



HM Treasury

Treasury Minutes

Government responses on the Twenty First to the Twenty Sixth reports from the Committee of Public Accounts: Session 2015-16



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Government responses on the Twenty First to the Twenty Sixth reports from the Committee of Public Accounts: Session 2015-16

- 21st Report: Reform of the rail franchising programme
(Department for Transport)
- 22nd Report: Excess Votes 2014-15
(HM Treasury)
- 23rd Report: Financial sustainability of fire and rescue services
(Home Office)
- 24th Report: Services to people with neurological conditions –
progress review
(Department of Health)
- 25th Report: Corporation tax settlements
(HM Revenue and Customs)
- 26th Report: Common Agricultural Policy Delivery Programme
(Department for Environment, Food and Rural Affairs / HM Treasury
/ Cabinet Office)

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

TREASURY MINUTES DATED 25 APRIL 2016 ON THE TWENTY FIRST TO THE TWENTY SIXTH REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS: SESSION 2015-16

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Twenty First Report of Session 2015-16

Department for Transport

Reform of the Rail Franchising Programme

Introduction from the Committee

The Department for Transport is responsible for awarding franchises in England and Wales to private sector companies to run passenger rail services. In October 2012, the Department cancelled its competition for the InterCity West Coast franchise, having discovered errors in the procurement process. The Department also paused three further franchise competitions. The Committee and the National Audit Office published reports on the events that led to the cancellation of the InterCity West Coast competition and made recommendations for the Department to implement to protect value for money. The Department also commissioned its own inquiry into the collapse of the West Coast competition, as well as a wider review of passenger rail franchising - the Brown Review.

In March 2013 the Department launched a revised rail franchising programme of 15 competitions over an eight-year period. To maintain the provision of train services and to facilitate a staggered programme of competitions, the Department also planned to make 2 short-term, single tender actions (direct awards). Since the launch of the programme the Department has awarded 5 franchises through competitions and has made 11 direct awards.

On the basis of a report by the National Audit Office, the Committee took evidence on 2 December 2015 from the Department for Transport about the effectiveness of its programme management in its rail franchising programme. The Committee published its report on 12 February 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: *Reform of the rail franchising programme* - Session 2015-16 (HC 604)
- PAC report: *Reform of the rail franchising programme* – Session 2015-16 (HC 600)

1: Committee of Public Accounts conclusion:

It is not clear when passengers are going to see the promised improvements in service quality.

Recommendation:

The Department should set out clearly and transparently by autumn 2016 what benefits it expects passengers to see from each franchise and by when.

1.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

1.2 The Department agrees with this in principle. However, in practice it is not possible to fully determine the expected benefits before the franchise is awarded. The Department publishes the full benefits secured in each franchise, along with implementation dates where appropriate, when the franchise is awarded. It is not possible to publish benefits for a given franchise prior to this stage as they are not determined.

1.3 Prior to the award, the Department announced its ambitions for each franchise in a prospectus at the beginning of each competition, and the minimum specification in the invitation to tender. By autumn 2016, the Department will have set out the benefits for the following franchise awards, made since the re-launch of the programme in 2013: Essex Thameside; TSGN; Southern; East Coast; Northern; TransPennine Express; and East Anglia. The benefits from future competitions of the remaining 9 franchises will be published in accordance with the franchising schedule.¹

1.4 When franchises deliver in-life benefits beyond those in the franchise agreement the Department would expect those benefits to be publicised to passengers.

¹ www.gov.uk/government/publications/rail-franchise-schedule

2: Committee of Public Accounts conclusion:

There is a real risk to value for money if market interest in operating rail franchises declines any further.

Recommendation:

The Department should develop alternatives to its current commercial approach so it is well placed to deliver value for money if market interest falls to a level where intense competition cannot be guaranteed. The Department might benefit from looking at other markets where competition has been limited, such as the energy market, to see if it can learn lessons which may help in the future.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: May 2017.

2.2 In taking a range of workstreams forward, the Department is engaging closely with the existing market, encouraging new entrants, and exploring best practice across other markets. Areas of focus for this work include understanding the drivers of bidding costs and exploring how to reduce these. The Department is also looking more broadly at the capital requirements needed to bid for rail franchises and the size of franchise balance sheet risk. The Department has begun a workstream exploring lessons that can be learnt from other markets, including the energy market.

3: Committee of Public Accounts conclusion:

The Department has made relatively poor progress in building up its franchise management capability.

Recommendation:

The Department should fill its remaining vacancies with appropriately qualified individuals as soon as possible. It should provide us with an update on its progress in filling these vacancies and its use of flexibility to pay experts market rates by June 2016.

3.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

3.2 The Department is progressing with an external recruitment campaign and will update the Committee with progress on this and the use of pay flexibilities in June 2016.

4: Committee of Public Accounts conclusion:

The Department is not doing enough to develop partnerships with operators that facilitate innovation and improve services for passengers.

Recommendations:

The Department should set out the specific steps it is taking to encourage innovation both during the franchise letting process and during the life of the franchise to secure greater passenger service benefits from operators, and better returns to the taxpayer.

4.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

4.2 The Department has developed a new policy for embedding innovation in franchising, working closely with innovation experts from the Transport Systems Catapult and Future Railway programme from the Rail Safety and Standards Board (RSSB).

