a formal part of the objectives of Senior Responsible Owners and Accounting Officers.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2013.

1.2 At the time of publication, the Committee's report stated 62% of departments had adequate formal plans to provide assurance. At quarter 2 2012-13, only 26 out of 191 projects on the Government Major Project Portfolio (GMPP) were without Integrated Assurance and Approval Plans (IAAPs). The Major Projects Authority (MPA) will work with those projects to ensure IAAPs are produced, where applicable.

1.3 The Government has commissioned the MPA to undertake a complete review of all aspects of operations of Senior Responsible Owners (SRO) including: appointment; performance; retention and reward. The MPA will consider how to ensure proper accountability for delivery of IAAPs and compliance against those plans as part of that review. The Head of the MPA will report to the Committee to advise of the proposed measures. This work is vitally entwined with the introduction of the new operating environment which will be the priority for MPA and Major Projects Leadership Academy (MPLA) in 2013. The MPA's obligations within the Civil Service Reform Plan also focus on the role of the SRO.

PAC CONCLUSION AND RECOMMENDATION 2

A stronger link is needed between the results of the Authority's assurance reviews and the spending decisions made by the Treasury. The Committee has long been concerned that warning signs of impending project failure are ignored by government. Under the new arrangements, the Authority's assurance reviews should be considered by the Treasury as part of their funding approval decisions, but there is limited evidence of the results of these reviews influencing Treasury's decisions to halt or to reset projects.

The Authority's reviews should clearly set out whether the project should continue, be stopped or reset, and the Treasury should ensure the recommendation is adhered to.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The MPA and the Treasury work together to ensure the timing of the assurance feeds into the approval requirements and decision making process. The IAAPs also provide a useful tool for coordinating this.

2.3 The MPA's assurance reviews play a significant role in the final decision making process. The Major Projects Review Group (MPRG), for example, continues to scrutinise and approve Government's largest and most complex projects. The Project Assessment Review informs the Approvals Panel on the key issues for discussion at the meeting. The Chair of the MPRG makes a decision or recommendations to Treasury Ministers on the basis of the evidence submitted by the MPA, the department and the Treasury spending teams. There are different levels of scrutiny for Treasury approval. FiRecontrol is an example of a project that was stopped by the Government following MPRG scrutiny.

PAC CONCLUSION AND RECOMMENDATION 3

The Treasury is not making best use of the data on major projects that is now available to manage the government's financial position. The Committee welcomes the Treasury's acknowledgement that it could make more use of the good quality data collected by the Authority on the major projects portfolio to identify and understand how under spending or overspending within individual projects may impact future spending across government.

The Treasury should routinely use the Authority's data on the major projects portfolio to manage its spending and prioritise resources between projects.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Ongoing.

3.2 GMPP data can tell the Treasury about the projected costs of major projects, but it is not intended to give a comprehensive view of the Government's balance sheet. There is, inevitably, a significant amount of movement in the Government's balance sheet, which is driven by spending below Departments' delegated limits or which relates to the changes in the values of Government assets of liabilities, which does not result from undertaking a specific project or programme.

3.3 However, GMPP data can provide a valuable view of the larger elements of the future capital plans of departments, and it is increasingly being used for this purpose. The Treasury and the Cabinet Office have worked closely together to ensure that the potential value of this data is used to generate valuable management information. The quality of data provided by departments for the GMPP has improved each quarter. However there remains work to be done between the Treasury and departments to ensure that the quality of this data is sufficiently good to be used for these purposes.

PAC CONCLUSION AND RECOMMENDATION 4

The Authority has much more work but far fewer resources than the part of the Office of Government Commerce it replaced. The creation of the Authority is a very welcome development. With a budget of £6 million and a 40% cut in staffing there are inevitably questions over whether it can achieve the improvements intended. Inevitably, the Authority has to focus on the biggest, most risky projects. This raises the risk that significant problems within lower priority projects in the Authority's portfolio may be missed.

The Authority and the Treasury should quantify the return on investment from the Authority's work to identify whether further investment would benefit the taxpayer.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Budget 2013.

4.2 The Government has commissioned work to identify whether further investment would benefit the taxpayer and quantify the return on investment from the Authority's work.

4.3 The MPA has developed a performance framework which will systematise its activities and demonstrate clear links and a better understanding of its work, impact and value to projects. This work is currently at the design-phase in advance of engagement with departments. Additionally, the performance framework will ensure Accounting Officers are more closely sighted on responding to projects that experience delivery difficulties. This work will build on existing work streams to introduce better oversight of the portfolio of the Government's most significant projects and their progress to successful delivery.

4.4 The Government has also commissioned Lord Browne to lead a review of the MPA platform capabilities and expanded responsibilities to ensure the structure and operation of the Authority is built to last. On agreement from Ministers, the MPA will implement the recommendations and liaise with departments, including the Treasury in building a robust operating platform.

4.5 As announced in the 2012 Autumn Statement, the MPA is working with Infrastructure UK (IUK) to carry out a detailed assessment of Whitehall's ability to deliver infrastructure, building on their existing work to increase its commercial expertise to boost the delivery of growth enhancing infrastructure projects across Government. This assessment is led by the Commercial Secretary to the Treasury, working closely with the Minister for the Cabinet Office and will be completed by Budget 2013.

PAC CONCLUSION AND RECOMMENDATION 5

The Authority's Major Projects Leadership Academy is a welcome step forward in strengthening the project management skills of civil servants, but retaining and making best use of those trained will be a challenge. The Committee supports both the launch of the Academy and the proposed requirement for all Senior Responsible Owners to have to attend it, as means of addressing longstanding concerns about the quality of project delivery skills within government.

The Executive Director of the Authority (as head of the Government's project and programme profession) should be responsible for co-ordinating the career planning and deployment of staff with relevant project management skills across Government, and particularly those graduating from the Leadership Academy, to minimise staff losses in this area.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: end of 2014.

5.2 The development of the MPLA has been accelerated against the original timeframe. The commitments in the Civil Service Reform Plan include ensuring that the 340 leaders of the Government's largest projects have commenced the MPLA by the end of 2014. The capacity of each cohort on the Academy programme has been increased in order to achieve this.

5.3 As part of Civil Service Reform Plan commitments the MPA, in its work on the MPLA, is looking at career progression to minimise staff losses in the project delivery profession. In particular the plan sets out a requirement to address SRO turnover. The MPA analysed the GMPP returns to ascertain the key factors behind the high SRO turnover, which is apparent for both SROs and Project Directors. The MPA considers there are several factors driving the change, and has identified that the problem lies with the appointment process upfront, limited performance management, as well a clear lack of controlled movement. The Authority is now investigating and tracking changes with departments as part of the GMPP reporting process.

5.4 The MPLA has also held informal workshops with a cross section of Academy participants from several departments to explore the factors of high turnover and the options to drive better retention. This is being considered as part of the Lord Browne review of the MPA, which will incorporate the SRO turnover issue as a key priority. The intention is that only successful Academy participants will be appointed to Government major projects in the future and that a clear role and programme mandate are set at the time of appointment. This will include a clear set of competencies, training and development plans, as well as a range of learning and development support.

5.5 A new four-tier model has been designed and will be introduced in 2013 to elevate and extend the profession of project leadership across Whitehall. This is centred on the creation of Heads of profession and operating committees in each department. The work will align with the Civil Service Reform Plan activities and Civil Service Learning.

5.6 The MPA will support the deployment of project leaders to priority projects where they are needed and request the removal of a project leader if poor performance or an inappropriate appointment is identified. There will be clearer and enhanced opportunities for career progression with each project leader having an agreed development and support plan. The MPA will report to Ministers on options and implications of potential solutions. The MPA is also looking to examine roles, responsibilities and accountability, linking project phases, milestones and key deliverables, as well as covering reward, recognition and career progression.

5.7 The Government is conducting a review, with Civil Service Learning, of the project delivery profession (to be completed by April 2013). This will include the creation of a common curriculum, aligned with the Civil Service Competency Framework, to build excellence in project management. The purpose of the activity conducted by the profession will see the renaming of Project and Programme Management, within Government to the Project Delivery profession. In addition, work is underway to look at setting up a new commercial professions group (to include project delivery, finance, legal, procurement).The MPA is working with departments to optimise the way that departments organise and resource their project and programme portfolios. The MPA is also actively involved in development of the Civil Service Capabilities Plan and will support its implementation.

