HM Treasury

Treasury Minutes

Government responses on the Sixty First report (Session 2013-14) and the First to the Seventh reports from the Committee of Public Accounts: Session 2014-15

Cm 8938

September 2014

Treasury Minutes

Government responses on the Sixty First report (Session 2013-14) and the First to the Seventh reports from the Committee of Public Accounts: Session 2014-15

61st Report:	Education Funding Agency and Department for Education 2012-13 financial statements
1st Report:	Personal Independence Payments
2nd Report:	Help to Buy equity loans
3rd Report:	Tax reliefs
4th Report:	Monitor: regulating NHS Foundation Trusts
5th Report:	Infrastructure investment: the impact on consumer bills
6th Report:	Adult social care in England
7th Report:	Managing debt owed to central Government

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

September 2014

Cm 8938

TREASURY MINUTES DATED 11 SEPTEMBER 2014 ON THE SIXTY FIRST REPORT (SESSION 2013-14) AND THE FIRST TO THE SEVENTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2014-15.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at: public.enquiries@hm-treasury.gsi.gov.uk.

Print ISBN 9781474110716
Web ISBN 9781474110723

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 05091401 09/14 43057

Printed on paper containing 75% recycled fibre content minimum

Sixty First Report

Department for Education

Education Funding Agency and Department for Education 2012-13 financial statements

1-2: Committee of Public Accounts conclusions

1: The Department for Education created the Education Funding Agency in April 2012 to ensure efficiency, accountability and transparency in the education sector. In 2012-13, the Agency distributed £51 billion of capital and revenue funding for 10 million learners to local authorities, academies, academy trusts, further education institutions, sixth-form colleges and other types of education providers. Since it was established, both the scope and the scale of the agency's activities have changed and expanded rapidly: for example, during its first year the number of academies almost doubled to nearly 3,000 and it took on new responsibilities including managing the Youth Contract for 16 to 17-year-olds.

Between 2012-13 and 2015-16, the Agency expects that the number of all education providers it funds will increase by around 50% to almost 12,000, of which nearly 7,000 will be academies. At the same time, the agency plans to reduce its administration costs by 15%. Ensuring proper accountability for public spending with less resources will be a huge challenge and the department has yet to demonstrate that it can meet its responsibilities for proper accountability.

2: The agency is accountable to the department for the funding it distributes and, in turn, the department is accountable to Parliament for ensuring regularity, propriety and value for money in the work that it and the agency undertake. In 2012-13, the department and the Agency consolidated academies into their financial statements for the first time, and laid their annual reports and accounts just prior to the statutory deadline of 31 January 2014. However the C&AG qualified his opinion on these financial statements on a number of grounds relating to both poor data and inadequate methodology.

1.1 On the basis of a report by the NAO, the Committee took evidence on 5 March 2014, from the Department for Education and the Education Funding Agency, on the performance and capability of the agency and on the department's 2012-13 financial statements. The Committee published its report on 10 June 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Performance and capability of the Education Funding Agency* – Session 2013-14 (HC 966)
- Department for Education: *Consolidated Annual Report and Accounts 2012-13* – Session 2013-14 (HC 49)
- PAC report: *Education Funding Agency and Department for Education 2012-13 financial statements* – Session 2013-14 (HC 1063)

3: Committee of Public Accounts conclusion

The Agency lacks the systems and data it needs to provide transparency and accountability, and demonstrate efficiency, in the education sector.

Recommendation:

The agency needs a clear information strategy, which specifies the data it needs to collect and use to provide transparency and accountability and improve efficiency in the education sector. It also needs to get systems in place as quickly as possible to capture data at low cost and without overburdening the sector.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The agency already has an information strategy in place, which sets out the data the agency collects and how it will do this efficiently and effectively. The information strategy sits alongside a £26 million ICT investment, which the department has allocated to the agency to improve its data and systems over the three years to 2015-16. Both the department and the Cabinet Office approved the agency's ICT plans, which will enable it to improve business processes; generate good management information; improve customer service; and reduce costs. The agency has appointed a Chief Information Officer with the skills to successfully deliver the investment plan. The plan is within budget and is expected to be completed earlier than originally planned, by April 2015.

3.3 The investment plan and information strategy are achieving improvements by enabling the agency's customers to submit and receive data and information quickly and securely. This is being done through a standard secure on-line account system, which will improve communication and understanding about deadlines for returns, and about the information that is needed by the agency for accountability and regulation. The agency is also developing data collections that include automated validation checks, to help providers improve the accuracy of the information they supply and identify any anomalies in their spending patterns.

4: Committee of Public Accounts conclusion
The Agency has not yet achieved an acceptable level of compliance with its reporting requirements.

Recommendation:
The department and agency need to implement an effective joined up strategy for enforcing compliance with funding agreements and consider appropriate incentives and sanctions.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

4.2 Academy trusts have primary responsibility for using their funding with propriety and delivering value for money. To support this system, the department and agency already work closely on monitoring and running the financial accountability systems in place for free schools and academies. These are more rigorous than those for maintained schools, commensurate with the increased levels of autonomy enjoyed by academies and free schools. At the core is the collection and sharing of information on compliance issues across the department and agency, with clarity about the use of incentives and sanctions and effective decision-making when problems occur.

4.3 The principles and rules that underpin this are published in the Academies Financial Handbook, which is updated annually and has been developed through close consultation with representatives of academies and the Institute of Chartered Accountants in England and Wales (ICAEW). The arrangements allow swift resolution if there are issues of propriety or non-compliance, and promote a high degree of transparency on academy financial statements and on investigations of any cases of concern.

4.4 Failure by an academy trust to comply with its funding agreement can lead to sanctions, including the issue of a Financial Notice to Improve, which will result in the suspension of delegated freedoms and flexibilities. Failure to remedy a breach can lead to the termination of the agreement. A key measure of academy compliance is the delivery of annual audited financial statements by the deadline. This has increased from 83% to 91% in the three years to the 2012-13 academic year, as systems have been improved and embedded.

5: Committee of Public Accounts conclusion
The Agency is too reactive and does not spot risks or intervene in schools quickly enough.

Recommendation:
The department and agency should set out how and when they will develop an analytical capability to spot risks and target their interventions early.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department and agency have already developed a risk-based approach to monitor providers proportionately, taking decisive and targeted interventions where necessary. To underpin this, the agency has developed a risk assessment tool which analyses current and trend data. The tool covers all organisations funded by the agency and flags those that may be at higher risk of financial failure. Data in the initial releases of the risk assessment tool covers financial health (budget forecasts, deficits, timeliness of financial returns, staff costs and liquidity ratios) and educational performance (including Ofsted rating), as well as other indicators such as changes in pupil numbers and any involvement in fraud investigation.

6: Committee of Public Accounts conclusion

The Agency does not know enough about conflicts of interest in academies and the risk they pose to the proper use of public money.

Recommendation:

The agency should reconsider its policy which permits related-party transactions. At the very least it must be able to extract and analyse complete information on related party transactions and must then use that analysis to determine risk-based interventions.

6.1 The Government disagrees with the Committee's recommendation

6.2 The agency's current policy is to permit related party transactions (RPT), which pass rigorous tests set out in the Academies Financial Handbook. There are no comparable sectors of public life of which the agency is aware where these types of transactions are completely banned. A ban for academies would have unwelcome consequences, such as placing restrictions on school improvement activity which takes place between trusts; and preventing Church diocesan education authorities from providing support to their academy trusts. The propriety of supplier relationships in these cases is protected by the scrutiny of independent auditors.

6.3 The agency has already strengthened the rules on RPTs with the introduction of a 'not for profit' policy in October 2013, and they are stronger than those applied for maintained schools and for most other parts of the public sector. In early 2014, the agency reviewed financial statements prepared by academy trusts for the 2012-13 academic year. Of the 2,252 academy trusts submitting accounts, 43% set out RPTs. The agency reviewed all these cases and is content that for over 98% of cases, the transactions were satisfactory. The remaining small number of cases were followed up and appropriate action taken to safeguard public money. However, the exercise has confirmed that the current policy to permit RPTs is appropriate and therefore does not require a review.

6.4 The recently revised Academies Financial Handbook reiterates the current policy; in addition it draws attention to the links between related party transactions and wider policies on novel and contentious transactions and the obligations on members and trustees that they should not derive personal gain from their positions. It also sets out clearly the consequences of non-compliance and provides discretion to the agency to issue a financial notice to improve to any academy trust which breaches the rules; this notice would mean that trusts would be prevented from entering into any related party transactions without the approval of the Secretary of State whilst it was in force. The agency has concluded that the current policy to permit RPTs is broadly appropriate. The agency will take steps to strengthen oversight of the arrangements, for example: by improving understanding of the policy, and disseminating examples of good and bad practice.

7: Committee of Public Accounts conclusion

The Agency has no way of knowing whether academy chief executives and trustees are 'fit-and-proper persons'.

Recommendation:

The department should introduce, at individual academy and academy trust level, a fit-and-proper persons test.

7.1 The Government disagrees with the Committee's recommendation.

7.2 There are around 3,000 academy trusts, meaning that there are many thousands of trustees. The Government expects trusts to be run responsibly, with the department and agency only intervening in cases where there are signs of failure - for example, where there is evidence that the Accounting Officer is not a fit and proper person to discharge this role. In such cases it is incumbent on the trust to provide robust evidence on this person's competence and suitability to ensure the trust operates with propriety, regularity and to deliver value for money.

7.3 The Academies Financial Handbook already sets out very clearly the expectations of academy trustees, with all academy trust boards being required by charity and company law to act with integrity and in the best interests of the trust. From September 2014, academy trusts will be required to notify the department of key changes to personnel. Trustees must also undergo the usual disclosure and barring service checks.