4.3 This policy includes requiring franchisees to develop an innovation strategy setting out how they will identify, resource and deliver innovative products, services and processes to deliver better customer experience. In addition, a pilot innovation fund has been included in the East Coast, Northern and TPE franchises and the imminent East Anglia franchise that ring fences 1% of revenues for spending on innovative projects. This policy is also supported by a new Residual Value Mechanism that allows any franchisee to propose long-term investments, beyond the franchise life, that deliver passenger benefits.

5: Committee of Public Accounts conclusion:

The scale and uncertainty of planned infrastructure improvements is delaying franchise competitions, and will result in contractual changes, which will come at a cost.

Recommendation:

The Department should capture and apply learning from its experience of letting and managing franchises during this time of uncertainty, while building on the Hendy review to develop greater certainty about infrastructure requirements.

5.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

5.2 The Department uses a number of tools to let and manage franchises during a time of uncertainty around infrastructure projects. These tools have been used on the Great Western, Thameslink Southern and Great Northern, and TransPennine Express franchises.

5.3 The Departmental has robust lessons-learnt and institutional knowledge processes both internally and with our external stakeholders. This ensures that the Departments experiences with these franchising tools are captured. These include formal lessons learnt workshops at key points during and after the bidding process. The results of the workshops are captured and disseminated widely.

5.4 The Department's lessons learnt processes involves the industry and other key stakeholders to ensure their perspectives are captured and addressed.

6: Committee of Public Accounts conclusion:

The Department's lack of a coherent strategic vision for the rail system presents a risk that it will make decisions now that prove costly in the future.

Recommendation:

The Department needs to provide a coherent strategic vision and stronger leadership to ensure that the investment decisions it makes now do not result in increased costs in the long term.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: July 2017.

6.2 The Department has an important role to play in setting a strategic vision for the railway covering both infrastructure and passenger and freight services. The Department will be setting out its vision for the future of the rail network as part of the industry long term planning process by July 2017.

Twenty Second report of Session of 2015-16

HM Treasury

Excess Votes 2014-15

Summary from the Committee

The Committee scrutinises the reasons individual Departments exceeded their allocated resources, and reports to the House of Commons on whether it has any objection to the amounts needed to rectify the reported excesses. The Committee may also make recommendations to Departments concerning the causes of these excesses.

In 2014–15, three bodies breached their expenditure limits: Cabinet Office: Civil Superannuation (hereafter referenced as the Principal Civil Service Pension Scheme); the Northern Ireland Office (NIO); and the Parliamentary and Health Service Ombudsman (PHSO). Within this report, the Committee provides further detail on the reasons for these bodies breaching their 2014-15 expenditure limits.

On the basis of our examination of the reasons why these bodies exceeded their voted provisions, the Committee has no objection to Parliament providing the necessary amounts by means of an Excess Vote. For 2015–16 accounts the Committee will, as it judges appropriate, request evidence from the accounting officers of the bodies that exceed their allocated resources.

The Department for Education's financial statements have yet to be certified by the Comptroller and Auditor General. Therefore, the Committee is unable to report on any excesses in the Department's accounts at this time. The Department has written to the Committee setting out the reasons for the delay to the finalisation of its accounts. The Committee will report on any excesses on this account through a separate report following certification.

Department	Net Cash Requirement		Resource AME		Capital DEL	
	Excess	Amount to be voted	Excess	Amount to be voted	Excess	Amount to be voted
	£	£	£	£	£	£
Cabinet Office: Civil Superannuation (The Principal Civil Service Pension Scheme)			98,702,000	98,702,000		
The Parliamentary and Health Service Ombudsmen	275,000	275,000	4,663,000	4,663,000		
Northern Ireland Office			1,458,000	1,458,000	406,000	406,000
Total	275,000	275,000	104,823,000	104,823,000	406,000	406,000

Background resources

- PAC report: *Excess Votes 2014-15 - Session 2015-16* (HC 787)

1-8: Committee of Public Accounts conclusions:

1: *The Principal Civil Service Pension Scheme (the Scheme) breached its Resource Annually Managed Expenditure limit by £98,702,000.*

2: *The failure of the Cabinet Office to provide the Scheme with the full implications of the transfers is not acceptable, given the scale of the financial exposure the Scheme presents to Government.*

3: *The Northern Ireland Office (NIO) breached its Capital Departmental Expenditure Limit by £406,000.*

4: *The rules covering transfers of budget between resource and capital limits are well established and understood across Government.*

5: *The NIO also breached its Resource Annually Managed Expenditure limit by £1,458,000.*

6: *The Parliamentary and Health Service Ombudsman (PHSO) breached its Resource Annually Managed Expenditure limit by £4,663,000.*

7: *The Parliamentary and Health Service Ombudsman (PHSO) also breached its Net Cash Requirement limit by £275,000.*

8: *The PHSO should ensure that it improves its financial reporting and cash forecasting capabilities to avoid overspends in the future.*

Recommendation:

Under the terms of the Standing Order of the House of Commons number 55(2)(d), the Committee recommends that Parliament provides the additional resources by means of an Excess Vote.

1.1 The Government accepts the Committee's recommendation.

Recommendations implemented.

1.2 The Treasury agrees with the excesses outlined by the Committee in their report.

Twenty Third Report of Session 2015-16

Home Office

Financial Sustainability of Fire and Rescue Services

Introduction from the Committee

There are 46 fire and rescue authorities in England, carrying out a range of duties including (but not limited to) responding to fires, road traffic accidents, and other emergencies. In January 2016 the Government announced that responsibility for fire and rescue was transferring to the Home Office. At the time of our evidence session on 26 November 2015, it was the Department for Communities and Local Government which provided fire authorities with financial resources, enabled them to raise their own income, and mandated duties which they must carry out.