PAC CONCLUSION AND RECOMMENDATION 6

The Authority has failed to make progress on publishing project status information. While this information is being reported internally to departments, the Government has yet to determine its policy on making data available publicly and we are still waiting for the Authority's seriously overdue annual report on major projects. Considerations of commercial confidentiality should not be allowed to frustrate proper accountability. They should not be used as an excuse to override the responsibilities of departmental officials to be held to account for the progress of their projects.

The Committee expects the complete and transparent disclosure of information on project status, including the current delivery confidence rating, with immediate effect, and will expect to receive annual updates on the performance of projects in the Authority's portfolio.

6.1 The Government agrees with the Committees recommendation.

Target implementation date: May 2013.

6.2 The Government is committed to transparent reporting on major projects in order to improve accountability and performance. It has agreed an approach to public reporting of project progress, which achieves the objective of greater transparency on project performance, whilst ensuring appropriate levels of non-disclosure of information, which should remain confidential for example: where it is market-sensitive or related to national security.

6.3 In line with the exemptions process departments have the autonomy and will be responsible for deciding what project information will be published as laid out in the MPA guidance. The expectation is that departments should publish unless there are sustainable reasons not to, in line with the Freedom of Information Act 2000 (FoIA) and consistent with the Government's approach to the public interest test.

6.4 Therefore, departments will publish, subject to any exemptions as covered above, the MPA RAG ratings, the reasons given by the MPA for each rating, the actions the department has taken to address the MPA ratings or otherwise with performance data for all their GMPP projects. This data will be published every 12 months, six months in arrears, starting in May 2013. A delay of six months between the production of the data and its publication provides a balanced approach, which will achieve enhanced transparency and a safeguard for sensitive information.

6.5 The MPA's first annual report in May 2013 will contain portfolio level information on the Government's major projects, achievements of the Authority, the activities currently underway and required to improve the delivery success rate and of leadership capability. Altogether, this will present an enhanced picture of Governments major projects and will help to drive increased efficiency right across the GMPP, and much higher success in delivering policies.

Seventeenth Report

Department of Health

The management of adult diabetes services in the NHS

Committee of Public Accounts report summary

In 2009-10, there were 2.3 million adults diagnosed with diabetes in England and a further 800,000 people suffering from diabetes who remained undiagnosed. The percentage of the population diagnosed with diabetes doubled between 1994 and 2009 and is continuing to increase. The Department of Health (the department) projects that the number of people with diabetes (diagnosed and undiagnosed) will rise from 3.1 million to 3.8 million by 2020. The NAO estimates that, in 2009-10, NHS spending on diabetes services in England was at least £3.9 billion, although this figure is likely to be an underestimate**.** The projected increase in the diabetic population could have a significant impact on NHS resources.

Too many people with diabetes are developing complications because they are not receiving the straightforward care and support they need, either through access to high quality care from appropriately trained NHS professionals or through effective training and support for patients so that they manage their condition. Most alarmingly, the department estimates that 24,000 people with diabetes die prematurely each year because their diabetes has not been managed effectively. An estimated 80% of the costs of diabetes in the NHS are attributable to the treatment and management of avoidable diabetic complications. Unless diabetes care improves significantly the NHS will continue to incur ever-increasing costs as the number of people with the disease rises and individuals will continue to die prematurely.

In 2001, the department published the National Service Framework for Diabetes (the Framework). The Framework set out clear minimum standards for what constitutes good diabetes care, including nine basic care processes which check for the early signs of avoidable diabetic complications, such as blindness and kidney disease. The department also set treatment targets for the management of blood glucose, blood pressure and cholesterol to minimise the risk of diabetic complications developing. Local NHS organisations determine locally how best to deliver diabetes services. The expected levels of care outlined in the national Framework were reinforced in 2011 by a National Institute for Health and Clinical Excellence (NICE) 'Quality Standard' for diabetes in adults.

Although there is consensus about what needs to be done for people with diabetes, progress in delivering the recommended standards of care and in achieving treatment targets has been depressingly poor. There is no strong national leadership, no effective accountability arrangements for commissioners, and no appropriate performance incentives for providers. The Committee has seen no evidence that the department will ensure that these issues are addressed effectively in the new NHS structure. Failure by it to do so will lead to higher costs to the NHS as well as less than adequate support for people with diabetes.

The improvements in diabetes services since the publication of the Framework have not been as great as the Committee would have expected given that the department set clear and clinically agreed standards 11 years ago and has had information showing that the NHS has not been delivering the expected standards of care for a number of years. Variation in the level of progress across the NHS also means that there is an unacceptable "postcode lottery" of care, whereby the quality of diabetes care varies dramatically across the NHS.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from expert witnesses and the department about the management of adult diabetes services in the NHS on 12 June 2012. The Committee published its report on 6 November 2012.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

NHS accountability structures have failed to hold commissioners of diabetes services to account for poor performance. When NHS Diabetes offered assistance to the 20 worst performing primary care trusts only three trusts took up the offer. Most primary care trusts delivered the nine care processes to more diabetic patients between 2006-07 and 2009-10 but the extent of improvement was highly variable and the performance in 11 primary care trusts got worse.

The department should set out how the NHS will deliver improvements specifically in diabetes care under the new accountability arrangements, setting out under what circumstances and how the NHS Commissioning Board will intervene.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2013

1.2 The Health and Social Care Act 2012[1] will ensure a health service where accountability is focused on the outcomes achieved for patients. The Government will directly hold the NHS Commissioning Board (the Board) to account for driving improvement in the quality of NHS services against the outcomes set in the NHS Mandate[2], the first of which was published November 2012, with another to follow each autumn. The Mandate is the Ministerial instruction to the Board, which will be operationally independent and clinically led. The Board is legally required to pursue the objectives in this document, which includes "*managing ongoing physical and mental health conditions such as dementia, diabetes and depression so that we, our families and our carers can experience a better quality of life*".

1.3 The NHS Outcomes Framework[3] (the Framework) contains outcomes and indicators which are chosen to capture the majority of the treatment activities that are to be delivered by the NHS across five domains of care. Improvements for diabetes will be captured through the Framework through indicators on care for long-term conditions, and on mortality from conditions where diabetes is a major contributory factor. *Action for Diabetes,* a document developed with the assistance of the multi-agency Diabetes Advisory Group, which will be published imminently, will offer a concise summary of how the NHS can deliver on diabetes across the five domains of the Framework.

1.4 In meeting its objectives in the Mandate, the Board will aim to ensure continuing quality improvement for diabetes care through the appointment of a National Clinical Director and the development of a new integrated NHS improvement organisation. This organisation will be tasked with building improvement capability and capacity at scale across the NHS, to enable delivery of transformational change. The new body will inherit expertise and experience from the current improvement organisation, NHS Diabetes, which will become a legacy body from 1 April 2013, and it is expected this will permit continuation of some of the key elements of the current national diabetes improvement workstreams.

1.5 Clinical commissioning groups (CCGs) will be responsible for commissioning local services that meet the needs of the local community. CCGs will have access to benchmarked data on their performance across a number of indicators of care. This will be an integral part of the Board's systematic approach to quality improvement, which will include specific diabetes indicators. To further support CCGs, NHS Diabetes will shortly publish guidance on commissioning comprehensive integrated diabetes care locally. This is intended to encourage district-wide commissioning and the removal of any perverse tariff incentives that could undermine continuous improvement.

1.6 The Board (as holder of all GP contracts) will be responsible for contract management and for holding GP practices to account for the quality of the services they provide under their contracts. Although CCGs will have a role in identifying unsatisfactory performance, the Board will be solely responsible for taking contractual action against any practices not meeting their duties under the GP contract. Where there

[1] http://www.legislation.gov.uk/ukpga/2012/7/pdfs/ukpga_20120007_en.pdf
[2] https://www.wp.dh.gov.uk/publications/files/2012/11/mandate.pdf
[3] http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_131723.pdf

are concerns that a GP practice is failing to meet essential minimum standards, the Board will refer the practice to the Care Quality Commission (CQC), which has the discretion to take immediate action to suspend services or remove registration. This will allow swift and decisive action to be taken in the most serious cases of quality failure.