7.4 The academies model funding agreement has been updated and includes provisions giving power to the Secretary of State to direct academy trusts to remove members and trustees who are found to be unsuitable. Academy trusts are also now required to provide in their annual governance statement the names of all current members and trustees. The department has further strengthened its regulations to bar unsuitable persons from running independent schools, including academies and free schools, with effect from September 2014. Anyone barred in this way will also be prohibited from being a governor in any maintained school. These arrangements will provide the agency with a level of regulation and scrutiny proportionate to the risk it faces.

8: Committee of Public Accounts conclusion

There are flaws in the methodology used to consolidate the accounts of academies, as well as data quality issues, which undermine accountability.

Recommendation:

The department should set out how and when they will address the causes of each of the qualifications of the C&AG's opinion, particularly those relating to issues of methodology or poor data quality.

8.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

8.2 The NAO qualified the department's consolidated accounts for four reasons: difficulties in measuring academy trusts' balances at the accounts start date, technical aspects of academy trusts' reporting of regular use of public funds, cumulative errors and uncertainties arising from the department's consolidation of academy trusts' results to two different year ends, and the department's recognition of academy trusts' land and buildings. Further information is available in the departments 2012-13 Annual Report and Accounts.

8.3 The department and agency believe they have taken the right actions to address the first and second qualifications. The third qualification results principally from the use of the financial reports academy trusts already produce with a year ending of 31 August, seven months before the department's financial year end, and also from the practicalities of receiving and quality assuring thousands of returns prepared to differing standards. Using these results reduces the burden that academy trusts would bear in producing a second set of accounts solely for consolidation. The agency demonstrated to the NAO's satisfaction in the process of compiling the 2012-13 accounts that the approach was valid for academy trusts' accounts once they are up and running and has refined the approach further for 2013-14, as well as improving academy trusts' understanding of what is required.

8.4 The fourth qualification results from the department's recognition in its consolidated statement of the financial position of all academy trusts' assets and liabilities, including the very large value of their land and buildings. The NAO has questioned whether the department has the evidence for its policy of recognising all academy trusts' land and buildings on its statement of financial position. If the department were to attempt to establish ownership of every academy trust's land and buildings to demonstrate that recognition is correct, this would be very costly. However, the department continues to discuss options to address these issues with the NAO and the Treasury.

First Report

Department for Work and Pensions

Personal Independence Payment

1: Committee of Public Accounts conclusion

In April 2013, the department introduced Personal Independence Payment, a new benefit to replace Disability Living Allowance, to support disabled people with the extra costs of living so that they can live independently and in some cases work. The department administers and awards claims for Personal Independence Payment but it pays private sector contractors to assess claimants' needs. Atos Healthcare (Atos) and Capita Health and Wellbeing (Capita) conduct face-to-face consultations, or paper-based assessments, against criteria set by the department.

The department introduced the new benefit through a 'controlled start' so that the department could test early parts of the process, including the new IT system, staff guidance and the telephone application process, as it rolled out the benefit. The department started taking new claims for Personal Independence Payment in parts of the north of England from April 2013, and nationally from June 2013. However only 360 decisions had been made by the time the scheme was implemented nationally.

The department began to reassess the 1.7 million Disability Living Allowance claimants from October 2013, but then postponed this for most claimants when it realised that claimants already faced long delays, and that significant backlogs had developed.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 20 March 2014, from the Department for Work and Pensions, Atos Healthcare, Capita Health and Wellbeing, Citizens Advice, Mencap, and Disability Association Barking and Dagenham on progress in implementing Personal Independence Payment. The Committee published its report on 20 June 2014. This is the Government response to the Committees report.

Background resources

- NAO report: *Personal Independence Payment: early progress* - Session 2013-14 (HC 1070)
- PAC report: - *Personal Independence Payment* - Session 2014-15 (HC 280)

2: Committee of Public Accounts conclusion

Critical assumptions about the process were not fully tested and proved to be incorrect, resulting in significant delays to benefit decisions and a backlog of claims.

Recommendation:

The department should ensure that new systems and policies are fully tested before they are implemented nationally, to provide evidence that assumptions made and any assurances received from third parties, are correct.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Personal Independence Payment was introduced in a phased approach, in line with how the department has successfully introduced other major change programmes, including reforming the Child Maintenance system. The purpose of the controlled start was to test how the computer system and business processes worked in a live environment. When it became clear that claims were taking longer than expected, the department decided to phase in the reassessment of existing Disability Living Allowance claimants from October 2013. The department has focused on addressing backlogs and working with assessment providers to improve performance before making any decisions to extend reassessment.

2.3 Whilst the department's approach to delivering major change programmes typically involves a period of testing or gradual 'phasing in' of reform, it is not always practical to fully pilot and evaluate the end-to-end impact of new systems and policies. The department makes a judgement in each case, using a risk based approach, balancing robust testing alongside managing the speed, cost and savings to the taxpayer of change. As the department continues to improve the claim process, the department has established a "Model Office" to rapidly test changes in a live environment which will improve both the testing and implementation of changes.

3: Committee of Public Accounts conclusion:
Claiming Personal Independence Payment can be cumbersome and difficult for claimants, increasing the risk of delays and incorrect decisions.

Recommendation:
The department should make the process easier for claimants by, for example, making paper claim forms available through recognised voluntary organisations, such as Citizens Advice. The department should also ensure that third parties supply information on claimants where relevant and do this in good time.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

3.2 The Personal Independence Payment claims process includes an initial telephone call which allows claim requirements to be carefully explained, queries answered and generates a personalised bar-coded form to collect further information. This is pre-populated with data collected from the phone call to avoid claimants providing it twice. This is why the department did not provide stocks of forms to the third sector. Paper claim forms are available on request to claimants unable to make the initial call. The department is running a pilot with Macmillan to trial a paper form for making claims under the special rules for terminally ill people. The evaluation, due in March 2015, will be used to understand the impact this approach may have on making paper forms available for general cases.

3.3 The department and assessment providers are working with the health sector to encourage health professionals to respond to requests for further evidence in a timely way. This includes engaging with professional bodies locally to reinforce the importance of providing further evidence. Changes have already been made to the guidance notes included with the claim form to provide claimants with information on the types of supplementary evidence which might help in determining their claim.

4: Committee of Public Accounts conclusion
There have been unacceptable delays in making benefit decisions, placing unwarranted pressure on claimants, disability organisations, and other services.

Recommendation:
The department must speed up all stages of the process to ensure benefit decisions are made on a timely basis and tackle the backlog of cases that has arisen.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

4.2 Clearance times for special rules claims for terminally ill people are now reducing towards the expected level. This improvement has been acknowledged by groups representing people claiming under the special rules provisions. The department has made a number of improvements to the process for handling claims from terminally ill claimants including introducing: a dedicated service with specially trained staff to fast track claims; a process to ensure quicker transfer of information between the claimant's health professional, Department for Work and Pensions and assessment providers; and a pilot with Macmillan to provide stocks of paper claim forms.

4.3 The department is working closely with the assessment providers to speed up all parts of the process. Capacity is rising as both providers recruit more healthcare professionals and increase the number of assessment centres. Assessment providers have also increased the proportion of

assessments completed through paper based reviews using more comprehensive guidance from the department. For Personal Independence Payment normal rules claims the department expects that by the autumn nobody will be waiting longer than 26 weeks for an assessment and by the end of the year the department expects nobody to be waiting longer than 16 weeks.

5: Committee of Public Accounts conclusion
The department and its contractors have failed to provide an acceptable standard of service to claimants.

Recommendation:
The department should ensure that it, and its contractors, provide an acceptable level of service to claimants by minimising delays and travel times, making home visits when arranged, improving administrative processes, and providing better information to claimants.

5.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

5.2 The department takes a robust approach to managing provider contracts, including the application of financial remedies where service levels have not been met. The contracts contain key performance indicators covering areas including throughput, customer service and medical quality. The department is working with providers to speed up the assessment process. Both providers have increased (and continue to increase) the numbers of health professionals, auditors, telephony staff, assessment centres and made changes to their recruitment, training and induction processes to improve the quality and throughput of assessments. The increase in capacity will allow the home visit policy to be fully implemented.

5.3 The department has strengthened claimant communications to ensure claimants are informed of the likely length of time that claims might take. This includes sending additional information with the 'How Your Disability Affects You' form, sending text messages to confirm receipt of the form and including automated messages on departmental telephony lines regarding estimated processing times. Providers have also implemented parallel changes to their claimant communications, ensuring that claimants are kept informed of the progress of their claims. The department is continuously reviewing how communications can improve the claimant experience, including the potential for additional text messages at appropriate points.

6: Committee of Public Accounts conclusion
The department maintained that it had not regarded the bids as a contractual commitment, and that it expected negotiations between Atos and its subcontractors to continue once Atos had submitted its bid.

Recommendation:
The department should challenge inaccurate or exaggerated claims made in bids, so that it can demonstrate it has not relied on them when awarding contracts. The department should have regard to previous performance on similar work when assessing contractors.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department has processes in place to select successful bidders following rigorous evaluation, assessing these bids against appropriate and published selection criteria. Moving forward, the department has recognised the need to strengthen its due diligence processes when assessing supplier bids that base their delivery models on using supply partners or sub-contractors. This change will ensure that supplier bids are tested and challenged appropriately.

6.3 In November 2012 Cabinet Office issued guidance for future procurements on how departmental bodies are to apply minimum standards for reliability based on past performance. The department has implemented this guidance for future procurements.