Between 2010–11 and 2015–16 the Department reduced funding for the sector, with its funding for the majority of authorities going down by an average of 28% in real terms. During this period, fire safety continued to improve, with fatalities declining by 22% between 2010–11 and 2014–15. Some fire and rescue authorities have expressed concern, however, as to the potential implications of a further period of funding reductions on their capacity to respond to major incidents.

On the basis of a report by the National Audit Office, the Committee took evidence from the Department for Communities and Local Government; the Chief Fire Officers Association; the Chief Fire Officer for Cheshire; the former Chief Fire and Rescue Adviser; and the Chair of the Local Government Association Fire Services Management Committee. The Committee published its report on 17 February 2016. This is the Government response to the Committee's report.

Since the report was published, Fire and Rescue Services has transferred from the Department for Communities and Local Government to the Home Office.

Background resources

- NAO report: *Financial Sustainability of Fire and Rescue Services* Session 2015-16 (HC 491)
- PAC report: *Financial Sustainability of Fire and Rescue Services* Session 2015-16 (HC 582)

1: Committee of Public Accounts conclusion:

Central Government does not have a strong understanding of the potential impacts of future funding reductions on fire and rescue services.

Recommendation:

By summer 2016, the Home Office should write to us, setting out how it is improving central government's understanding of the impacts of ongoing funding reductions on fire and rescue authorities. This should take into account, in particular, both fire authorities' capacity to make further efficiency savings, and the impact of prevention and protection activities on reducing fire risk.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: Autumn 2016.

1.2 Ministers have agreed to offer, through the final local government finance settlement, firm four-year funding allocations for single purpose fire and rescue authorities in return for robust efficiency plans to be published locally in an open and transparent way. The Department would expect efficiency plans to demonstrate to local communities how fire and rescue authorities will make sensible savings whilst delivering effective services. The Department will also be able to draw upon these plans in enhancing its understanding of the financial position of individual fire and rescue authorities.

1.3 The Department also intends to review the projects awarded monies from the Fire Transformation Fund for 2015-16 to gain a better understanding of what the capacity is for further efficiencies from similar projects. The Department will write to the Committee in autumn 2016 to confirm how it is improving understanding of the impact of prevention and protection activities.

2: Committee of Public Accounts conclusion:

Reductions in funding are forcing local consideration of mergers but there is no clear plan centrally about whether these will be cost effective, deliver better outcomes, or be possible because of legal and financial hurdles.

Recommendation:

If fire and rescue authorities are considering merging the Home Office should work with them to assess options and support them in a planned way, rather than waiting for 'forced' mergers as an emergency measure to avoid financial failure due to the financial pressures they face. It is not clear that mergers are necessarily the best option.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: Summer 2016.

2.2 Fire and rescue services' governance arrangements are for local determination. Where fire and rescue authorities are considering a merger, or where a Police and Crime Commissioner proposes to take on responsibility for fire, the Department will work with the relevant authorities to consider the business case for change, in line with the requirements of the relevant legislation.

3-4: Committee of Public Accounts conclusions:

3. On the possibility of collaboration between fire authorities and police forces, the DCLG was clear that collaboration between 'blue-light' services did not mean fully merged services but only 'aligning overall oversight'.

4. While the expansion of fire fighter activities beyond their statutory roles has potential to benefit vulnerable groups, it is not yet clear to what extent such projects represent value for money.

Recommendation:

By summer 2016 the Home Office should publish a robust evaluation of the sector's wider community service projects (which assist other areas of the public sector), setting out best practice and criteria for determining which are effective and an efficient use of public money, and if there is any impact on the financial challenges faced by the fire and rescue sector.

3.1 The Government does not accept the Committee's recommendation.

3.2 Fire and rescue services' community service projects are varied and the evidence base on their effectiveness is still developing. It is for services themselves to evaluate the impact of their activity, including working with other public sector partners to assess the contribution it makes to their objectives. This approach to evaluation should be considered from an early stage of project development.

3.3 The Department will evaluate the impact of projects which have been awarded funding through the Fire Transformation Fund, and will work with other Government partners (such as the Public Health England-funded winter pressures pilots), Fire and Rescue Services and the Chief Fire Officers' Association to share learning and best practice from community safety activity.

5: Committee of Public Accounts conclusion:

The strength of local governance and accountability is variable, posing risks for the local maintenance of value for money and service standards.

Recommendations:

By summer 2016, the Home Office should have begun to strengthen local governance and accountability by consulting the sector on additional guidance, to underpin the duty in the National Fire Framework on authority members to hold their chief fire officer to account.

5.1 The Government accepts the Committee's recommendation.

Target implementation date: Summer 2016.

5.2 In parallel with the commitment to strengthen the Departments understanding of the quality and sustainability of fire and rescue services, the Department will consult with the Local Government Association and the Chief Fire Officers Association to establish what further guidance may be required to ensure that the requirement on authority members to hold their chief fire officer to account is being

properly met. It should be noted that the Local Government Improvement and Development Agency received some £23.4 million of grant in 2015-16 to help them provide a strong and comprehensive package of support to local government to help the sector to provide more efficient and effective services to local people. This funding has helped to train local fire and rescue authority members in their roles.

6: Committee of Public Accounts conclusion:

The lack of an independent inspectorate creates the risk that scrutiny of fire authorities will be inconsistent, and that oversight exercised by the Department will be incomplete.