PAC CONCLUSION AND RECOMMENDATION 2

Only half of people with diabetes receive all the basic tests to monitor their condition. There is very broad consensus around the importance of the basic tests in monitoring treatable risks for diabetic complications yet improvements in the percentage of people with diabetes receiving the nine tests have been lower than expected, increasing from 36% in 2006-07 to 49% in 2009-10.

The department should aim to achieve universal coverage and urgently set out clear outcomes it would expect to achieve by 2014-15 and beyond.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Improvement to 64% by March 2015, 80% by March 2018.

2.2 Whilst the Quality and Outcomes Framework (QOF)[4], introduced in 2003-04, has incentivised primary care to perform the nine care processes for people with diabetes, the percentage of people with diabetes receiving all nine tests every year has been lower than expected. One reason for this has been a poor completion rate of the test for micro-albuminuria. In June 2012, the department highlighted a discrepancy that the QOF indicator for this care process was not fully consistent with NICE guidance. Sir Bruce Keogh, NHS Medical Director wrote to NICE in June 2012 asking for the QOF indicator (DM13) to be urgently reviewed. NICE proposed a revised wording to the indicator in August 2012, which is now being considered as part of the consultation on the GP contract for 2013-14.[5]

2.3 For people receiving all nine care processes, the National Diabetes Audit has seen a year-on-year increase of 3% since 2009. Using this trend, by 2014-15, estimates suggest that the proportion would increase to 61%. If the revised indicator DM13 is agreed, this percentage would increase to 64%. Currently, the NHS Diabetes 'Audit to Action' project is engaging with GP practices that require most improvement with the nine care processes and their management. This project finishes in March 2013, with the closure of NHS Diabetes. Further improvement will require transformational change in the management of diabetes and long term conditions in general, and the means of achieving further improvement will be for the Board to determine.

2.4 Universal coverage will be declared when returns show that up to 80% of people (a figure currently achieved by the best practices) diagnosed with diabetes have received all nine care processes. This goal recognises that patients have the option to decline any and all of the care processes, and may not be in a state to receive them.

PAC CONCLUSION AND RECOMMENDATION 3

Fewer than one in five people with diabetes have achieved the recommended levels for blood glucose, blood pressure and cholesterol. Failure to carry out these simple checks heightens the risk of diabetic patients developing complications. If people develop complications they are more likely to die early and also cost the NHS more money.

The department should set out when it expects to increase significantly the proportion of people with diabetes achieving all three outcomes, and define what that proportion should be.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: 21% by March 2015, 40% by March 2018.

[4] http://www.ic.nhs.uk/catalogue/PUB08661
[5] http://www.dh.gov.uk/health/2012/12/gp-contract-proposals/

3.2 Patient care must be tailored to individual clinical need and patient preference. It will never be appropriate for every person with diabetes to be within the recommended outcomes ranges defined by NICE, which are set for the UK population as a whole. The specific proportion cannot be defined, particularly for glucose control. However, the department agrees that more can be done to increase the proportion of people with diabetes achieving the recommended levels for blood glucose, blood pressure and cholesterol.

3.3 Since 2009, there has been a 0.4 percentage point improvement in the proportion of people meeting all three targets, reported in the National Diabetes Audit, and in 2010-11 19.8% of people with diabetes achieved all three targets. By 2014-15, it is expected to be 21% of people meeting all three targets. The means of achieving further improvement will be for the Board to determine.

3.4 The Government believes that the one way to increase the proportion of people with diabetes achieving all three outcomes is through QOF. To that end, Sir Bruce Keogh requested that NICE review the intermediate treatment indicators for diabetes in QOF, examining the range of target measurements and the associated payment thresholds. It is for NICE to make recommendations on the intermediate targets and payment thresholds for these QOF indicators, according to NICE accredited evidence and in consultation with clinical and patient stakeholders. These recommendations will be considered as part of the future discussions between the NHS Commissioning Board and the British Medical Association on the GP contract.

3.5 The NICE consultation on potential new indicators for the 2014-15 QOF[6] includes a potential new indicator to reward good practice in lipid management of patients to improve the proportion of people with diabetes achieving recommended cholesterol levels. This consultation closed 4 February 2013.

PAC CONCLUSION AND RECOMMENDATION 4

The department is not effectively incentivising delivery of all aspects of its recommended standards of care through the payments systems. Although the Quality and Outcomes Framework for GPs initially improved diabetes outcomes in primary care, there has been little improvement lately and the current payment system is not driving the required outcomes. GPs are paid for each individual test they carry out rather than being rewarded for ensuring all nine tests are delivered. Similarly, the Payment by Results tariff system for hospitals does not incentivize the multi-disciplinary care required to treat a complex long-term condition such as diabetes.

The department needs to ensure that its payment systems effectively incentivise good care and better outcomes for people with diabetes.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2016.

4.2 It is for NICE to make recommendations on the intermediate targets and payment thresholds for QOF indicators, according to NICE accredited evidence and in consultation with clinical and patient stakeholders. Any recommendations that NICE make will be considered as part of the discussions between the NHS Commissioning Board and the British Medical Association on the GP contract. Responsibility for setting tariff currently remains with the Department, but from April 2013 the Board will take overall responsibility for the financial and related levers that commissioners can use to deliver their objectives.

Rewarding high-quality provision

4.3 Commissioning for quality and innovation (CQUIN) presents an opportunity for commissioners to secure local quality improvements by agreeing priorities with their providers. It is set at 2.5% of the value of all services commissioned through the NHS Standard Contract. CQUIN payments will only be made to those providers that meet the minimum requirements of the high impact innovations as set out in *Innovation, Health and Wealth.*[7] These minimum requirements, including how clinical commissioning groups can identify whether they have been met, will be published in guidance provided by the Board. This guidance was published in draft in December 2012 and a final version is due to be published shortly. There are already local CQUINs being used to drive improvements for diabetes care.

[6] http://www.nice.org.uk/aboutnice/qof/ConsultationQOFIndicators.jsp
[7] http://www.dh.gov.uk/health/2012/12/ihw-creating-change/

4.4 These levers are intended to support both CCGs and the Board's own commissioners to improve service quality, which will deliver better outcomes for patients, and maintain strong central financial management controls.

4.5 Best Practice Tariffs, which incentivise providers to follow best practice guidance, will be introduced from 1 April 2013 for diabetes ketoacidosis and hypoglycaemia. This will improve care for these potentially life threatening acute complications, by reinforcing best practice. Tariffs for complex and multiple long-term condition care are also being developed as part of the *Year of Care* programme[8],for which the Board is taking responsibility from April 2013 and which will have implications for diabetes.

Rewarding high-quality commissioning

4.6 The quality premium, subject to Regulations being approved by Parliament, will be paid in 2014-15 to CCGs that in 2013-14 improve or achieve high standards of quality from the measures contained in the NHS Outcomes Framework, including:

- potential years of life lost from causes considered amenable to healthcare;
- avoidable emergency admissions (a composite of four NHS Outcome Framework indicators);
- a friends and family test; and
- incidence of healthcare associated infections (MRSA and *Clostridium difficile*).

4.7 The quality premium can also include three locally identified measures, which could potentially include measures related to diabetes. Each CCG will have to agree these measures with their Health and Wellbeing Board(s) and the Board, after discussion with key stakeholders including patients and local community representatives.

PAC CONCLUSION AND RECOMMENDATION 5

The department has improved information on diabetes but this information is not being used effectively by the NHS to assess quality and improve care, and cost information needs to be improved. The department has improved data on diabetes to support those commissioning, planning and monitoring services. However, primary care trusts are making limited use of these data at a local level to inform how services are delivered or to benchmark and improve services. Estimates of the cost of diabetes also range from £1.3 billion to almost £10 billion a year.

The department should use its information to hold the NHS to account and should work with the NHS to ensure that the costs of diabetes are fully captured and understood to promote appropriate services and better outcomes for patients.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: Clinical audit data is already in use; work to improve information about expenditure should be concluded by March 2015.

5.2 The department will identify potential improvements to the community care elements of the data collection to assess whether information from the National Diabetes Audits (NDA) and National Diabetes Information Service (NDIS) can be used to improve estimates of expenditure. The department is also investigating the feasibility of using GP information systems to identify expenditure in primary care for future years.