2nd Report

Department for Communities and Local Government

Help to Buy equity loans

1: Committee of Public Accounts conclusion:

The department introduced the Help to Buy equity loan scheme in April 2013, with the objectives of increasing demand for new homes, making mortgage finance more accessible and affordable and encouraging developers to build more new homes. Under the Scheme, the department makes equity loans to buyers financing up to 20% of the purchase price of newly-built properties that cost £600,000 or less, which supplements the buyers' own deposit of normally at least 5%. Buyers then raise a repayment mortgage of, typically, 75% of the property's value. The equity loan is interest-free for the first five years, and is paid back within 25 years, or when borrowers redeem their mortgage, for example when they sell their home. The department initially aimed to spend up to £3.7 billion to help 74,000 households buy a new home by 2015-16. In the 2014 Budget the Government decided to extend the Scheme to March 2020, and was providing an extra £6 billion to support the purchase of a further 120,000 homes. The Scheme is administered by the Homes and Communities Agency (the Agency), through its network of Help to Buy agents.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 2 April 2014, from the Department for Communities and Local Government, and the Homes and Communities Agency on the Help to Buy equity loan scheme. The Committee published its report on 18 June 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Help to Buy equity loan scheme* - Session 2013-14 (HC 1099)
- PAC report: *Help to Buy equity loans* - Session 2013-14 (HC 281)

2: Committee of Public Accounts conclusion:

The Department managed the Scheme's implementation effectively and got it up and running quickly.

Recommendation:

The department must maintain downward pressure on the Scheme's costs, and make full use of the skills and experience it has gained from running this and other similar schemes when implementing its future programmes.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 Further to initial savings already made, the Homes and Communities Agency has successfully negotiated down the cost of the Help to Buy Equity Loan Scheme agent's fees, from £600 per sale to an average of £360 (including VAT) based on tendered fees. The actual average will vary according to the quantum of sales in different areas of the country covered by different Help to Buy Agents. The Government has also taken steps to ensure that builders do not have to obtain a Consumer Credit license, which will result in a saving for many small businesses. The department and agency will jointly continue to look for further savings.

2.3 The department and the agency used their skills and experience gained from previous programmes such as First Buy and the ongoing Help to Buy: New Buy scheme to enable them to effectively implement the Help to Buy equity loan scheme. The Department will look for opportunities to use the experience gained in running this scheme, when establishing similar schemes in the future.

3: Committee of Public Accounts conclusion:
Before introducing the Scheme, the department did not consider alternative ways to deliver its objectives, which goes against HM Treasury guidance.

Recommendation:
In future, the department must follow the guidance in the HM Treasury Green Book, by assessing a range of alternative options and presenting this analysis in its business case, to ensure it selects the best option when launching new schemes.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The department follows the HM Treasury *Green Book* principles. In developing Help to Buy equity loan, there was a requirement for a scheme that could be implemented quickly, and with maximum impact. The Help to Buy equity loan scheme achieved this by extending a proven existing scheme (Firstbuy). Other options were considered as part of this process, but did not meet the requirement. The business case assessed the lead option against a 'do nothing' option, as per Treasury guidance. The department recognises that more could have been done to present the additional analysis as part of the formal business case, but does not believe this constitutes a violation of Treasury rules.

4: Committee of Public Accounts conclusion:
Managing this Scheme will bring new challenges for the Department and the Agency, creating both risks and opportunities.

Recommendation:
The department and the agency must set out how they will protect the taxpayer and ensure they have the skills and capacity both to monitor and manage the loan portfolios effectively in the short and the longer terms. They need to demonstrate how they will maximize repayment and how they will respond to changing commercial circumstances.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 The Government recognises the need to protect the taxpayer through effective management of the equity loan portfolio. The department and the agency have established effective operating and monitoring processes over a number of years with previous equity loan programmes. Staff were recruited by the agency in 2013 in both operational and specialist finance roles to support the greater number of transactions anticipated under the scheme. The specialist finance roles will value the loan portfolio and update financial models and income projections, using macro economic information, data from predecessor schemes and the Help to Buy equity loan scheme. A new IT system is currently being developed which will assist the agency in managing and monitoring the loan portfolio more efficiently in the long-term.

4.3 Following a competitive tendering process, the agency has appointed Metropolitan Housing Trust for an initial two-year contract to undertake the 'Post Sales Agent' home owner-facing equity management role. The post sale agent manages all equity loan home owner transactions including full/part loan redemptions, fee collection (after five years of ownership), issues annual statements to owners and deals with all owner queries. The agency receives monthly monitoring reports from its Post Sales Agent.

5: Committee of Public Accounts conclusion:
The department should be mindful of the need to demonstrate that the Scheme is value for money to the taxpayer.

Recommendation:
For its planned evaluation of the Scheme, the department must develop a robust methodology to assess the Scheme's impact on both demand for, and supply of, new homes. To do so, it must collect sufficient data directly from buyers to quantify how many would not have bought a property without the Scheme, and from builders on how many additional homes they are building because of the Scheme.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: January 2015.

5.2 The Help to Buy equity loan scheme aims to support buyers purchase a new build property by improving the affordability of and access to mortgage finance. By supporting demand for new build properties, this also supports an increase in housing construction. The department will carry out an evaluation of the value for money of the scheme in 2015. This will assess the extent to which help to buy is supporting housing construction.

5.3 The department has already been collecting data on individual households, including: the sale location, size and type of property; the developer who built the property; the lender who provided the mortgage finance; the tenure of the property, whether it is leasehold or freehold; house price, equity loan amount, mortgage amount, the deposit and household income of the purchaser; whether they are a first time buyer, and the number of persons expected to live in the property. The data will be used alongside a set of wider housing market indicators and secondary data sources as part of the evaluation. Detailed decisions on the nature of the evaluation will be taken in due course, taking into consideration objectives for the evaluation and resource requirements, including compliance with data and privacy legislative requirements.

6: Committee of Public Accounts conclusion:
In any future assessment of the Scheme, the impact on each region of the Scheme should be examined in detail.

Recommendation:
The department should assess the Scheme's effectiveness in different local and regional housing markets, and tailor the Scheme so it is effective in all regions.

6.1 The Government disagrees with the Committee's recommendation.

6.2 As a national scheme, the department recognises there are variations in the level of take up of Help to Buy across the country. As part of the evaluation to be carried out in 2015, the department expects to review the scheme performance and consider any practical implications for operation of the scheme across the country. However, there are no plans to introduce regional criteria for the scheme as this will increase complexity, increase administration costs and give less certainty to builders, lenders and consumers. The introduction of multiple eligibility criteria within previous, similar schemes has been a limiting factor in terms of desired impact. In addition, the department regularly publishes scheme sales figures down to local authority and postcode level, enabling its local effectiveness to be reviewed.

7: Committee of Public Accounts conclusion:
The Department has not evaluated the combined effectiveness of its various interventions to address housing market failures.

Recommendation:
To understand how it can improve its effectiveness in stimulating housing supply where it is needed, the department should carry out a wider and integrated evaluation, assessing the combined impact of its major interventions in the housing market.

7.1 The Government disagrees with the Committee's recommendation.

7.2 Establishing causality for policies in a complex environment such as housing supply is difficult. The department has an excellent understanding of the housing market and continually assesses the impact of its schemes. Formal evaluations are planned at the most effective time to judge the effectiveness of initiatives and feed into future policy development.

Third Report

HM Treasury / HM Revenue and Customs

Tax reliefs

1: Committee of Public Accounts conclusion

At the end of 2013 there were 1,128 tax reliefs in the UK and the number continues to grow. Tax reliefs can range from fundamental components of the tax system, such as the level of personal allowance, to tax expenditures with more specific objectives to change behaviour, such as film tax relief. HM Revenue and Customs (HMRC) estimates there may be 150 tax expenditures overall, across its tax streams. Parliamentary approval through the Finance Bill is not a sufficiently robust way to provide assurance that tax reliefs are working as intended. Too often, tax reliefs provide opportunities for abuse, avoidance and evasion and there is a risk that costs might rise and remain above expectations, as Parliament is not kept adequately informed of changes in their costs.

In this initial review of tax reliefs, the Committee has identified the areas of concern. In future work, the Committee plans to look at how the departments have addressed the concerns highlighted in this report.

1.1 On the basis of a report by the NAO, the Committee took evidence on 7 April 2014, from HM Treasury and HM Revenue and Customs, on tax reliefs. The Committee published its report on 26 June 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Tax reliefs* - Session 2013-14 (HC 1256)
- PAC report: *Tax reliefs* - Session 2014-15 (HC 282)

2-6: Committee of Public Accounts conclusions:

2: There is a lack of transparency and accountability for tax reliefs and no adequate system of control, following their introduction.

3: Tax expenditures are often alternatives to spending programmes, but are not managed or evaluated as closely.

4: The departments do not keep Parliament adequately informed of changes in the costs of reliefs.

5: The departments are unable to cope with the demands of an increasingly complex tax system, including tax reliefs.

6: The departments do not respond promptly to unexpected increases in the costs of tax reliefs.

1.2 The Government notes the Committee's conclusions. The Committee has not made any recommendations in this report, but plans future work looking at how the departments address its concerns.

1.3 The Government believes that tax reliefs are a necessary and important part of any tax system, playing a significant role in defining the scope of tax. In particular they can help create a fairer, simpler system which reflects the needs of a wide range of individuals and businesses; for example the Annual Exempt Amount for capital gains tax (CGT) means that most individuals do not have to worry about CGT. In contrast to spending programmes, tax reliefs promote private sector rather than Government decision-making and their impact varies automatically with economic activity. Tax reliefs can also be more administratively efficient, reducing or eliminating tax collection (where the burden of collection would outweigh the return) and correspondingly reducing compliance burdens on businesses and individuals.