Recommendation:

The Home Office should publish a delivery plan by summer 2016 that ensures there is a coherent approach to external scrutiny across the sector, capable of providing independent assurance to the Government, and ensures that every fire authority is covered by a consistent, objective, and rigorous form of review.

6.1 The Government accepts the Committee's recommendation.

Target implementation date: Summer 2016.

6.2 The Department is sympathetic to the view that fire and rescue services should be subject to stronger external scrutiny, and will set out proposals on this in due course. The Department will also consider whether to revise the Fire and Rescue National Framework for England to require peer review reports to be published alongside annual statements of assurance.

6.3 To further enhance the scrutiny and transparency of fire and rescue authorities, the Department intends to publish data in July 2016 showing how much each fire and rescue authority pays for a basket of common items of uniform and equipment. The Department will also explore how to strengthen access to information to ensure that the public are able to make informed judgements on the performance of their services, and hold elected representatives to account.

7: Committee of Public Accounts conclusion:

The Department did not provide Parliament with sufficiently rigorous assurance on the standards and sustainability of fire and rescue authorities.

Recommendation:

The Home Office should take a rigorous approach to gathering information on the quality and sustainability of fire and rescue services, doing this in time to provide substantive support for the next statutory assurance report to Parliament, in summer 2016.

7.1 The Government accepts the Committee's recommendation.

Target implementation date: July 2016.

7.2 The Department will continue to check that all fire and rescue authorities have published assurance statements on their websites, and that these have been signed off by an elected member of the Authority to confirm that they are satisfied that the authority has complied with the requirements of the Fire and Rescue National Framework for England. The Department will conduct a rigorous examination of a random sample of fire and rescue authority assurance statements to seek evidence that authorities have:

- reviewed the effectiveness of their governance framework, including the system of internal control;
- considered the principles of transparency set out in the Code of Recommended Practice for Local Authorities on Data Transparency;
- included details of consultation on their integrated risk management plan and confirmation that appropriate information was provided to enable active and informed participation;
- provided information about where fire and rescue authorities have entered into agreements and/or mutual aid arrangements with other relevant bodies;
- provided information on specific events which raise issues of operational competence or delivery; and
- identified any potential improvements across their accounting, governance or operational responsibilities to communities, particularly where plans are underway.

7.3 This examination will be conducted before the Home Secretary's statutory assurance statement to Parliament in July 2016.

Twenty Fourth Report of Session 2015-16

Department of Health

Services for people with neurological conditions: progress review

Introduction from the Committee

Neurological conditions, such as Parkinson's disease, motor neurone disease and epilepsy, result from damage to the brain, spinal column or peripheral nerves. Some neurological conditions are life-threatening, with many severely affecting people's quality of life and causing lifelong disability. The most recent estimate, by the Neurological Alliance, indicates that there are 4.7 million neurological cases in England. The NHS spent £3.3 billion on neurological services in 2012–13, representing 3.5% of total spending, up from 3.1% in 2010–11. Hospital activity involving patients with neurological conditions have increased in recent years, although the rate of growth has slowed. There are no specific data on spending on social care for people with neurological conditions or on the number of people with neurological conditions receiving social care services. However, on the basis of the more general data that are available, both spending and activity can be assumed to have fallen significantly since 2009–10.

On the basis of a report by the National Audit Office, the Committee took evidence from the Department of Health; NHS England; and Adult Neurology on services for people with neurological conditions. The Committee published its report on 26 February 2016. This is the Government response to the Committee's report.

Background resources

- NAO Report: *Services for people with neurological conditions: Progress Review – Session 15-16* (HC 301)
- PAC Report: *Services for people with neurological conditions: Progress Review neurological conditions: Progress Review – Session 15-16* (HC502)

1 and 4: Committee of Public Accounts conclusions:

1: There remains wide variation across the country in services and outcomes for people with neurological conditions.

4: There is scope to give patients better access to neurologists by using existing resources more effectively

Recommendation 1:

NHS England should set out by April 2016: how it will use the new commissioning for value data packs to help clinical commissioning groups improve neurological services and reduce the variation in services and outcomes; and how it will then hold clinical commissioning groups to account for their performance in this regard.

Recommendation 4:

NHS England should report back to us by April 2017 on what it has done to make best use of the available neurologists and reduce the variations in access, including through re-designing services and making more use of other clinical staff, particularly specialist nurses.

1.1 The Government accepts the Committee's recommendations.

Target implementation date: July 2016.

1.2 Since April 2016, the commissioning of neurology outpatient appointments at neuroscience centres has become the responsibility of local Clinical Commissioning Groups (CCGs) rather than NHS England. This will encourage better overall local population access by making variability more transparent and also help focus CCG commissioning on common neurological conditions.

1.3 The Right Care programme is being delivered to all CCGs over the next two years (65 are currently involved in wave one). This programme provides practical support to local health economies, using the commissioning for value packs (CfV), to stimulate discussion about the prioritisation and utilisation of resources in order to tackle unwarranted variation. Local health economies will then be able to decide which areas of variation to prioritise.

1.4 The forthcoming introduction of the CfV packs will demonstrate the clear opportunities to improve care at less cost by showing the variability in care of common neurology conditions alongside the considerable cost. This will enable CCGs to define clear pathways for common long-term neurological conditions such as epilepsy, multiple sclerosis and Parkinson's disease to enable patients to be seen by the right person at the right time, utilising neurologists' time more effectively.