5.3 The programme budgeting collection covers 23 programmes of healthcare. Where patients have co-morbidities, the programme, where possible, assigns expenditure based on the primary diagnosis. Therefore, the figures do not capture the total expenditure on patients with diabetes. Some expenditure on patients with diabetes and heart disease will be assigned to the circulation programme, if this is considered the primary diagnosis.

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[8] http://healthandcare.dh.gov.uk/year-of-care/

5.4 Programme budgeting data can be used by commissioners to compare spend and outcomes with peers and examine reasons for variation. Further work is being done to investigate primary care datasets in more detail, to assess what information could be used to identify expenditure by healthcare condition. This requires taking steps to improve the underlying financial information collected at local and national level. Programme budgeting data and associated health investment products also provide commissioners with a range of resources to explore spend, activity, and health outcomes to inform commissioning decisions that help to deliver appropriate services and better outcomes for patients.

5.5 The CCG Outcomes Indicator Set developed by the Board will support and enable CCGs and health and wellbeing partners to plan for improvement in care and outcomes, including diabetes care. A CCG Outcome Indicator Set provides information for measuring and benchmarking outcomes of services commissioned by CCGs. The Board expects CCGs to use this and other available data provided by the NDA, the NDIS, and QOF to assess their performance and plan for health improvement.

PAC CONCLUSION AND RECOMMENDATION 6

Many people with diabetes develop avoidable complications because they are not effectively supported to manage their condition and do not always receive care from appropriately trained professionals across primary and secondary care. Primary care professionals are not carrying out regular checks and tests and diabetic patients are developing diabetes-related complications that could be avoided, often requiring hospital treatment, as a result of poorly managed blood glucose, blood pressure and cholesterol. In hospital, some people with diabetes experience poor care, with over a third having a medication error whilst an inpatient. There are also high rates of readmission to hospital for people with diabetes.

The NHS Commissioning Board should build into national contracts for primary and secondary care a requirement for people with diabetes to receive multi-disciplinary care from appropriately trained staff and structured regular education and support to help them manage their condition. The Committee received evidence about the impact of specialist diabetic nurses in improving patient outcomes and the Committee concluded that this is a cost effective way of improving outcomes for diabetic patients.

6.1 The Government disagrees with the Committee's recommendation.

6.2 The Government does not consider it is appropriate for the department or the NHS Commissioning Board to mandate which individuals should provide specific elements of care. However, the Government does agree that people with diabetes should receive multi-disciplinary care from appropriately trained staff and that they should receive structured regular education and support to help them manage their conditions. The Government has put in place a range of levers and tools to support the NHS in delivering such services to patients. For example: the NICE Quality Standard for Diabetes includes a recommendation to provide multi-disciplinary care from appropriately trained staff, and structured patient education.

6.3 Furthermore, the Board will be adopting the 'safer use of insulin' programme in its work on domain 5 of the Outcomes Framework on ensuring patient safety. The training programme is for all healthcare and medical staff who prescribe, prepare, and administer insulin. By December 2012, 95,000 healthcare professionals had registered for the e-learning programme.

PAC CONCLUSION AND RECOMMENDATION 7

The projected increase in the diabetic population could have a significant impact on NHS resources. The number of people with diabetes is projected to increase from 3.1 million to 3.8 million by 2020. This will put pressure on NHS resources because of the high costs of treating related complications.

The department and Public Health England should set out the steps they will take to minimise the growth in numbers through well-resourced public health campaigns and action on the risk factors for diabetes, such as the link with obesity, and the complications they can cause.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2015.

7.2 The Government is committed to tackling unhealthy weight and obesity, which is a major risk factor for type 2 diabetes. In October 2011, the department published *Healthy Lives, Healthy People: A Call to action on obesity in England*[9]*,* which sets out a new approach to tackling obesity and the role of key partners. The *Call to action* includes new national ambitions for a downward trend in excess weight in adults and children by 2020. The Government is also giving local councils new powers and dedicated funding to help their local communities become healthier.

7.3 The Public Health Responsibility Deal, a voluntary partnership between the industry and the Government, was launched in March 2011. Businesses have signed up to reduce and cap calories, salt and trans fats, increase uptake of fruit and vegetables, and label calories when eating out of home. The 2013 Food Network Programme includes reducing saturated fats, and work on promotion of foods. In addition, the Government has announced its preferred approach to front of pack nutrition labelling to help achieve greater consistency and clarity and help consumers make healthier food choices.

7.4 The department and Public Health England do not have any plans for a separate campaign to highlight the risk of type 2 diabetes. However, the department has continued investment in the *Change4Life* programme, which supports individuals and families to make simple changes to adopt a healthier diet and increase their physical activity levels. In addition, the department recently launched the *Change4Life Be Food Smart* campaign to give people information about the foods they eat, and help them make healthier choices.

7.5 The department funds and supports the NHS Health Check programme, which assesses the risk of diabetes for people aged 40-74, and supports them in managing or reducing that risk. From April 2013, the department will mandate Local Authorities to deliver the risk assessment element of the programme locally. Economic modelling has shown the potential for the programme to prevent over 4000 people a year from developing diabetes, and detect over 20,000 cases of diabetes and kidney disease much earlier.

7.6 The new public health and NHS systems described in the *Call to action* come in to force in April 2013, and by the end of 2015 Health and Wellbeing Boards are expected to be fully implementing their plans for tackling obesity, where this has been identified as a local priority, supported by national bodies including Public Health England. The department expects the Responsibility Deal Food Network pledges set out in the work programme to be in place, with business making commitments to help consumers eat more healthily.

[9] http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_130401

Eighteenth Report

HM Treasury

The creation and sale of Northern Rock Plc

Committee of Public Accounts report summary

The run on deposits at Northern Rock in September 2007 was one of the key moments in a financial crisis whose effects continue to be felt today. After nationalising Northern Rock in February 2008, the Treasury eventually decided to split out a new retail bank, (Northern Rock plc), for sale, and to run-down the majority of the mortgage assets in a separate public sector vehicle, Northern Rock (Asset Management) plc (NRAM). Northern Rock plc was sold to Virgin Money in 2011 for proceeds currently estimated at £931 million, an expected loss of £469 million. The Treasury hopes to recover all the public funds provided to Northern Rock but this is far from certain as it relies on a profitable wind-down of NRAM to offset the loss on the sale of Northern Rock plc. Moreover, even if the Treasury's predictions are correct there will still be an economic loss, currently estimated at £2 billion, to the taxpayer. It is therefore vital that the final decisions on the wholly owned banks are made with value to the taxpayer taking precedence over speed of exit.

The Treasury accepted its part in a "monumental collective failure" to understand and respond to the emerging banking crisis. The Treasury lacked the skills to understand Northern Rock. It took too long to nationalise the bank and failed to make an effective challenge to the bank's business plan, first after nationalisation in 2008 and again in 2009 when deciding what to do with the bank. The Treasury has started to address this lack of capacity: it has established UK Financial Investments (UKFI) with a small team of 12 people to manage the taxpayer shares in banks, and has conducted a review of its own skills and capacity. But huge challenges remain. The £66 billion cash spent purchasing shares in RBS and Lloyds may never be recovered, and the Treasury must also ensure it is prepared to deal with any future crisis, whatever form it may take, when it emerges.

In hindsight, the Treasury's decision to create and sell a new bank turned out to be no worse than any available alternative, because no matter which part of the bank that was sold, or when, a larger amount of assets would need to be retained in public ownership. The decision to split the bank was intended to generate lending, but in public ownership the new bank lent only £9.1 billion against a target of £15 billion. UKFI took over management of the shares in 2010 but Northern Rock plc still lost money in 2011, and its strategy should have been challenged sooner.

There were only two competitors bidding for Northern Rock plc and EU state aid rules required the bank to be sold by 2013. Despite these constraints the sale was well-handled, although UKFI was fortunate that Virgin Money was keen to buy in 2011.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Treasury and UK Financial Investments on the creation and sale of Northern Rock Plc on 17 September 2012. The Committee published its report on 16 November 2012.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Treasury was part of a monumental collective failure to understand how the pre-crisis boom could lead to a banking crisis. The Treasury did not have sufficient capacity or the skills to understand and respond to the crisis when it began. It recognises that it took too long to realise that the crisis was systemic and too long, five months, to determine that a private sector buyer for the whole bank could not be found, even with Treasury underwriting. The delay in deciding what to do with the bank made a loss on the intervention difficult to avoid.