1.4 While tax reliefs can also be used to pursue specific policy objectives, all reliefs reflect policy choices about the distribution of the tax burden, proposed by the Government and agreed by Parliament. There is no definitive classification of tax reliefs; their existence reflects Parliament's judgements on the incidence of taxation and many simply reflect a decision not to tax a particular activity or to ensure

progressivity of the tax system, making it misleading to try and attribute specific objectives to all tax reliefs as with spending programmes.

1.5 Parliament has determined that taxation and expenditure should be treated differently and it applies different procedures to them. There are clear lines of accountability for tax through both the Treasury and HMRC Accounting Officers, as set out in Chapter 3 of *Managing Public Money* (MPM). There is Parliamentary scrutiny on tax administration (by the Committee of Public Accounts) and underlying policy and design (by the Treasury Select Committee). Parliament as a whole has an annual opportunity, through the Finance Bill, to debate the design of tax reliefs and propose amendments, and must approve all tax reliefs before they can commence.

1.6 These arrangements reflect the fact that tax reliefs are revenue foregone to the Exchequer and not a consumption of resources equivalent to public spending. While tax reliefs and public spending may sometimes have similar economic effects, there is an underlying difference. The Exchequer cost of a tax relief is not a consumption of real resources; tax is simply a transfer of resources to the government sector from the non-government sector, and a tax relief is a reduction in such a transfer. In contrast, public expenditure (other than transfer payments) does consume real resources, as labour and goods diverted into the spending programmes cannot then be used for other purposes.

1.7 The Treasury wrote to the Committee in July 2014, stating that the Government cannot accept that tax expenditures "are, in effect, a form of public expenditure and should be treated as such", with the implication that they should then be subject to the same parliamentary processes as traditional and measureable public spending. The Government regards 'tax expenditures' as tax reliefs and nothing else.

1.8 Successive Governments have regarded tax and spending as qualitatively different and have made decisions on them in different ways. Maintaining a clear distinction between spending and revenue provides greater transparency for taxpayers and Parliament.

1.9 As integral features of a well-functioning tax system, reliefs are managed as part of that system by HMRC and it would, in general, be unfeasible to try to manage them separately. Management of that system includes, but is not limited to: the collection of tax and duties as laid down by Parliament, identification and management of risk, and tackling avoidance and evasion through compliance and enforcement activity. HMRC is also responsible for implementing and maintaining tax policy in partnership with HM Treasury.

1.10 HMRC raises awareness of reliefs to ensure those potentially entitled to receive them understand what is available and how to claim. For example: HMRC provides proactive support through an outbound email service, webinars and partnering to ensure that businesses and agents are aware of the range of reliefs and allowances. Through compliance activity HMRC also checks that the conditions set out in legislation are satisfied, and challenges and takes appropriate action when there is a risk that those conditions have not been fulfilled.

1.11 The departments clearly outline the rationale for, and expected impacts of, any tax policy changes, including new tax reliefs, in Tax Information and Impact Notes (TIINs). TIINs also set out the Government's intentions with regard to monitoring and evaluating tax measures. HMRC already has a significant programme for the assessment, monitoring and evaluation[1] of the cost of reliefs including ensuring that reliefs are not abused and that any anti-avoidance safeguards are effective.

1.12 The Government is transparent about both the costs of existing reliefs and the costs and likely impacts of new reliefs. HMRC annually publishes information on the Exchequer cost of around 180 existing tax reliefs on its website. This compares favourably with international practice, and covers most of the larger reliefs by value. The Office for Budget Responsibility (OBR) impartially and independently certifies the cost of all new tax reliefs or changes to existing reliefs. HM Treasury and HMRC publish the details of their OBR-certified costings at each fiscal event. The OBR's scrutiny also involves consideration of the scope for abuse of any new reliefs and the effectiveness of any anti-avoidance safeguards. Further, the OBR reviews the sustainability of the tax base annually as part of its report on fiscal sustainability.

[1] Evaluation is used in the sense of a Post Implementation Review (PIR). Strictly, evaluation is a policy review process with judgements against a counter factual or pre-existing tax relief rules. PIR is used to assess the distinctly administrative features of the tax relief and so excludes discussion of policy affecting the relief.

1.13 The departments keep the costs of reliefs under review and act quickly where there are deviations from trends or there are indications of abuse, avoidance or unintended outcomes. HMRC brings together data, intelligence, economic analysis and a focus on customer segments and behaviours to identify potential abuse, improve the understanding of risks and ensure that trends and anomalies are quickly identified. The departments remain confident in their approach to monitoring and evaluating tax reliefs, which is both risk-based and proportionate.

1.14 HMRC also uses information provided under the Disclosure of Tax Avoidance Schemes (DOTAS) regime to monitor the use of reliefs in tax avoidance arrangements. Where a potential abuse is identified, HMRC will investigate and litigate as appropriate. Intelligence on the use of reliefs feeds into the maintenance of reliefs and strengthening of rules as Ministers take decisions on legislation for each fiscal event. For example, the former film tax relief, which is referred to in the Committee's report, was the focus of extensive work to make the then existing regime secure. The relief was the subject of a number of separate Finance Bill measures, brought before Parliament between 2002 and 2005, which tackled aspects of avoidance. Over the years the relief was in effect, HMRC very actively monitored it, challenging avoidance where this was identified.

1.15 A new film relief, which specifically engineered out the types of avoidance prevalent in former film reliefs, was introduced in 2006 and took effect in January 2007. This new film tax relief has not been subjected to the widespread avoidance seen previously and has been instrumental in encouraging film production in the UK.

1.16 The design of tax law is critical to reducing the scope for avoidance and exploitation of tax reliefs. The Departments review all new legislative measures with the aim of eliminating avoidance and fraud, and include anti-avoidance rules in legislation, where appropriate. In addition, the Government's Protocol on unscheduled announcements of tax changes allows decisive action when risks to the Exchequer are identified, underpinned by a set of criteria that Ministers observe when deciding whether to announce a change to tax law that will have immediate effect.

1.17 Tax rules have to adapt to changes in the economy and in the nature of economic activity, which is influenced by technology, globalisation and the increasing internationalisation of business. To some extent, the complexity of the tax system reflects the complexity of our society, the economy and business. However, the Government is committed to reducing the complexity of the tax system and established the Office of Tax Simplification (OTS) in July 2010 to provide independent advice on this.

1.18 The work of the OTS has already led to significant reforms. For example, following the OTS's review of reliefs, the Government abolished over 40 obsolete tax reliefs, removing circa 90 pages of legislation. The OTS has concluded that the length of legislation is only one of a number of indicators of complexity – underlying complexity needs to be distinguished from the impact of complexity[2]. There are often trade-offs between clarity and length of legislation; the last few Finance Acts have brought substantial positive reform, (for example in the Corporate Tax regime), which itself contributed to the length of the legislation.

[2] http://www.esrc.ac.uk/hmrc/images/4b-progress-in-developing-the-uk-office-of-tax-simplification-index-of-tax-complexity_tcm19-29913.pdf

Fourth Report

Department of Health

Monitor: regulating NHS Foundation Trusts

1: Committee of Public Accounts conclusion:

Recommendation:
Monitor was created in 2004 as the independent regulator for NHS foundation trusts. It determines whether NHS trusts are ready to become foundation trusts and operates a regulatory regime designed to ensure that the 147 trusts that have achieved foundation status continue to be financially sustainable, well-led and locally accountable. It intervenes where there is evidence that an NHS foundation trust is in breach of its regulatory conditions. Monitor's remit is expanding, with significant new responsibilities, including setting prices for NHS-funded care jointly with NHS England, and preventing anti-competitive behaviour by healthcare commissioners and providers. Monitor is independent of government in terms of its regulatory decisions, but is accountable to Parliament and the Department of Health for its performance and value for money.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 31 March 2014, from the Department of Health and Monitor on Monitor's performance in regulating NHS Foundation Trusts and how it is responding to the new challenges it faces. The Committee published its report on 4 July 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Monitor: regulating NHS Foundation Trusts* – Session 2013-14 (HC 1071)
- PAC report: *Monitor: regulating NHS Foundation Trusts* – Session 2014-15 (HC 407)

2: Committee of Public Accounts conclusion:
Some NHS foundation trusts have been allowed to struggle for far too long in breach of their regulatory conditions.

Recommendation:
Monitor should investigate quickly, to diagnose the underlying causes of the problems which each trust in difficulty faces, and then take faster, more decisive action to address them, to turn around failing trusts sooner.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

2.2 Monitor acknowledges that it must act quickly and effectively to turn around failing trusts. Monitor's Strategy[3] and Annual Plan[4] describe specific actions, which include reviewing its Risk Assessment Framework[5] to allow a faster response where problems are identified; and developing tools to analyse trusts' sustainability and, with the CQC, to identify any cultural problems.

2.3 The new special administration regime is an important tool for resolving issues at troubled trusts. However, Monitor recognises that this regime will not always be the best approach and is therefore developing new approaches to safeguard service continuity through the provision of intensive support for 11 challenged health economies.

[3] www.gov.uk/government/uploads/system/uploads/attachment_data/file/308087/MonitorStrategy2014-17.pdf
[4] www.gov.uk/government/uploads/system/uploads/attachment_data/file/321913/Monitor_Annual_Plan_2014-15.pdf
[5] www.gov.uk/government/uploads/system/uploads/attachment_data/file/299929/RAF_Update_AppC_1April14.pdf

3: Committee of Public Accounts conclusion:
Monitor's job is becoming harder as more foundation trusts get into difficulty.