1.5 Tackling unwarranted variation will be a core element of CCG assurance and assessment activity, ensuring that commissioners and their local health economies fully consider and implement approaches to make improvements as part of their planning and implementation.

2-3: Committee of Public Accounts conclusion:

NHS England is not meeting the objective that the Department set for it that everyone with a neurological condition should be offered a personalised care plan by 2015.

Recommendation 2-3:

The Department should confirm how it is measuring performance against the objective that everyone with a long-term condition should be offered a personalised care plan. NHS England should set out a timetable for meeting the objective and the Department should hold NHS England to account for achieving this timetable.

2.1 The Government does not accept the Committee's recommendation.

2.2 Whilst the Government continues to recognise the value of care planning, and NHS England continues to work in this area, the Government's mandate to NHS England for 2016-17 does not include an objective that everyone with a long-term condition be offered a personalised care and support plan (PCSP) and so there will be no specific measurement of this. However, several key Five Year Forward View initiatives will ensure that more people with long-term conditions, including those with neurological conditions, will be offered a PCSP. The self-care programme will support initiatives to embed personalised care planning as key to enabling people to be more actively engaged in the management of their own health and care. The Coalition for Collaborative Care is also working with national organisations, professional bodies and charities actively to promote and support person-centred care approaches and support health professionals to deliver effective care and support planning.

2.3 In addition, a PCSP forms the basis of a personal health budget (PHB). People with neurological conditions eligible for NHS continuing health care (or continuing care in the case of children) currently have the right to a PHB. In line with the new mandate commitment, CCGs are expanding the use of PHBs beyond this group and should be including in their sustainability and transformation plans how they will do this.

2.4 The support provided to patients with long-term conditions will continue to be measured locally and nationally through the GP survey and via indicators in the new CCG Improvement and assessment framework and the NHS Outcomes Framework.

5: Committee of Public Accounts conclusion:

The abolition of the role of national clinical director for adult neurology would lead to a loss of clinical leadership and accountability.

Recommendation:

NHS England should retain the role of national clinical director for adult neurology.

5.1 The Government does not accept the Committee's recommendation.

5.2 Although NHS England agrees that clinical advice and expertise has an important role in helping shape work to improve outcomes, there are number of ways in which this support may be provided.

5.3 During 2016-17 the focus of NHS England's improvement efforts will be targeted on a smaller range of key national priorities including cancer, mental health, diabetes, maternity and urgent and emergency care and so national clinical directors will be focussed on these areas. Clinical and local networks of care can determine what can be done at a local or regional level if it is considered a local or regional system priority. Although there will no longer be a national clinical director for neurology, NHS England will continue to access clinical advice about neurology through local and regional system

leaders, the Neurology Clinical Reference Group (CRG) and Royal Colleges. It is expected that these new arrangements will be in place from 1 June 2016.

6: Committee of Public Accounts conclusion:

The Department and NHS England have no plans to improve the linking of health and social care data beyond the 'care.data' initiative, which is unlikely to be implemented before 2020 at the earliest.

Recommendation:

The Department should report back to us by April 2016 setting out how it plans to link health and social care data, including a clear timetable for when it expects care data to be fully implemented across the NHS.

6.1 The Government does not accept the Committee's recommendation.

6.2 Although the Government remains committed to maximising the value of data in the health and social care system, this remains a complex and sensitive area of work.

6.3 The health and care data collected by the NHS and the wider care system is a rich resource, with enormous potential for use in driving improvements in health and care. The National Information Board has been established to develop the strategic priorities for data and technology, bringing together all national health and care organisations.

6.4 The new powers of the Health and Social Care Information Centre present a clear opportunity systematically to link and use a new wealth of previously unavailable data. However, this must be balanced with the need to demonstrate that privacy and confidentiality are being appropriately protected.

6.5 It is necessary to address public concerns over the use of health and care information before a fully linked data sharing system can be put in place. Dame Fiona Caldicott, the National Data Guardian for Health and Care, is undertaking an independent review to propose a new consent/opt-out model for data sharing, enabling people to make informed decisions about how personal data is used. The review will report shortly. The Government will then consult on the implementation of the recommendations, which will, in turn, inform the future arrangements for the use of health and care information, including linked data.

7: Committee of Public Accounts conclusion:

The confusion over commissioning responsibilities is leading to ineffective commissioning of neurological services

Recommendation:

NHS England should set out clearly by April 2016 which neurological services are specialised services to be commissioned by NHS England and which services should be commissioned locally by clinical commissioning groups.

7.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2017.

7.2 The prescribed (specialised) services manual is currently being updated and will be published on the NHS England website by May 2016. This update includes a revision of the section on adult specialised neurosciences and will clearly describe the commissioning responsibilities for NHS England and CCGs in terms of neurological outpatients.

7.3 The Neurology CRG is currently revising the service specification, which is a more detailed document, to clarify which services are specialised and which are not. The draft document will be tested with stakeholders in April 2016, followed by wider public consultation with the aim of publishing the specification in summer 2016.

7.4 There will need to be refinements made to the rules which enable the separation of the specialised activity from the non-specialised to ensure that neurology activity and funding flows are attributed to the correct commissioner. There is a significant lead-in time to making any changes to the software. The implementation of the updated software rules will take place with effect from 1 April 2017

Twenty Fifth Report of Session 2015-16

HM Revenue and Customs

Corporate tax settlements

Introduction from the Committee

The previous Committee's report on Google's tax affairs in June 2013 concluded that Google used an artificial tax structure which served to avoid UK taxes rather than to reflect the substance of the way business is actually conducted. The Committee noted that the "UK is a key market for Google but the enormous profit derived is out of reach of the UK's tax system." It also found that to avoid UK corporation tax Google relied on "the deeply unconvincing argument that its sales to UK clients take place in Ireland, despite clear evidence that the vast majority of sales activity takes places in the UK."