1.1 The Government notes the Committees comments.

PAC CONCLUSION AND RECOMMENDATION 2

This will not be the last banking crisis, and the next one is likely to be different. The Treasury needs to retain a sufficient capability in its staff to understand and manage risks. It must find a balance between maintaining the ability to respond to an emergency and avoiding idle capacity. The Treasury has now published a review of its capacity (the White Review) and committed to updating the Committee on its response.

The Treasury should update the Committee by June 2013 on progress made in implementing the recommendations of the White Review.

2.1 The Government agrees with the Committee's conclusion.

Target implementation date: Summer 2013.

2.2 In response to the *Review of the HM Treasury's management response to the financial crisis*[10], the department agreed to take action on the recommendations to enhance staff capability, skills and retention to improve its capacity to respond to a future crisis.

2.3 The Treasury is also committed to report progress against its response to the recommendations in its departmental Annual Report from 2013, and will invite the National Audit Office to look at progress by 2013-14. The Treasury will keep the Committee updated on progress.

PAC CONCLUSION AND RECOMMENDATION 3

The rescue of Northern Rock currently has an estimated loss to the taxpayer of £2 billion. The final cost is not certain because it depends on the management of the mortgages retained in public ownership and the future performance of the UK economy. It is important for the taxpayer to know how much the interventions to bail-out banks have cost.

UKFI should regularly review its estimate of the cost of the intervention to rescue Northern Rock and publish updated figures on a regular basis.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 UKFI published its first estimate of the expected returns to the taxpayer from the Northern Rock and Bradford & Bingley interventions in 2012, and will publish updated figures on regular basis.

[10] HM Treasury, March 2012

PAC CONCLUSION AND RECOMMENDATION 4

The Treasury did not effectively challenge the business plan put forward by the bank's management to split the bank. The Treasury was told by its advisers in early 2009 that the business plan for the new bank put forward by the bank's management was optimistic. Despite our previous recommendations, the Treasury did not mount an effective challenge to the assumptions in the plan and the final plan approved by the Treasury was still too optimistic.

The Treasury must ensure it has access to the skills it needs to challenge all the banks in which it holds shares.

4.1 The Government agrees that it needs to have access to the necessary skills.

Target implementation date: 31 March 2013.

4.2 In response to the *Review of the HM Treasury's management response to the financial crisis*, the department is committed to developing its staff to ensure it retains the necessary capability in financial services, both to manage the ongoing heavy workload in this area and to respond to any future crisis.

4.3 The Treasury is enhancing its training and skills programme, working with counterparts in the Bank of England and Financial Services Authority (FSA). Arrangements to ensure new and existing staff have access to appropriate induction and training resources on financial services have been reviewed and strengthened. The department is working with industry to develop new secondment opportunities with domestic financial services providers, adding to existing interchange with the FSA and financial services firms, with strategic oversight provided by a new Financial Services Secondments Committee.

PAC CONCLUSION AND RECOMMENDATION 5

After it took responsibility for the management of the taxpayer shares in January 2010, UKFI did not challenge the strategy of Northern Rock quickly enough. It took almost a year before UKFI was able to challenge Northern Rock plc's business plan. Only in early 2011 was cash, which the bank had failed to lend, invested in gilts instead to improve the bank's profitability. UKFI employed just 12 staff as at 31 March 2012, and its head of wholly-owned investments has now left and will not be replaced. UKFI is now increasingly reliant on the management teams of the wholly-owned banks (Bradford & Bingley and NRAM) to achieve a successful run-down of the mortgages retained in public ownership.

UKFI should use the Treasury's powers as sole owner of these banks to ensure the management work to minimise the overall economic cost rather than simply aiming for a quick exit.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 Acting on behalf of the Treasury, UKFI has a Relationship Framework Agreement in place with UK Asset Resolution Ltd (UKAR) and its subsidiaries Northern Rock (Asset Management) plc and Bradford & Bingley plc. This establishes an overarching objective for UKAR of protecting and creating value for the taxpayer, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.

5.3 In this context, UKFI has worked with UKAR management to clearly establish the principle that protecting and creating value should be prioritised over a quick exit. UKFI reinforces this through its interaction with UKAR, including through an annual review and approval of a revised business plan as well as through ongoing monitoring and challenge of company performance in meetings with the management team.

PAC CONCLUSION AND RECOMMENDATION 6

Once UKFI decided to sell the bank, the sale was handled well, but the low level of competition does not give the Committee confidence that the taxpayer will make a profit on the sale of RBS or Lloyds. There were only two competitors bidding for Northern Rock plc, and the Treasury was fortunate that one of them had a strategic interest in purchasing a small retail bank at the end of 2011. While significant, the £1.4 billion invested in Northern Rock plc shares was small in comparison to the £66 billion invested in RBS and Lloyds. The taxpayer is likely to hold its stake in RBS and Lloyds for many years.

The Treasury should ensure that lessons it learns from the sale are captured and can be applied to future disposals, including any sale of RBS or Lloyds.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Ongoing.

6.2 The Treasury will look to apply relevant lessons from the Northern Rock sale when the time arrives to sell the shareholdings in RBS and Lloyds. The Government's shareholdings in RBS and Lloyds are managed on a commercial and arm's length basis by UKFI.

6.3 UKFI's overarching objective is to manage these shareholdings commercially and to devise and execute a strategy for disposal in an orderly and active manner. This is to be undertaken within the context of protecting and creating value for the taxpayer, paying due regard to the maintenance of financial stability and acting in a way that promotes competition. UKFI will look at the full range of available disposal options, and will make its recommendations to the Treasury based on market conditions, an assessment of investor demand and on value for money considerations. The ultimate decision on whether to proceed with a transaction rests with the Chancellor of the Exchequer.

PAC CONCLUSION AND RECOMMENDATION 7

The Government has many competing objectives for its shares in banks, and tensions between them will continue as the period of temporary public ownership extends. In line with the Committee's previous recommendations, the Treasury has separated its role as shareholder from its wider role as the nation's finance and economics ministry.

The Treasury should continue to ensure that its interest as shareholder is kept separate from its wider policy objectives.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 The Government's shareholdings in the banks are managed on a commercial and arm's length basis by UKFI. UKFI is a company which is wholly owned by the Government which was created in response to the financial crisis in November 2008.

7.3 Separately, the Treasury is responsible for managing broader policy objectives in its role as the nation's finance and economics ministry.

Nineteenth Report

HM Revenue and Customs

HMRC Annual Report and Accounts 2011-12

Committee of Public Accounts report summary

Transparent, predictable and fair taxation is at the core of our public finances. The Government has a responsibility to assess and collect tax due from all taxpayers, without fear or favour, and taxpayers should pay all that tax which is due. Whilst the Committee looked at a range of issues among HM Revenue and Customs' (HMRC's) activities, the Committee's principal enquiries were into the corporation tax paid by multinational companies.

The hearings the Committee held showed that international companies are able to exploit national and international tax structures to minimise corporation tax on the economic activity they conduct in the UK. The outcome is that they do not pay their fair share. The Committee believes that this practice is widespread and that HMRC is not taking sufficiently aggressive action to assess and collect the appropriate amount of corporation tax from these multinationals. If companies do not pay their fair share of tax, other taxpayers have to pay more. Both HMRC and corporate taxpayers are failing to meet the legitimate public expectations from the tax system.

The Committee took evidence from multinational companies and HMRC to understand how successful companies with huge operations in the UK pay little or no corporation tax. The evidence the Committee received was unconvincing, and in some cases evasive. The Committee is concerned that multinationals have an unfair competitive advantage over British businesses which have no choice but to pay their corporation tax. It is also unclear whether HMRC has the necessary resources or are devoting the time and effort to collect the appropriate level of tax.

HMRC needs a change in mindset in the way it approaches collecting tax from multinationals. At the moment there is a pervasive acceptance of the status quo by the top officials in HMRC and the Committee has seen little evidence of a desire to be more assertive. For example: it is perplexing that, on transfer pricing HMRC consider a royalty fee of 6% or 4.7% can be competitive when the company involved consistently makes a loss. The Committee expects HMRC to prosecute multinational companies who do not pay the tax due in the UK.