Recommendation:
Monitor should evaluate the cost-effectiveness of different regulatory interventions, and use this information to direct its work and make the best use of its resources.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

3.2 Monitor's Strategy and Annual Plan outlines the work to review the effectiveness of its interventions to focus resources, where they can have the most impact, and to identify where new, and more effective, interventions are needed. Furthermore, Monitor has adapted its approach to supporting troubled trusts through its special measures regime, where it puts in place Improvement Directors and 'buddy' arrangements with high performing trusts, to deliver improvements faster. Monitor has established an Enforcement team to oversee this work.

3.3 Monitor is seeking to create an 'Improvement Division', which would support trusts in the early stages of challenge rather than, as the regulatory framework currently permits, waiting until there has been sustained failure before intensive intervention is put in place. However, Monitor will need to recruit experienced NHS staff for this Division to successfully embed. Monitor is also working with Sir Stuart Rose and Sir David Dalton on reviews, which will look at how leadership at failing trusts can be bolstered.

4: Committee of Public Accounts conclusion:
Monitor's effectiveness is hampered by a lack of clinical expertise and frontline NHS experience.

Recommendation:
Monitor should set out how it will: fill gaps in its capacity and expertise; exploit the skills and knowledge from the consultants it employs; and develop a staffing model which sets out the balance of clinical, financial and other expertise it requires.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

4.2 Monitor's Annual Plan reflects the need to fill vacancies as fast as possible. These are mostly in its new areas of responsibility although it does need to recruit more staff with NHS operational experience to work with foundation trusts, and offer comparable terms.

4.3 Monitor accesses clinical knowledge through medical advisors – experts employed by the NHS who provide advice to Monitor on an ad hoc basis. This both facilitates access to a wide range of expertise and offers better value for money than recruiting permanent staff. However, Monitor does recognise the need to have more staff with clinical experience and as a first step has appointed a Medical Director.

4.4 Monitor employs consultants to cope with peaks in activity and to staff intensive, one-off projects. Consultants offer better value for money than recruiting permanent staff, although projects are always structured to ensure knowledge is captured and skills transferred. Where the volume of work grows significantly, Monitor will look to bring more of the work in-house.

5: Committee of Public Accounts conclusion:
The movement of staff between the NHS, local government and the civil service is hindered by the differing terms and conditions of service, limiting the transfer of skills and knowledge and inhibiting integration.

Recommendation:
The department, in conjunction with the Cabinet Office and HM Treasury, should set out what steps they are taking to remove disincentives, such as the inability to transfer accrued rights, to the flow of staff between different parts of the health and social care system, and to facilitate and encourage the free flow of staff.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

5.2 The department is working with the Cabinet Office and the Treasury about removing disincentives to the flow of staff between different parts of the health and social care system. This is a complex subject and requires consideration by all involved. This work is at an early stage and it is the department's intention to write back to the Committee on progress by December 2014.

6: Committee of Public Accounts conclusion:
There is a risk of actual or perceived conflicts between Monitor's role of regulating NHS foundation trusts and its new responsibilities.

Recommendation:
Monitor should explain how it prioritises the protection of patients' interests above those of NHS foundation trusts, and demonstrate how it does so in practice, to allay concerns that its new responsibilities are conflicting.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The department is satisfied that Monitor's work prioritises the protection of patients' interests. This is evidenced in many Monitor publications including its Strategy, its Joint Statement[6] with the Office of Fair Trading and the Competition Commission (now the Competition and Markets Authority) on ensuring patients' interests are at the heart of assessing public hospital mergers, and its guidance on the Procurement, Patient Choice and Competition Regulations.

6.3 The focus of Monitor's work is on the needs of patients. Monitor works with all stakeholders, in a local health economy, to ensure the best possible services are in place on a sustainable basis. Monitor is also using its new powers, in competition and pricing, to ensure the actions of providers and commissioners deliver improvements in care for patients.

7: Committee of Public Accounts conclusion:
There is potential for overlap between all the bodies responsible for regulating the NHS, including Monitor, as well as for gaps in oversight.

Recommendation:
The Department should review its regulatory, oversight and monitoring arrangements to ensure it eliminates duplication and fills any potential gaps.

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

7.2 Through the Care Act 2014, the department has provided for a Single Failure Regime to ensure that the division of roles will be transparent. The single failure regime provides a simple, flexible process for tackling quality failures in NHS Trusts and NHS Foundation Trusts. The CQC will focus on exposing problems that require remedial action. Monitor and the NHS Trust Development Authority will focus on intervening in poor-performing providers who are unable to resolve their situation with commissioners.

[6] www.gov.uk/government/uploads/system/uploads/attachment_data/file/283809/131017_oft_cc_monitor_merger_statement_final.pdf

8: Committee of Public Accounts conclusion:
The Department confirmed that it was still the Government's policy intention that all trusts should become foundation trusts, but it had not set a target date for this to be achieved.

Recommendation:
The department should set out how it intends to meet the objective of all NHS trusts achieving foundation trust status.

8.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2014.

8.2 The Government remains committed to supporting the remaining NHS trusts to achieve foundation trust status. However, it is important that an arbitrary date is not set for realising this ambition given what has been learnt from the Francis Report. A small number of trusts have been identified as not being viable potential standalone foundation trusts. Monitor, and in particular the NHS TDA, will work with these organisations to determine the most appropriate way forward to secure their long-term future.

8.3. To support the sustainability of the provider sector, the Dalton Review has been commissioned to look at how to provide new options for providers to support future clinical and economic sustainability. The focus of the review will be on organisational form, governance and management in the provider sector. The report will be published in October 2014.

9: Committee of Public Accounts conclusion:
It is wholly inappropriate that the same person acted as both Chair and Chief Executive of Monitor between March 2011 and January 2014.

Recommendation:
The department should appoint a permanent non-executive Chair of Monitor through an open, competitive process by the end of 2014 at the latest.

9.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2014.

9.2 The preferred candidate for the Monitor Chair withdrew their application following the refusal of the Health Select Committee to endorse them. Subsequently, an interim Chair was appointed on 20 January 2014, whilst the department restarted the process to recruit a permanent Chair.

Fifth Report

HM Treasury; the Department of Energy and Climate Change; the Department for Environment, Food and Rural Affairs; Ofgem; and Ofwat

Infrastructure Investment: the impact on consumer bills

1: Committee of Public Accounts conclusion

The Treasury has identified more than £375 billion of planned investment in economic infrastructure that the UK needs to replace ageing assets, replace assets, which don't comply with EU regulation, help meet policy commitments such as climate change targets, support economic growth, and meet the long-term needs of a growing population. Around two-thirds of this investment is expected to be financed and delivered by private companies, but paid for by consumers through utility bills and user charges, such as rail fares. Energy and water bills have risen considerably faster than incomes in recent years, and high levels of new investment in infrastructure mean that bills and charges are likely to continue to rise significantly.

Furthermore, poorer households spend more of their incomes on household bills relative to richer households, meaning that funding infrastructure through bills is more regressive than doing so through taxation. Separate Government departments set the overall objectives and policies for each sector. Economic regulators set the frameworks within which private companies deliver this infrastructure and they have legal duties to protect consumers by, for example, promoting competition, acting to prevent and address market abuses, and in some cases setting the prices consumers can be charged.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 22 January 2014, from the HM Treasury; the Department of Energy and Climate Change; the Department for Environment, Food and Rural Affairs; Ofgem; Ofwat; RWE Npower; and Thames Water on the impact of infrastructure investment on consumer bills. The Committee published its report on 1 July 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Infrastructure investment: the impact on consumer bills* - Session 2013-14 (HC 812)
- PAC report: *Infrastructure investment: the impact on consumer bills* - Session 2014-15 (HC 406)
- HM Treasury: *National Infrastructure Plan 2013*

2: Committee of Public Accounts conclusion

The complexity and changing nature of Government policies, particularly in the energy sector, risk delaying much needed investment.

Recommendation:
Departments should explicitly factor in the potential impact of complexity and uncertainty on investors when making or changing policies affecting infrastructure. DECC needs to act quickly to give certainty and unlock much needed energy investment or the consequences for consumer bills will be worsened.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2014.

2.2 The Levy Control Framework sets annual limits on the overall costs of the Department's low carbon electricity levy-funded policies to 2020-21, offering long-term funding certainty for investors and protection for consumers.

2.3 The 2013 Energy Act established the Electricity Market Reform (EMR) framework to incentivise investment in low carbon energy infrastructure, cleaner power stations and reliable networks. The Department estimates that household electricity bills will be on average £41 (6%) lower per year for 2014-2030 under EMR, compared to meeting the Government's objectives with existing policy instruments. In

July 2014 the Government received State Aid clearance for the key elements of EMR: the Capacity Market and Contracts for Difference for Renewables. Auctions for both will be held this autumn. Ahead of full implementation of EMR, National Grid has been given new tools to balance the electricity system and ensure security of supply, while the Final Investment Decision enabling for Renewables scheme has ensured continued investment in renewables.

2.4 All these achievements build investor confidence. The Government estimates that over £45 billion has been invested in electricity generation and networks from 2010 to 2013, and the National Infrastructure Plan 2013 puts the pipeline of investment in energy at over £200 billion.

3: Committee of Public Accounts conclusion

While the Treasury accepts responsibility for considering the impact of infrastructure investment on consumer bills "across the piece", it has not produced any work on the long-term affordability of consumer bills.

Recommendation:

The Treasury should ensure that an assessment of the long-term affordability of bills across the sectors is produced and published. This should involve: establishing with departments and regulators clear responsibilities in each sector for assessing the long-term affordability of bills; bringing together sector-level assessments, starting with energy and water, so that long-term affordability for consumers can be considered in aggregate; and assessing the combined impact of increased bills on different household types, including those households most vulnerable to price rises.