In January 2016, Google announced that it had agreed to pay an additional £130 million in corporation tax, covering the period January 2005 to June 2015, following the conclusion of a six year investigation by HMRC. On the eve of our evidence session, with Google's consent, HMRC submitted a document setting out some further facts in relation to the settlement. The Committee now know that much of the tax in dispute related to the application of transfer pricing rules, that £18 million of the settlement was interest on the tax due, and that HMRC did not apply a penalty. The Committee also knows that the UK is Google's second largest market (after the US), contributing over US\$7 billion in revenue in 2015, or around 10% of Google's worldwide revenue. In its latest UK accounts, for the 18 months ending June 2015, Google reported a UK corporation tax liability of £46 million. HMRC also told the Committee that Google's total charge for corporation tax and interest from 2005 to 2015 was £196.4 million.

The Committee took evidence, on 11 February 2016, from HM Revenue and Customs, and Google Europe, Middle East and Africa (EMEA) about corporate tax settlements. The Committee published its report on 24 February 2016. This is the Government response to the Committee's report

Background resources

- PAC Report: *Tax Avoidance: Google* – Session 2013-14 (HC 810)
- PAC Report: *Corporate tax settlements* – Session 2015-16 (HC 788)

1: Committee of Public Accounts conclusion:

The lack of transparency about tax settlements makes it impossible to judge whether HMRC has settled this case for the right amount of tax.

Recommendation:

HMRC should consult widely, including with other tax authorities, on the case for changing the rules that protect corporate taxpayer confidentiality to make the tax affairs of multinational companies open to public scrutiny. As the previous Committee recommended in 2013, HMRC and the Treasury should push for an international commitment to improve tax transparency. HMRC should be prepared to go it alone if necessary to provide the means for Parliament and interested parties to judge whether tax settlements reached are reasonable.

1.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

1.2 The Government supports efforts to improve tax transparency by multinational companies. The Government initiated work on country-by-country reporting during the UK's G8 Presidency in 2013, and was the first to commit to implement the OECD model, with legislation in the Finance Act 2015. The Government remains in the vanguard; for example, in now pressing the case for agreement to public country-by-country reporting on a multilateral basis. The Department will continue to pursue domestic initiatives on transparency which complement the international steps being taken, while maintaining appropriate safeguards for taxpayer confidentiality, which remains an essential and valuable feature of the UK tax system. For example, the introduction of legislation in Finance Bill 2016 will require all large businesses to publish their UK tax strategies and enable HMRC to name large businesses that are subject to special measures to improve their compliance.

1.3 The Department is currently reviewing its arrangements for assuring decisions to resolve tax disputes, but considers that its existing arrangements, together with the ability for the NAO to review its work and report to Parliament, provide the means for Parliament to determine that the Department is reaching reasonable settlements.

2-3: Committee of Public Accounts conclusion:

2: It has taken far too long to reach this settlement.

3: It is difficult for HMRC to penalise multinational companies for tax avoidance due to the scope for different interpretations of complex tax rules.

Recommendation 2:

HMRC should devote sufficient resources, and seek new powers if required, to ensure tax investigations are completed in a timely manner. HMRC needs to be clearer about the costs and benefits of its investigations. It should also seek the power to impose penalties on companies which do not cooperate fully with its investigations when tax is in dispute.

Recommendation 3:

The Committee welcomes HMRC's plans to strengthen the penalty regime so that it can penalise habitually aggressive tax planners. The Committee expects HMRC to implement these changes as soon as possible and enforce them rigorously.

2.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

2.2 The Department has received £139 million to tackle large business tax avoidance and aggressive tax planning over the next five years, including £59 million announced at Summer Budget 2015. The Department has sufficient resources and powers to ensure its tax investigations are completed in a timely manner.

2.3 The Department resources to risk and resolves over 85% of all tax disputes with large businesses within 18 months. In a small number of cases, involving particularly complex and novel issues, and / or litigation, significantly more time is required to properly consider and conclude the issues. These cases are closely monitored to ensure that all appropriate action, including the use of formal powers, is taken to progress them promptly to conclusion. In all cases where further tax is due, the Department charges interest on late payment to ensure that there is no loss to the public purse.

2.4 The Department has formal powers to compel taxpayers, including large businesses, to produce information and documents, and uses them routinely. It has the power to impose penalties for failure to comply with an information notice.

2.5 The Department also has powers to impose penalties on taxpayers who submit an inaccurate return or other document and, as a result, do not pay the right tax. In calculating the amount of the penalty to be imposed, the level of co-operation the Department has received during its investigations is taken into account. The introduction of legislation in Finance Bill 2016 will strengthen the Department's ability to charge penalties on those large businesses that demonstrate consistently aggressive tax planning behaviours and/or refuse to engage with the Department in an open and collaborative way.

4: Committee of Public Accounts conclusion:

The international tax rules are not working, such that HMRC seems unable to collect a fair share of corporation tax from global companies with activities in the UK.