This change of mindset needs also to apply to HMRC's approach to the Tax Gap – the difference between tax collected and that which, in the department's view, should be collected. While total tax revenues have increased by £4 billion since 2010-11, the Department's own assessment of the gap stands at £32 billion and has only reduced by £1 billion since 2004-05. Despite this poor performance, HMRC were unconvincingly positive about the situation. While the Committee recognises that it will always be an unequal fight between HMRC and multinational companies, HMRC should not be so accepting of failure and should set ambitious targets to reduce it as soon as possible.

There is currently a complete lack of transparency about why multinationals pay so little corporation tax. Global companies structure their companies in ways that are impenetrable to the public and HMRC disclose very little about their approach to collecting tax from them. This undermines public confidence in the tax system and in HMRC which could have a negative impact for wider tax compliance. Effective change may require international cooperation to make sure that the UK is not isolated, but there is a moral case on top of the basic economic case that taxation of economic activity should transparently reflect where that activity occurs. The UK should be in the lead in making and enforcing this case. There are also steps HMRC and the UK Government can take to improve the legitimate tax take from multinational corporations.

For individual taxpayers, HMRC deserves praise for clearing the backlog of un-reconciled legacy PAYE cases, before its target of December 2012, but is too complacent about the service it provides to customers. The next challenges HMRC faces are the roll-out of the Real Time Information system and the changes to child benefit. HMRC did not convince the Committee that it will manage the potential increase in its workload or that it had fully considered the impact on taxpayers. There are four months to go before the main roll-out of the Real Time Information system. The system is vital for the Department for Work and Pensions' introduction of Universal Credit, but HMRC has no contingency planning to cope with any delays in implementation.

The department's performance in reducing the level of error and fraud on the tax credits it pays has got worse rather than better, and it has failed to meet its target. In the future, families may find themselves struggling to repay money from much reduced Universal Credit payments as a consequence of the department's poor performance.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from HM Revenue and Customs on its Annual Report and Accounts 2011-12 and from Amazon, Google and Starbucks on 5 November 2012 and 12 November 2012. The Committee published its report on 3 December 2012.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The UK Government needs to get a grip on large corporations which generate significant income in the UK but pay little or no tax. Despite an increase in total tax revenues of £4 billion from last year, corporation tax revenues have fallen. Multinationals appear to avoid UK corporation tax by arranging their corporate structures, transfer payments and royalties to move money to low tax jurisdictions overseas. There is little credible information to inform public debate over the equity of corporate tax payments and HMRC lacked clarity when explaining its approach to enforcing the corporation tax regime. Since multinational companies are able to set up in any country, this may need international co-ordination to resolve.

HMRC should work with HM Treasury to:

- ***police UK tax borders more efficiently, introducing national measures to secure a fair contribution to the tax base from multinational corporations;***
- ***lead international efforts, particularly within the EU, to reform the way in which multinational companies are able to transfer earnings overseas and thereby potentially avoid tax payments;***
- ***publish clear sector benchmarks for common charges such as royalty payments and intellectual property rights; and***
- ***develop best practice standards in the information companies should make publicly available about their tax practices and work with the relevant bodies to make them part of mandatory reporting requirements.***

1.1 The Government agrees with points one and two of the Committee's recommendation, but disagrees with the third and fourth points.

Target implementation date: for points one and two, December 2013.

1.2 It was announced in the 2012 Autumn Statement that the department is to receive additional funding to invest in enhancing its risk assessment capability and increase its transfer pricing specialist resources to ensure that multinational businesses pay the correct amount of tax. The department is implementing new anti-avoidance rules for controlled foreign companies, and will take action against other avoidance both through specific measures and, for particularly egregious avoidance, through the new General Anti-Abuse Rule.

1.3 The Chancellor announced on 23 November 2012 that the UK is providing additional funding to the international Organisation for Economic Co-operation and Development (OECD) to bolster its work to counter Base Erosion and Profit Shifting (BEPS). The French and German governments have also agreed to provide additional funding for this work. The Treasury and the department are working with key European partners and will take a prominent role in the international programme of work on BEPS being undertaken by OECD. The UK will use its presidency of the G8 to maintain the momentum set by the G20 for this work

1.4 In relation to sector benchmarks, the UK's transfer pricing rules apply the arm's length standard to individual transactions by taking account of their particular facts and circumstances. This is the international standard and it limits the scope for applying sector benchmarks. However the BEPS programme will provide an opportunity to consider more fundamental changes consistent with this recommendation as part of its wide ranging brief.

1.5 In relation to mandatory reporting requirements for tax practices, HMRC will continue to work in partnership with HM Treasury to ensure strong standards are developed and maintained through relevant international fora such as the OECD.

PAC CONCLUSION AND RECOMMENDATION 2

HMRC needs to be seen to challenge practices to prevent the abuse of transfer pricing, royalty payments, intellectual property pricing and interest payments. HMRC needs a far more determined approach to dealing with multinationals and their tax affairs. Top officials need to challenge the status quo and be more assertive, for example in accepting that excessive levels of royalty payments are appropriate when businesses are making a loss. Given the high-profile cases of large companies avoiding tax and the department's selective prosecution practice, there may be an impact on the compliance rate of individuals and small and medium companies who feel victimised.

HMRC should direct more effort into challenging artificial arrangements, be more willing to prosecute improper corporate arrangements and make more information available to the public about this aspect of its work.

2.1 The Government agrees in part with the Committee's recommendation.

2.2 The use of the word prosecute in the recommendation may imply criminal proceedings, which would not be appropriate in challenges of this nature.

Target implementation date: April 2014.

2.3 It was announced in the 2012 Autumn Statement that the department will invest further funding to strengthen its capability to ensure that multinational businesses pay the correct amount of tax. This additional resource will enhance its risk assessment capability and increase its transfer pricing specialist resources in order to accelerate the identification, challenge and resolution of transfer pricing issues.

2.4 In 2012, the department revised its procedures covering the governance of tax disputes. These procedures encompass the resolution of issues involving multinationals, including transfer pricing, and will ensure that they are resolved in accordance with the department's Litigation and Settlement Strategy whether through agreement with the business, or by litigation.

2.5 The department published statistics in 2012 detailing some aspects of its transfer pricing work and will continue to update and expand this information.

PAC CONCLUSION AND RECOMMENDATION 3

HMRC is too passive in its approach to closing the tax gap. It has only reduced the gap between what is due and what is collected by £1 billion since 2005. Closing the tax gap is central to public perceptions of fairness during a period of austerity and of cuts to public services and HMRC appears to be complacent in its approach.

HMRC must set immediate and ambitious targets to reduce the tax gap.

3.1 The Government disagrees with the Committee's recommendation.

3.2 Tax gap estimates are not precise, are reported with a lag and are subject to revision following changes in methodology and the reporting of economic statistics. Experience has shown these limitations mean that the measures are not suitable for use for setting targets and measuring performance. For this reason the department has moved away from setting tax gap targets, instead using them to inform long term strategy and as a health check on performance.

3.3 The department has made strong progress in closing the tax gap, which has fallen from 8.2% of tax due to 6.7% since 2004-05. This is a substantial reduction of nearly 20%. Cash comparisons of the tax gap between 2004-05 and 2010-11 have limited meaning as they do not reflect inflation, growth in real incomes / profits or changes in tax rates over this period.

3.4 The department has embarked on a major transformation towards a national, risk based and customer focused operation supported by ground breaking risk profiling technology and investment in a highly skilled workforce. This focusing of resources on reducing the scope for avoidance, evasion and criminal attack has contributed to a more than doubling in compliance revenues from £7.4 billion in 2005-06 to £16.7billion in 2011-12.

3.5 The 2012 Autumn Statement set out a number of legislative and operational measures to tackle aggressive and abusive avoidance schemes, and to address offshore tax evasion. Over this Parliament, taken together with the Spending Review 2010 reinvestment, the Government will have reinvested around £1 billion in the department and expects them to deliver an additional £22 billion in 2014-15, £9 billion more a year than in 2010-11. These targets are very ambitious in the light of the tax gap estimate of £32 billion in 2010-11.