3.1 The Government disagrees with the Committee's recommendation.

3.2 The Government is committed to ensuring that infrastructure investment benefits consumers. It upholds a robust, independent regulatory framework, within which economic regulators have statutory duties to further or protect consumer interests. Regulators undertake affordability analysis as a core part of their work in individual sectors. The Government is also taking targeted action to reduce bills.

3.3 The Government has already outlined, as recorded in the Committee's report, its severe reservations about how robust or meaningful aggregate affordability analysis could be. Because there is no 'typical' consumer, it is impossible to compare different notional households consuming a wide range of different infrastructure services on a truly like-for-like basis. Moreover, while the costs associated with privately-funded infrastructure feed through to bills, the relationship is neither linear nor predictable. It is also difficult to forecast how the many constituent components of utility bills will drive long-term prices, particularly as technological change and exogenous factors mean there is often very significant uncertainty.

3.4 Nonetheless, the Government agrees that there is scope to improve understanding of affordability in this important area and will continue to work with the regulators on these issues, including through the UK Regulators Network which is considering affordability as a key element of its work-plan.

4: Committee of Public Accounts conclusion

Regulators are not getting sufficient assurance on the long-term sustainability of companies' operations.

Recommendation:

Regulators need to improve their protection of consumers' interests by paying closer attention to the financial structures of regulated companies and by verifying, in a proportionate way, whether infrastructure has been built to the standards expected. They must have robust plans to address any gaps in their capacity and skills to do this.

4.1 Regulators agree with the Committee's recommendation.

Target implementation date: March 2015.

4.2 Regulators, including Ofwat and Ofgem, already protect consumer interests effectively. In water and energy, the regulatory regimes have been designed so that companies, not customers, bear the risks associated with their financial structures. Ofwat is putting in place a Financial Structures Monitoring

Regime to review potential systemic financial risks across the sector. Ofgem monitors the financial structures of energy companies and already has measures in place to reduce the risk of financial distress affecting consumers. Both Ofgem and Ofwat include ring-fence provisions in licences.

4.3 Ofgem's network regulation includes comprehensive outputs, which companies should achieve. These include asset health and criticality measures that indicate the sustainable fitness of infrastructure. Ofgem challenges the information companies submit, and from 1 April 2015 a new data assurance licence condition and network Data Assurance Guidance will assure accuracy. Ofwat's 2014 price review moves to a more risk-based approach, which gives consumers a clear role and company's ownership of their plans. Ofwat also includes outcomes and associated costs when setting price limits. Incentives – rewards and penalties – are designed to ensure delivery.

4.4 Ofwat has adequate skills to support effective scrutiny and is undertaking a business transformation plan, for completion by the end of March 2015, to ensure the right mix of skills for the future. Ofgem has robust plans on skills and staffing.

5: Committee of Public Accounts conclusion
Regulators have been unacceptably slow to respond to earlier calls for more joined-up working.

Recommendation:
Regulators must ensure their reformed joint-working arrangements deliver a coordinated approach to assessing the impact on bills and affordability of infrastructure investment, and that this is carried out in collaboration with Government.

5.1 Regulators agree with the Committee's recommendation.

Target implementation date: March 2015.

5.2 The UK's economic regulators have joined together in the UK Regulators Network (UKRN) to ensure effective cooperation between sectors. Without cutting across the independence or specific goals of each regulator, UKRN will strengthen work across sectors. It will explain and take account of the differences between sectors, while maximising coherence and shared approaches in the interests of consumers and the economy.

5.3 Delivery of UKRN's work programme is supported by project teams drawn from the regulators, with a full-time central office, formal meetings of CEOs and other senior staff, and a panel of expert advisors, all working closely with Government departments. *Affordability and empowerment* is one of UKRN's six objectives. In keeping with this, one of its highest-priority projects is *Understanding affordability pressures across sectors*. This project will report by the end of 2014 and clarify affordability problems across regulated sectors and consider what the next phase of the project should include. A further key project is *Cross-sector infrastructure investment*, which is considering a variety of infrastructure-related issues, including regulators' approaches to strategic investment in infrastructure.

Sixth Report

Department of Health / Department for Communities and Local Government / Department for Work and Pensions

Adult Social Care in England

1: Committee of Public Accounts conclusion

Adult social care is personal care and practical support for adults with physical disabilities, learning disabilities, or physical or mental illnesses, together with support for their carers. The Government's objectives are to enhance people's quality of life, delay and reduce the need for care, ensure positive care experiences and safeguard adults from harm. In 2012-13, local authorities provided or commissioned £19 billion worth of individual packages of care and universal care services. In addition, the NHS spent an estimated £2.8 billion in 2011-12 on social care, while the Department for Work and Pensions' spending on incapacity, disability and injury benefits totalled £28.2 billion in 2012-13.

However, publicly funded care makes up only a minority of the total value of care, and this proportion is decreasing. Most care is provided informally by unpaid family, friends and neighbours. In 2012, the Department of Health announced new legislation, the Care Bill, designed to rationalise local authorities' obligations and to introduce new duties based on individual wellbeing.

1.1 On the basis of a report by the NAO, the Committee took evidence, on 26 March 2014, from the Department of Health; the Department for Communities and Local Government; Age UK; and Carers UK on their stewardship of the adult social care system in England. The Committee published its report on 10 July 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: A*dult social care in England: overview* - Session 2013-14 (HC 1102)
- PAC report: A*dult social care in England* - Session 2014-15 (HC 518)

2: Committee of Public Accounts conclusion:
Successful implementation of the Care Act depends on an unprecedented amount of collaboration at every level of Government.

Recommendation:
The Department of Health and the Department for Communities and Local Government should expand their effective cooperation to include all relevant Government departments, in particular the Department for Work and Pensions.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Cabinet Committee for Home Affairs will continue to oversee the development of Government policy relating to health and social care, welfare reform and the role of local government. At official level, the Government has established an Ageing Society Strategy Group to facilitate collaborative working between the Department for Work and Pensions, the Department for Communities and Local Government, the Department of Health, the Department for Transport and the Treasury. The group oversees work on strategic and cross-cutting policy issues, including welfare reform, housing and adult social care.

2.3 The lead Directors from the departments of Health, Local Government, and Work and Pensions also meet regularly on a bilateral basis and are planning to work collaboratively in developing submissions for the next Spending Review. To help inform this, the Government's Chief Scientific Officer will develop a shared evidence base on the challenges of an ageing society, looking at how the current policy supports an ageing population, and addressing future needs and options to deliver them.

Recommendation:
The departments should set out how they intend to support local authorities, the organisations that represent authorities and the wider adult care sector, including providers and voluntary organisations, to collaborate, share and learn from good practice. They should consider whether and what action they will need to take if efforts to spread best practice are not effective.

2.4 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

2.5 The Government took a collaborative approach to developing the legislation that will underpin the care reform changes. From the Law Commission's report on adult social care[7], through to the public consultation on the draft Care and Support Bill, to the pre-legislative scrutiny and debates during the Bill's passage through Parliament, the Government listened to those who use care services and those who are expert in their development and provision.

2.6 The programme of reform is overseen by the Care and Support Reform Programme Board, which includes representatives from local government, the Care Provider Alliance and the voluntary sector, and is chaired by the Director General for Social Care Local Government and Care Partnerships in the Department of Health. The programme structure also comprises stakeholder working groups overseeing each of the implementation workstreams.

2.7 A joint programme office has been established in partnership with the Local Government Association (LGA) and the Association of Directors of Adult Social Services (ADASS) to coordinate this work and develop resources to support implementation. This has been further supported by the Care Provider Alliance whose involvement will help improve communications and engagement with providers. Local councils will be responsible for implementing their new duties under the Care Act from April 2015 and adopting good practice. The role of the joint programme office and the resources being made available aim to support councils to do this successfully. In 2014-15 councils have been allocated £19 million to help build change management capacity with £4 million made available for targeted support. This is in addition to £2.7 million made available in 2013-14 to strengthen regional infrastructure. .

3-5: Committee of Public Accounts conclusion:
3: The departments do not know whether the care system can become more efficient and spend less while continuing to absorb the increasing need for care.
4: The Departments do not have the information and evidence to understand fully the challenges that local authorities face in commissioning and providing adult social care and supporting carers.
5: It may not be feasible for local authorities to implement all the proposed changes to the intended timetable.

Recommendation:
The departments should quantify the new burdens the Care Act will introduce for local authorities, establish a realistic timetable given the financial constraints, and acknowledge the limits on the sector's capacity to absorb the growing need for care with falling public funding.

Departments must address gaps in evidence, information and evaluation in relation in particular to the effectiveness of preventative services, the needs of and quality of care to self-funders, and spending by direct payment recipients.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

3.2 The Care Act is to be implemented from April 2015 with the introduction of the capped cost system from April 2016. The Government recognises the challenge for local government in implementing this major reform programme and is working in partnership with LGA and ADASS to support

[7] www.justice.gov.uk/lawcommission/publications/1460.htm

implementation and to provide assurances to the Programme Board on readiness for implementation and risk mitigation.

3.3 The Government published a revised impact assessment in June 2014 setting out estimated costs to local authorities arising from the Care Act and has committed to funding local authorities to meet these costs. In 2015-16, the Government is investing £3.8 billion in pooled budgets for health and social care (the Better Care Fund). The Fund includes £135 million for new burdens and £50 million for capital investment including the development of IT systems. This is on top of the funding necessary for councils to satisfy national requirements to protect access to social care in the context of rising demand.