Recommendations:

HMRC should lead the way in pressing for changes in international tax rules to prevent aggressive avoidance by multinational companies. The Committee urges HMRC to work with other tax authorities to ensure that changes to international tax rules take into account the way in which internet based companies operate.

4.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

4.2 The Government has championed the work of the Organisation for Economic Co-operation and Development (OECD) to address tax avoidance by multinational companies and ensure that profits are taxed where economic activities generating the profits are performed and where value is created. In November 2012, the UK with Germany called on G20 leaders to back the OECD Base Erosion and Profit Shifting (BEPS) Project, to reform international tax rules and prevent base erosion and profit shifting. The UK used its presidency of the G8 to build international support for the BEPS Project, with G8 leaders confirming their support at Lough Erne in June 2013.

4.3 The Business Tax Road Map², published at Budget 2016, sets out a full summary of the actions being taken in response to each of the 15 actions in the BEPS project. These actions include:

- changing the rules on interest to prevent large companies using excessive interest payments to reduce the tax they pay on their profits in the UK;
- introducing new rules to address hybrid mismatches which are used by some multinationals to exploit differences between countries' rules to avoid paying tax in either country, or to get excessive tax relief by claiming the same expense more than once; and
- acting to ensure that royalty payments cannot be used to shift profits from the UK to low tax jurisdictions, either directly or through a second country.

4.4 In addition, the Government has already introduced the Diverted Profits Tax targeted at certain contrived arrangements used to divert profits away from the UK and is also taking action to prevent property developers using offshore structures to avoid UK tax on their trading profits from building property in the UK.

4.5 In July 2013, the OECD set up a task force specifically to examine the digital economy. The task force looked at a range of key features and business models that raise particular challenges to the taxation of digital businesses. Its comprehensive report³, published in October 2015, concluded that some features of the digital economy and its business models exacerbate international tax risks, without presenting unique risks of their own. The report set out how the implementation of a range of measures developed within other actions of the BEPS Project will significantly address these risks. The Department and the Treasury have played a key role in the development of the BEPS Project measures to address aggressive tax planning by multinationals and will be engaged in the future work to monitor and report on developments in the digital economy.

5: Committee of Public Accounts conclusion:

The Committee is concerned that HMRC appears to have settled for less corporation tax from Google than other countries are willing to accept.

Recommendation:

The Committee expects HMRC to monitor the outcome of other tax authorities' investigations into Google, and re-open its settlement with Google if relevant new evidence becomes available. HMRC should also examine the approach adopted by other tax authorities to see what lessons it can learn, should they succeed in securing larger tax settlements from Google.

5.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

5.2 It is already the Department's long established practice to collaborate closely with tax authorities in other countries, exchanging information about taxpayers under the terms of the UK's tax treaties and other international agreements. The Department already shares experience and expertise with other tax administrations through active membership of international forums such as the JITSIC (Joint International Tax Shelter and Collaboration) Network – a group of over 30 tax administrations that work together to tackle complex tax avoidance schemes and structures involving multinational businesses and high net worth individuals.⁴

5.3 The Department has worked with five other tax authorities in the E6 project to counter tax avoidance by multinationals in the digital economy.⁵ The Department will continue to collaborate with tax administrations in other countries to share any relevant information. Should further relevant information come to light that was not made available to the Department during the course of the enquiry, the Department would consider its tax impact and look again at the settlement if it appeared that further tax should be paid

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509249/business_tax_road_map_final2.pdf

³ http://www.keepeek.com/Digital-Asset-Management/oeed/taxation/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report_9789264241046-en#page18

⁴ <http://www.oecd.org/tax/forum-on-tax-administration/ftajitsicnetwork.htm>.

⁵ <http://www.mynewsdesk.com/uk/hm-revenue-customs-hmrc/pressreleases/government-ramps-up-efforts-to-tackle-digital-multinational-tax-risks-1134885>.

Twenty Sixth Report of Session 2015-16

Department for Environment, Food and Rural Affairs

The Common Agricultural Policy Delivery Programme

Introduction from the Committee

The Common Agricultural Policy (CAP) is the European Union framework of subsidies and rural development programmes. The Rural Payments Agency (RPA) makes 105,000 payments each year to English farmers and landowners under the CAP, amounting to £1.8 billion. Since 2012, the Department for Environment, Food & Rural Affairs (the Department) has been leading the Common Agricultural Policy Delivery Programme (the Programme), together with its delivery bodies, the RPA and the Government Digital Service (GDS), to develop a single IT solution for the new regulations that came into force in 2014. In January 2013, the Cabinet Office reviewed the Programme and as a result seven significant changes were made, increasing the level of innovation and risk. The Programme was originally forecast to cost £155 million, but this has increased by 40% to £215 million. In March 2015 the Department replaced the online application system with 'paper-assisted digital' applications following a number of IT failures.

On the basis of a report by the National Audit Office, the Committee took evidence from the Department for Environment, Food and Rural Affairs, the Rural Payments Agency and the Government Digital Service on the Common Agricultural Policy Delivery Programme. The Committee published its report on 2 March 2016. This is the Government response to the Committee's report.

Background resources

- NAO report: *Early review of the Common Agricultural Policy Delivery Programme* Session 2015-16 (HC 606)
- PAC Report: *The Common Agricultural Policy Delivery Programme – Session 2015-16* (HC 642)

1: Committee of Public Accounts conclusion:

As a result of the repeated failures of the Programme, many farmers are being paid later than in previous years.

Recommendation:

The Department should set out clear milestones, by the end of June 2016, for when it expects to pay farmers for future years and when it will return to previous performance levels.