PAC CONCLUSION AND RECOMMENDATION 4

This Committee lacks confidence that HMRC both has and is using the business intelligence systems it needs. HMRC is rationalising 3,000 systems down to 13 big systems. Private sector tools for business intelligence analysis develop quickly, but HMRC does not. In 2004, and again in 2009, this Committee recommended HMRC use risk profiling to better target debt collection activities; but full implementation of systems to enable systematic analysis of debt and of debtor behaviour (known as "analytics") has been delayed from April 2011 to October 2012.

HMRC should use its fully implemented analytics systems to develop a sector-by-sector approach to compliance activity so that it focuses resources on priority areas.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The department's new analytics system, Analytics for Debtor Profiling and Targeting (ADEPT), is a powerful capability which gives the department the capacity to routinely analyse all its debtors and debts each day, allowing it to assess debtors in terms of their individual risks and to predict their likely behavioural responses to the different collection strategies available to it. For example: the department has used ADEPT to cross match its debtors with those who have debts owing to the Department for Work and Pensions (DWP). The "overlapping debtors" are now being pursued through a combined HMRC / DWP debt campaign.

4.3 ADEPT has also been used to carry out the most detailed analysis ever undertaken of its debt portfolio and then to develop and implement successful new plans for dealing with stocks of older debts. ADEPT is proving to be a very powerful analytics tool and is making it possible for the department to more fully understand both the composition and detailed characteristics of all of its debts, as well as comprehend the complex daily dynamics of inward debt flows and debt clearances across all of its taxes and duties.

4.4 Further enhancements in 2013 will improve the department's existing abilities to segment taxpayers and to tailor its debt management and recovery actions according to risk, debtor attitudes and behaviours.

PAC CONCLUSION 5

HMRC is unduly complacent about the rollout of the Real Time Information (RTI) system and the child benefit changes. The Committee is concerned that, with four months to go to the main roll out of RTI, the project has been rated amber by the Major Projects Authority. The Institute of Chartered Accountants in England and Wales (ICAEW) thinks that the department's current plans will increase the burden on small businesses and therefore on the department's workload. Similarly more individuals will be required to register for self-assessment as a result of the changes to child benefit. HMRC believes that there will be negligible impact from both sets of changes and do not have contingency plans to deal with delay or fluctuations in workload.

PAC RECOMMENDATION 5

By the end of March 2013, HMRC should provide the Committee with details of its plans to manage the burden on small businesses as a result of RTI; and provide credible contingency arrangements should the main rollout of RTI between April and October 2013 not go according to plan.

5.1 The Government disagrees with the Committee's recommendation.

5.2 In order to ensure RTI is safely delivered in time for the introduction of Universal Credit, the department has detailed plans, with mitigations built into them to reduce implementation risks. In particular, it has used a year long pilot to phase migration of large employers and delivery of IT functionality. The department has a number of contingency plans for potential scenarios, including different impacts on its workload, which will be reviewed by the Major Projects Authority. The department is also monitoring burdens on pilot employers and has confirmed with ICAEW and others that a review will be completed in the summer once further evidence has been gathered, as the pilot has not evidenced their particular worries to date. The department does not expect a "big bang" on RTI in April and will continue to work with employers and schemes from then until the summer to support this change.

5.3 The High Income Benefit Charge (HICBC) took effect from 7 January 2013. More people than originally forecast decided to stop payment of Child Benefit. The department will continue communications through 2013 to ensure customers, who did not opt out of Child Benefit, understand their obligations to declare their benefit in Self Assessment. The department will also work with customers, employers and their representatives to make their RTI introduction as smooth as possible.

PAC CONCLUSION AND RECOMMENDATION 6

HMRC is persistently unable to get a grip of error and fraud in tax credits. The estimated level of error and fraud in tax credit payments was between £2.08 billion and £2.46 billion in 2010-11, which was higher than both the estimate for 2009-10 and its target. Given its performance, HMRC is unlikely to recover tax credit debt before the introduction of Universal Credit. Families may receive less money from the new system, and will receive even less if they have to repay tax credit overpayments. The poor administration of tax credits will undoubtedly deter some of the most needy from claiming tax credits yet HMRC has not made any estimate of the extent of this.

HMRC must improve its use of data and analytics to target its interventions more effectively and improve the accuracy of tax credit awards by the end of 2012-13.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The latest available figures for tax credit error and fraud are for the year 2010-11. Since then, the department has improved its use of data and analytics to target high risk claims at the point of renewal, as well as those claims where the department has identified a high risk either that a change of circumstances has not been declared, or that it has been declared wrongly. The department has also introduced a new intervention using Credit Reference Agency information to identify potentially undeclared partners.

6.3 The department has introduced the Fraud and Error Assessment System Tool (FEAST), which analyses information provided by new and existing claimants on their Tax Credit application form, compares this against internal and external data (for example, DWP and Credit Reference Agency data) and decides the likelihood of the application being fraudulent or erroneous, thus allowing the department to take corrective action before any payment is made. The department will continue to consider further improvements to its use of data and analytics to target interventions more effectively.

Twenty First Report

Ministry of Justice

Ministry of Justice's language service contract

Committee of Public Accounts report summary

When participants in the justice system do not speak English as their first language, it is essential for justice that they are provided with interpretation services. The Ministry of Justice (the Ministry) provides translators and interpreters to defendants at particular stages of the justice process. Before January 2012, the Ministry generally booked interpretation services directly with individual interpreters, many of whom were listed on the National Register of Public Service Interpreters (NRPSI). This approach was administratively inefficient; for example, individual Courts booked and paid interpreters separately. The Ministry decided to set up a new centralised system for procuring language services intending the new system to be better quality, cheaper and more efficient.

In August 2011, the Ministry signed a four year Framework Agreement for language services with Applied Language Solutions (ALS), under which all justice sector bodies could enter contracts with ALS. It expected the Framework Agreement to be worth up to £42 million a year. In October 2011, the Ministry signed a five year contract under the Framework Agreement which went live nationally on 30 January 2012. The Ministry expected the contract to cost £18 million a year. In December 2011, after the Ministry had signed its contract with ALS, ALS was acquired by Capita.

The Ministry was not an intelligent customer in procuring language services, despite the risks posed to the administration of justice and to the Ministry's reputation. It is not clear how consultations with interpreters in late 2009 fed into the process after the 2010 General Election. In one consultation, held in Cardiff in 2009, there were no more than 20 attendees and the question of who assessed interpreters was raised but there was no feedback. Yet this was one of the issues that caused problems with the contract when it was let. The Ministry started the process without basic management information on language services, including the cost of interpreters or what languages were required in which locations and at what notice. Its use of a competitive dialogue process meant that it selected a single national provider rather than using a number of regional providers which could have had a better chance of meeting demand.

The Ministry failed to undertake proper due diligence on ALS's winning bid. It did not heed financial and other advice that ALS was too small and would struggle to scale up to meet the Ministry's requirements in time. The Ministry also ignored strong opposition from the interpreter community. Interpretation is a specialised service. The procurement and later implementation might have been more effective had the strongly held views expressed by experienced interpreters and trade bodies during the Ministry's consultation been given greater weight. The contract did not include a strong enough incentive for ALS to meet the requirements of the contract right from the start. ALS was acquired by Capita just before the contract started.

The Ministry went live with the contract when Capita-ALS had only 280 interpreters, available to work under the contract, compared to the 1,200 that the Ministry estimated were required. Capita-ALS struggled to recruit interpreters and make them available. As a result, Capita-ALS used interpreters who had not been properly assessed as required by the contract and this impacted on the quality of service and the quality of justice in the courts The Ministry did not conduct a proper pilot or a phased roll-out to ensure a smooth transition.

When the contract went live, Capita-ALS only met 58% of bookings and there was a sharp rise in the number of ineffective trials due to problems with interpreters. Postponing proceedings and delays which resulted in individuals being held in custody for longer periods creates an unnecessary extra cost to the Ministry. The Ministry was unable to quantify the additional cost to them of the failure. However Capita has only been fined £2,200 to date for failing to meet the terms of the contract.