3.4 The local government settlement also includes a further £285 million for 2015-16 to support implementation of the universal deferred payments scheme and in preparing to implement the capped cost system from April 2016. In total, this amounts to £470 million for new burdens arising from the Care Act in 2015-16. The Government acknowledges that there are limits on the capacity of the adult social care sector to absorb increased demand given financial constraints and is working with the sector to strengthen the evidence base to inform planning and demand management.

3.5 The Department of Health has published evaluated evidence on the impact of low level interventions on keeping older people independent for longer, re-ablement services, and evidence about the impact of telecare. The evidence base around preventative services needs to be reviewed systematically so gaps can be identified and consideration given to how the evidence base can be strengthened. The Social Care Institute for Excellence will develop an evidence-based prevention library that will support LA decision making in the context of the Care Act statutory requirement of prevention.

3.6 The Department of Health is working jointly with ADASS to support councils in planning to implement their statutory duties relating to self-funders under the Care Act. This work includes guidance on determining appropriate modelling assumptions regarding the number and needs of self-funders. This is intended to complement statutory guidance on the Care Act, which was published for consultation in June 2014.

3.7 Councils will have access to evidence as to the quality of care provided to self-funders in their local area. The Care Quality Commission (CQC) is defining fundamental standards of care that will, from April 2015, set the basic requirements and the standard of care that people should always expect to receive. In addition, from October 2014, the publication of transparent and comparable new ratings of the quality of care across all social care providers as part of the provider quality profiles on the NHS Choices website will enable people to make informed choices.

3.8 The Department of Health will work with the social care sector to understand how direct payments are used (currently this data is not routinely collected). The collection of this information must not affect the aim of direct payments to promote flexibility and innovation. This work will help inform future policy development and how direct payments can be further promoted for different groups.

Recommendation:
Departments must take account of the impact that local authorities driving down providers' fees is having on service quality, the charges to those who fund themselves and use the same care services, and the financial sustainability of providers.

3.9 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

3.10 The Department of Health is undertaking analysis of prices paid for residential care by local authorities and self-funders in different parts of the country, including evidence of any cross-subsidy. This analysis will inform impact assessments to be published in autumn 2014, including a revised impact assessment on implementing the capped cost system from April 2016.

3.11 The Care Act extends existing duties on local authorities in commissioning adult social care to ensure there is an efficient and sustainable local market to meet the care and support needs of their populations, including the needs of self-funders. Local authority commissioners must ensure that the prices paid to providers for adult social care reflect efficient costs of providing services to the required

standards and enable a reasonable return on investment capital. The Department of Health is working with ADASS and LGA to develop standards for local commissioning which will be published in 2014.

3.12 Local authority commissioning will be underpinned by an extended role for the CQC in ensuring standards and driving improvements in quality of care. CQC inspections and enforcement will continue to ensure all providers meet fundamental standards for quality. The CQC is developing a new ratings system for adult social care that will provide overall assessments as to quality of care assuring compliance with registration requirements. From April 2015, the CQC will also oversee the financial sustainability of the 50-60 most difficult to replace providers and will develop an understanding of the factors in the market affecting the sustainability of social care providers**.** This will inform the Department of Health's function of stewardship of the markets for care and support. In the interim, the department will continue to engage with the largest five providers to oversee their financial sustainability and understand the market as a whole.

Recommendation:
Departments must assess the nature, extent, impact and implications of the growing burden on informal carers and the extra cost they place on benefits paid out by the Department for Work and Pensions.

3.13 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

3.14 The Government agrees it will be crucial to monitor and understand the role of informal carers and the effects of their caring roles both on themselves and wider society. The Department for Work and Pensions report *Fuller Working Lives*[8] published in June 2014 summarised the current impact of caring roles on employment and announced that, working with the Social Care Institute for Excellence, the Government will commission a two-year project to develop five pilots.

3.15 The departments already collect a range of national and local information on the nature and impact of caring, including the number of carers who receive an assessment and a particular service from local authorities each year via the Short and Long Term social care data return; the number of claims for Carer's Allowance via the annual Family Resources Survey; and the quality of life of carers via the biennial Carers Survey. This will enable the Government to monitor elements of caring to understand whether the reforms are helping carers as intended, and the wider effects on society of these changes, including to the Benefits Bill.

Recommendation:
Departments must assess the scope for local authorities to make further efficiency savings, taking account of both best practice benchmarking of costs and of wider social, economic and demographic trends over which local authorities have little control.

3.16 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

3.17 The Government assesses the impact of demographic trends, inflation and potential for efficiency in adult social care as part of the Spending Review process and updates this when new analysis and evidence becomes available. For 2015-16, the local government spending settlement assumes a 3% average efficiency savings in adult social care, which is consistent with the evidence submitted by ADASS and less than the average efficiency savings identified by councils in the 2013 and 2014 ADASS budget surveys. The scope for further efficiency savings will be considered in the next Spending Review.

3.18 The Department of Health has commissioned research to inform updates to the adult social care funding formulae. This research is being led by LG Futures and the Personal Social Services Research Unit. The aim of the research is to review the latest available evidence on social, economic and demographic factors that may impact on the relative need for adult social care in different local areas and

[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319872/fuller-working-lives.pdf

given the statutory duties on local authorities being introduced through the Care Act. The Department of Health is currently consulting on draft methodologies for allocating funding for deferred payments, early assessment of self-funders and social care in prisons in 2015-16 and is planning to consult on broader changes to the allocations formulae to be implemented from 2016-17.

Recommendation:
Departments must determine ways to ensure the local authorities do learn from best practice and achieve best value.

3.19 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

3.20 The Government will continue to promote sector-led improvement in local government, including in relation to adult social care. The *Towards Excellence in Adult Social Care Programme* provides sector-led improvement and peer support across the full range of local authorities' responsibilities for adult social care. This programme includes a strong emphasis on building networks at national, regional and local level to share good practice, and facilitate a number of peer support offers to tackle emerging issues and encourage local authorities to increase the pace in learning from and adopting this good practice.

3.21 In addition, since 2011, the Department of Health and the Department for Communities and Local Government have worked in partnership with LGA and ADASS to deliver LGA's Adult Social Care Efficiency Programme. Over a third of upper-tier authorities have participated in the three-year programme, working on 44 projects. The final report[9], published in July 2014, provides practical advice and showcases a number of innovative approaches by local authorities, which can be used as learning tools. The Department of Health, liaising with LG Inform and the sector, developed and published an Adult Social Care Efficiency Tool[10] which helps local authorities to understand how their services compare value for money with similar local authority areas.

Recommendation:
The departments should define what progress is expected under the Act by when, how they will measure progress and how they will judge success. For example, to work with greater numbers of self-funders than they have historically, local authorities will need to understand their number and what needs they have, and set up new systems. The departments should monitor local authorities' progress and make their expectations clear on what should be achieved in what timescale.

3.22 The Government agrees with the Committee's recommendations.

Target implementation date: April 2016.

3.23 The LGA and ADASS in partnership with the Department of Health is conducting three stocktake surveys to assess the progress local authorities are making in preparing to implement their duties under the Care Act from April 2015. This will help identify whether the necessary capacity, capability, and systems are in place and the confidence levels and issues of concern that require attention. It supports councils and regions by providing information to facilitate local strategic discussions, map progress and identify support needs and opportunities for shared learning.

3.24 The first stocktake survey themes include: programme management; governance; people including mapping of self-funders; money; systems; communications; strategy and planning; commissioning and support. At a national level the data is aggregated to provide evidence of progress from all local authorities, areas of slower progress, and priorities areas for support. This aggregated data shows that almost all local authorities are confident of their ability to deliver these reforms.

---

[9] http://www.local.gov.uk/documents/10180/11779/LGA+Adult+Social+Care+Efficiency+Programme+-+the+final+report/8e042c7f-7de4-4e42-8824-f7dc88ade15d
[10] https://www.gov.uk/government/publications/adult-social-care-efficiency-tool

3.25 The Department of Health is working in partnership with ADASS and individual councils to model the impact of the cap on care costs and extension of means-tested support to be introduced from April 2016. This work includes modelling assumptions on the number and needs of self-funders in different local authority areas. Independent experts from the Personal and Social Services Research Unit are providing advice on the data available to local authorities to help them develop robust estimates.

6: Committee of Public Accounts conclusion:
The need for oversight arrangements to reflect the overriding importance of quality of care.

Recommendation:
The Department of Health needs to be assured that the Care Quality Commission is adequately prepared and staffed to monitor both the quality of services and the sustainability of providers under the new oversight regime.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: April 2015.

6.2 The Department of Health is confident that the CQC is ready to take on the new market oversight powers through the quarterly Care and Support Programme Board meetings, supplemented by its regular accountability meetings with the CQC. Preparing for the new market oversight function is one of the nine priorities in the CQC's business plan for 2014-15 to 2015-16 and a significant programme of work is underway. The CQC, led by the Chief Inspector of Social Care, is co-producing its operational model with a group of experts in the social care and finance sectors.

6.3 In developing the model, the CQC is seeking to determine the right assessment framework, incorporating financial and quality metrics, to make judgements on relative risks to the sustainability of major care providers. In July 2014, the CQC procured specialist financial advice on the framework, resources, skills and capability requirements it will need to carry out the ongoing function from April 2015. The department will ensure the CQC has the necessary financial resources to enable the CQC to secure the appropriate capacity and capability for delivery, and that the market oversight function is effective.

Recommendation:
The Department of Health, in conjunction with local authorities, needs to understand why safeguarding referrals are rising, in particular whether this indicates rising levels of abuse, and target its interventions and support to local authorities accordingly.

6.4 The Government agrees with the Committee's recommendation.

Target implementation date: April 2016.