Capita-ALS is now fulfilling more bookings, but it is still struggling to fulfil all and the Committee is concerned that it may not be doing enough to recruit interpreters or to incentivise interpreters to take jobs in rare languages and covering all geographical locations. The Ministry cannot be sure that all interpreters working under the contract have the required skills, experience and character, partly because it is not yet inspecting Capita-ALS as it has the right to do under the contract. Too many courts are having to find their own interpreters which means that the purpose of the policy, to provide one centralised system, has not been met.

On the basis of a Memorandum by the Comptroller and Auditor General, the Committee took evidence from the Ministry of Justice, Capita and the Association of Police and Court Interpreters on 15 October 2012. The Committee published its report on 14 December 2012.

Government responses to the Committee's recommendations

PAC CONCLUSION AND RECOMMENDATION 1

The Ministry lacked management information on the previous use of interpreters and therefore did not have a clear understanding of its requirements under the new system. The Ministry did not know how much it was spending on interpreters, or how many interpreters it required or in what languages. As a result, the system it selected was driven by bidders' proposals rather than its actual requirements.

The Ministry should ensure that it understands the services it needs to procure thoroughly and its cost before commencing future procurement projects.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: February 2014.

1.2 The department used data sampling and modelling to inform the procurement exercise as an alternative to management information. The lack of management information was one of the reasons for the inadequacy of the old system. The department's approach to management information will be considered as part of a lessons learned exercise to provide assurance to the Executive Management Committee of the Board. Membership of the Board is the Permanent Secretary and the Directors General. The exercise will be carried out internally by officials who have not been involved in either the procurement or implementation processes, providing an appropriate level of independence.

1.3 The management information which is available through the operation of the contract will put the department in a much stronger position of understanding requirements and will build on the sampled data that was used to estimate the requirement during the procurement exercise. This will be particularly useful when the current Framework Agreement and contract approach the end of their lives (in 2015 and 2016, respectively).

PAC CONCLUSION AND RECOMMENDATION 2

The Ministry did not conduct thorough due diligence checks on Applied Language Solutions (ALS) before signing the Framework Agreement. For example, it commissioned a credit rating report, which suggested that ALS should not be awarded a contract valued at more than £1million. The Ministry did not act on its findings and although it consulted with stakeholders, including interpreters, it did not take their concerns into consideration.

The Ministry should collect all available information on a bid and bidder, and consider the full data set at an appropriate level of seniority, before making final decisions on future contracts.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: February 2014.

2.2 The department operates a risk-based approach to due diligence, with more extensive procedures for the large and more complex procurement processes. In addition to reports on credit ratings, the department also considers a number of other factors relating to capability and past performance. It also draws on skills and experience from internal Analytical Services and external Financial Consultants to provide specialist advice related to the development of financial models and evaluating financial submissions. The department remains committed to the Government's aspiration relating to wider economic growth that 25% of spend should be with Small and Medium Sized Enterprises (SMEs).

2.3 Due diligence checks were carried out as part of the fair and transparent procurement process, and all information was taken together, in line with Cabinet Office guidance. Key stakeholders were involved throughout the competitive dialogue process and documentary evidence from the suppliers was circulated and reviewed by them.

PAC CONCLUSION AND RECOMMENDATIONS 3 AND 4

3. Despite very poor performance, the Ministry only penalised the supplier £2,200 and failed to penalise it at all for the first 4 months, when performance was at its worst. Risible levels of penalties and low expectations of performance allow private companies to get away with over promising and under delivering.

The Ministry should draft and implement future contracts so as to minimise transitional problems, for example through piloting and rolling-out new systems gradually and incentivising contractors to meet contractual requirements from the outset; for example, through robust use of the penalties available.

4. The Ministry estimated that it would need access to 1,200 interpreters to meet its requirements; however, the contract went live when the supplier had only 280 interpreters ready to work under the terms of the contract. The Ministry believed that many more interpreters were available to work, in line with contractual obligations, than was actually the case due to over-optimistic assurances from Capita-ALS and confusion over definitions of what important terms such as 'registered' actually meant.

When implementing future contracts, the Ministry should not rely solely on contractors' assurances that they are ready and able to deliver the service but should conduct its own thorough testing and have a detailed transition plan to ensure that the service will be delivered before going live.

3.1 The Government agrees with the Committee's recommendations to minimise transitional problems in the drafting and implementation of future contracts.

Target implementation date: February 2014.

3.2 The department agrees that arrangements should be put in place to minimise transitional problems, but piloting and gradual roll-out may not always be the most appropriate way to achieve this.

3.3 Service credits were not imposed immediately as part of a considered approach to building relationships with the supplier and to allow transition time. The lessons learned exercise being completed by departmental officials will look at the transitional and implementation aspects of this contract to uncover any further useful information for future contracts. When rolling out future contracts the department will carefully consider how best to mobilise the contract including taking proper account of the risks to transition, the risks and costs of maintaining the status quo and the need to maintain pace.

3.4 The department will continue to consider and refine the use of incentives and remedies for default in its contracts subject to the Unfair Contract Terms Act 1977 regarding the application of penalties.

PAC CONCLUSION AND RECOMMENDATION 5

The Ministry was unable to confirm that all interpreters working under the contract had the required qualifications, experience and enhanced CRB checks. Capita was unable to assess and mark all interpreters as required by the Framework Agreement and could not be certain that all interpreters had the required experience. The Ministry did not have sufficiently robust processes in place to ensure that Capita-ALS had checked and recorded qualifications, evidence of experience and enhanced CRB checks.

The Ministry should ensure that Capita-ALS now has procedures in place to guarantee that only interpreters with the correct skills, experience and character work under the contract, including agreeing and putting in place an alternative to the assessment regime. It should test the effectiveness of these procedures through a programme of audits and spot checks on individual interpreters.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2013.

5.2 Under the contract, Capita is responsible for ensuring that the interpreters registered with them meet the required criteria. When it became clear that not all checks had been completed, the department required Capita to complete them promptly and provide evidence of outcome. Work to check the evidence for interpreters' declared qualifications and vetting status was completed by the end of November 2012. Interpreters were required to provide proof of qualifications, experience and CRB status. Any interpreters who did not do so were removed from the register. These checks will be routinely performed for interpreters joining the register. A programme of sample audits and spot checks on Capita has begun and will continue on a regular basis as part of ongoing contract management.

5.3 The department is in discussions with interpreter groups and Capita to find an appropriate source of independent advice to look at the assessment and tiering systems under the contract.

PAC CONCLUSION AND RECOMMENDATION 6

Capita-ALS is still unable to provide sufficient numbers of interpreters to meet all of the Ministry's language requirements. By October 2012, the Ministry was still using the contingency plans to source some interpreters.

The Ministry is responsible for all aspects of the efficient administration of the courts and must work with Capita-ALS to develop a more creative approach to recruiting interpreters across all required languages and geographical locations.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: May 2013.

6.2 Contingency arrangements are routinely used to ensure that departmental business is able to continue and can be deployed in a number of situations.

6.3 Officials are engaging with both interpreter groups and Capita in order to discuss the recruitment of interpreters and what measures could be put in place to encourage interpreters, especially those with rare language skills, to register across all geographical jurisdictions. Officials are also considering how court and tribunal processes might be improved to enable better utilisation of interpreters. Fulfilment rates were at 95% by the end of August 2012, but geographical areas with shortages of languages affecting performance or jurisdictional dips in performance will be targeted with Capita, as part of the department's commitment to full implementation of the contract.

PAC CONCLUSION AND RECOMMENDATION 7

The Ministry was unable to provide information on the additional costs to the department of the delaying of trials because of the failure to provide interpreters. There has been an extra cost both to the courts and to prisons caused by the postponement of judicial proceedings.

In the future, the Ministry must undertake comprehensive cost and benefit analysis of its new policies.

7.1 The Government agrees with the Committee's recommendation.

Target implementation date: February 2014.

7.2 The department does use cost and benefit analysis to look at new policies, as confirmed by the National Audit Office report on *Financial Management in the Ministry of Justice* in 2011. Additional costs have been calculated in relation to ineffective trials and incorporated into spend projected for the first year. The department still expects to achieve its savings target in the first year of operation despite these costs. The lessons learned review will ensure that any improvements that can be made to the cost and benefit information provided on new policies are implemented.

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ISBN 978-0-10-185562-4

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