6.5 It is difficult to determine if, and to what extent, the increase in alerts relates to a rise in abuse taking place, a rise in contacts to the council, an increase in the number of cases captured on local systems or a combination of these factors. The prevalence of abuse cases in the media may have contributed to the rise in the number of alerts. Whilst there have been data collections on safeguarding activity for the last few years, there have been many issues relating to differing interpretations of the definitions of the concepts being measured in the return. As a result, the findings of the data collection are judged to be unreliable and unrepresentative.

6.6 The Care Act 2014 creates the first statutory framework for protecting adults from abuse and neglect. This includes a new duty for local authorities to carry out enquiries where it suspects an adult is at risk of abuse or neglect, and a requirement for all areas to establish a Safeguarding Adults Board (SAB) to bring together local authorities, NHS and the Police to coordinate activity to protect adults from abuse and neglect. SABs will carry out safeguarding adults reviews into cases where someone, who is experiencing abuse or neglect, dies, or there is concern about how authorities acted to ensure lessons are learned. SABs will also require information sharing from other partners to support reviews or other functions. Further, there will be new duties to provide independent advocacy to help people to be involved in safeguarding enquiries and Safeguarding Adult Reviews.

6.7 The Department of Health is working closely with the Health and Social Care Information Centre and local authorities to refine data fields that are collected, so that it can understand whether or not increases in safeguarding referrals indicate rising levels of abuse. The revised data collection has been initially implemented for 2013-14 and additional refinements will be made to the collection to ensure the final data collection is in place by 2016. The department is exploring additional ways of improving the reliability and interpretation of the figures through further guidance on completing the data returns.

Seventh Report

HM Treasury; HM Revenue and Customs; Cabinet Office; and the Department for Work and Pensions

Managing debt owed to central Government

1: Committee of Public Accounts conclusion

Individuals and businesses are in debt to the Government for overdue tax liabilities, benefits or tax credits overpayments and for other reasons, including outstanding fines and court confiscation orders. There is no official figure for the total amount owed to central Government that is overdue. However, the NAO estimated that overdue debt (money owed that is in arrears and legally collectable) was at least £22 billion at 31 March 2013.

HM Revenue and Customs (HMRC) was owed the majority of this debt (£15.1 billion), while the Department for Work and Pensions (DWP) and the Ministry of Justice (MOJ) account for nearly all of the remainder. Debt owed to Government has reduced by around £5.5 billion in the last four years. However this is a result of reductions in HMRC's balance and it disguises increases in all other major debt holding departments, and most of the debt owed is old.

Responsibility for debt management lies in departments, while at the centre of Government, HM Treasury (the Treasury) and the Cabinet Office are expected to provide strategic oversight. Since 2011, the Fraud, Error and Debt Taskforce, an expert panel chaired by the Minister for the Cabinet Office, has been developing a cross-Government view of debt management. The Cabinet Office's Efficiency and Reform Group has set out an ambition for Government to save £10 billion by 2014–15 from initiatives on fraud, error and debt combined.

1.1 On the basis of a report by the NAO, the Committee took evidence on 7 May 2014, from HM Treasury; HM Revenue and Customs; Cabinet Office; and the Department for Work and Pensions on the management of debt owed to central Government. The Committee published its report on 15 July 2014. This is the Government response to the Committee's report.

Background resources

- NAO report: *Managing debt owed to central Government* - Session 2013-14 (HC 967)
- PAC report: *Managing debt owed to central Government* - Session 2014-15 (HC 555)

2: Committee of Public Accounts conclusion

Despite the enormous sums involved there is no central strategy for managing debt owed to Government.

Recommendation:

The Treasury must ensure that it produces a comprehensive and effective strategy for managing debt, and related guidance, without further delay.

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

2.2 The Treasury and Cabinet Office have jointly issued debt management guidance for all departments and their agencies to improve debt management across Government. The guidance states that each department is required to have a robust strategy for managing debt that recognises the need to minimise its creation; reduces ageing debt; prevents overdue debt; and considers the balance of the risk of holding debt. The debt guidance is an annex of the Consolidated Budgeting Guidance, which is available on the Treasury website[11]. Improvements to departmental debt strategies are required to be made by 31 October 2014.

[11] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326719/CBG_additional_annex_debt_management_guidance.pdf

2.3 The Treasury and Cabinet Office wrote jointly, on 16 June 2014, to all departmental Finance Directors to set out the importance of good debt management, communicate the guidance and offer support to develop a debt strategy. Further to this, the Treasury and Cabinet Office are working to define their respective roles in relation to debt management and are working together on taking a strategic look at debt management across Government, including the role of the Debt Market Integrator and the implementation of the Financial Management Review.

3: Committee of Public Accounts conclusion
The Cabinet Office struggled to explain what savings it is seeking to achieve through better debt management.

Recommendation:
The Cabinet Office should set out clearly what savings it expects both government as a whole, and individual departments and agencies, to achieve over a defined period from managing debt better.

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: November 2014.

3.2 The Treasury and Cabinet Office will ensure that savings for the Government, individual departments and their agencies, are clearly set out and communicated effectively, which will ensure consistency of definitions and the application of appropriate key performance indicators (KPIs). This will be achieved in time for the cross Government half yearly savings and performance improvement announcement in November 2014.

3.3 The definition work and KPIs will be monitored through the Treasury and Cabinet Office Fraud, Error and Debt (FED) Working Group, which will tackle fraud, error and debt, as well as the efficiency of grant administration across Government. The FED Working Group was constituted following the Committees hearing. The main objectives are to:

- reduce losses to the public purse through fraud, error, and uncollected debt;
- improve the efficiency and effectiveness of debt collection for Government;
- drive forward the implementation of the NAO recommendations;
- provide an effective joint decision-making channel for the Treasury and Cabinet Office;
- align joint work in terms of resourcing and overcoming internal issues; and
- provide a senior review point to effectively monitor and challenge the findings submitted by departments.

4: Committee of Public Accounts conclusion
Departments have not focused sufficiently on debt management, allowing overdue debt to accumulate and age unnecessarily, so that it becomes much more difficult to collect.

Recommendation:
The Treasury should ensure appropriate key performance indicators for debt management are applied across government. Departments and agencies should be required to report performance in this area to their Boards and in their annual reports and accounts.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2014.

4.2 Based on the minimum performance indicators recommended by the NAO, the Treasury and Cabinet Office will monitor debt stocks and flows; age of debt; bad debt provision; and the value of write-offs and remissions. Departments will be required to report this performance to their Boards. This will be implemented as part of the Financial Management Review.

4.3 The Treasury and Cabinet Office agree that financial reporting is a key tool in helping drive improved financial management of debt and will ensure that departments disclose more under the current credit risk disclosure requirements (International Financial Reporting Standards 7). The Treasury remains

committed to strengthening its guidance for Annual Reports and Accounts and engaging with departments to promote best practice on reporting of debt in accounts, from 2014-15, where it is material. Since this guidance is produced to an annual cycle, changes will be incorporated in the 2014 version of the Financial Reporting Manual, which is due to be published in December 2014.

5: Committee of Public Accounts conclusion
Departments lack the information needed to target their debt collection activities and resources appropriately.

Recommendation:
Departments should implement systems that collect the data they need to manage and target their debt recovery resources effectively and reflect debtors' circumstances and ability to repay. The centre should ensure that departments share information and coordinate their debt management activities with a view to developing a single view of what each debtor owes to Government as a whole.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

5.2 To improve data collection, the Treasury and Cabinet Office are working with departments to agree consistent, clear debt definitions for all relevant debt balances. This will help departments to manage and target debt collection activity. This will be delivered through the FED working group. To coordinate debt collection activity, the Debt Market Integrator (DMI) will help departments identify, analyse, assess, and recover debt, negotiating debt collection contracts with the private sector on behalf of the Government.

5.3 HM Revenue and Customs (HMRC) already uses a single view for debtors, where appropriate, although the Government is yet to take a view on extending this approach across the board. However, the Government is considering this as part of its DMI policy discussions. Subject to approval, the DMI will commence in March 2015.

5.4 Departments have their own debtor hardship policies. The Government has measures in place to ensure that we target debt collection in a way that reflects debtors' ability to pay and minimises hardship. Once approved, the DMI could bring together debt analytics across the Government to reflect information on debtors and their ability to repay debts.

6: Committee of Public Accounts conclusion
Departments and the centre were not able to demonstrate that they had sufficient understanding of the benefits and risks of using debt collection agencies.

Recommendation:
Departments need to be intelligent customers of debt collection agencies, and must be vigilant in monitoring agencies' performance and ensuring appropriate standards are followed in their interactions with debtors. The Cabinet Office should ensure departments are aware of the benefits and risks attached to using debt collection agencies and monitor the risk of the market being captured by a small number of suppliers.

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2015.

6.2 Debt collection agencies (DCAs) are used for Government debt collection and must adhere to industry best practice and customer service standards. Each department has responsibility to ensure their DCA contracts meet these requirements.

6.3 As the biggest debt owing department, HMRC contracts 12 DCAs, who must adhere to the HMRC customer charter. As part of the procurement process for HMRC's current DCA contracts, HMRC conducted rigorous checks on all DCAs to ensure they met the required standards of security and customer service. In addition, HMRC have robust arrangements in place to monitor DCA behaviour, handle complaints, and assure adherence to contractual requirements.

6.4 Subject to approval, the DMI is expected to take on responsibility for managing DCAs on behalf of Government from March 2015. This will involve ensuring suitable capacity and capability across a range of DCAs within the market. The DMI will act as a customer for the Government by gathering market intelligence and measuring DCA performance in collecting Government debt. The DMI will also place contractual requirements on the panel members to ensure compliance with the Government and industry standards. This will be subject to a stringent audit regime.

ISBN 978-1-4741-1071-6