1.1 The Government accepts the Committee's recommendation.

Target implementation date: May 2016.

1.2 The Department is currently discussing and agreeing payment performance targets with the Rural Payments Agency. The Rural Payments Agency will publish, on GOV.UK, its key performance indicators for the 2016 Basic Payment Scheme in May 2016. These will include associated targets for December, March and June, reflecting the set European Commission milestones of the opening of payment window in December and the closing of the window in June.

1.3 The Chief Executive of the Rural Payments Agency has put on record with the EFRA Committee, on 9 March, his aspiration to improve the Agency's annual payment performance. Payment performance in 2016 is likely to improve for a number of reasons compared to 2015, the first year of the new scheme. For instance, base data for claimants is now held on the IT system and a greater number of claims will be submitted online. The Agency will build on its experience of transforming payments made under the Single Payment scheme, which saw an upwards trajectory, resulting in over 90% of payments made in December 2014.

2: Committee of Public Accounts conclusion:

The lack of a clear and consistent set of priorities between GDS, the Department and the RPA caused disruption and delay at the outset and allowed shifts in direction and focus to occur each time there was a change of senior responsible owner (SRO).

Recommendation:

For this and future programmes, the Department should establish a clear and enduring vision based on expected programme benefits, together with clear milestones and priorities that can remain in place regardless of changes in leadership.

2.1 The Government accepts the Committee's recommendation.

Target implementation date: December 2016.

2.2 The Department's priorities and vision for the Programme have remained constant throughout. These are to: reduce the total cost of delivering CAP in the future; mitigate risk and reduce cost of disallowance penalties; enhance customer satisfaction of the CAP services provided by Defra; create flexibility to implement policy changes more efficiently and effectively; and drive higher environmental value through achieving CAP reform policy objectives. These jointly agreed priorities were used to assess the original options for the Programme in 2012 and were used to assess the system enhancements in 2015.

2.3 The Department has recognised the importance of tracking and reporting the delivery of the longer-term Programme benefits. As part of the Programme transition to business as usual later this year, the Programme is comprehensively assessing costs against benefits delivered. A mechanism for monitoring and reporting the ongoing benefits of the system is also being developed. This work will complete in Autumn 2016 for submission to a planned stocktake with the Infrastructure and Projects Authority.

2.4 The Department has already incorporated lessons learnt from this Programme into broader work. For instance, the development of the Single Departmental Plan and the Defra-Group Target Operating Model will provide a consistent departmental objective and vision that stands separate from individual leaders. The Department's work on CAP has been prioritised within this, given its policy and delivery reach across the Department.

3: Committee of Public Accounts conclusion:

GDS introduced a level of innovation and risk to the Programme, without assessing whether the Department was capable of managing the changes, and did not provide sufficient support during implementation.

Recommendation:

The Cabinet Office, through its GDS, should comprehensively assess departments' capabilities to deliver any changes it imposes and ensure that it provides an appropriate level of support for those changes.

3.1 The Government accepts the Committee's recommendation.

Target implementation date: April 2017.

3.2 The Cabinet Office accepts that there were issues with resourcing for this programme, which was large and complex. Additional resources were seconded at the time to support the Department. There is now an established base of knowledge and expertise within Government, with more than 150 senior civil servants with digital and technology skills.

3.3 GDS manages the cross-Government Digital, Data and Technology function which supports departments to deliver digital, data and technology programmes, and identify capability gaps which need to be addressed, and develop solutions. For example, GDS is currently developing more effective attraction and recruitment strategies to link talent from across Government and the private sector to the right opportunities. Further, there is now an established governance structure, which includes an Inter-Ministerial group providing oversight on cross-government transformation projects, alongside the GDS Advisory Board.

4: Committee of Public Accounts conclusion:

The failure of the Department, the RPA and GDS to work together effectively resulted in serious detriment to the Programme.

Recommendations:

The Department should review its approach to tackling serious failures of management and put in place measures to stop this ever happening again.

4.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

4.2 The Department's current organisational change programme is incorporating lessons learnt from the CAPD Programme. Defra has recently moved to a 'Group' organisational model with a single business plan for the whole Department which includes all the agencies and arm's length bodies. This provides a clear unifying framework, which will enable the whole Department to work together more effectively.

4.3 The Permanent Secretary leads the weekly Executive Committee, which has been extended to include the CEOs from the Department's largest delivery bodies, including the Rural Payments Agency CEO. The Executive Committee maintains oversight of all of the Department's work, projects and programmes and is the primary forum for addressing management issues across the breadth of the Department's business. Additionally, the Department will continue to use a full range of informal and formal means (such as Infrastructure and Projects Authority Reviews) to encourage honest and accurate reporting from people in order to provide a safe space for surfacing issues so that they can be addressed quickly and early.

5: Committee of Public Accounts conclusion:

Reducing the risk of disallowance penalties was not given sufficient priority.

Recommendation:

The Department needs, as a matter of urgency, to explain and justify what it considers to be an appropriate target level of financial penalties from the European Commission, how it will achieve it and how it will monitor progress towards it.

5.1 The Government accepts the recommendation

Recommendation implemented.

5.2 In recent years, the Department has controlled disallowance at c2% (£50 million) per year, following the difficulties of 2005 which increased disallowance and caused legacy issues. However, in 2014, the European Commission changed how disallowance is calculated. The Department now faces an increased risk from historic control weaknesses that far exceed 2%.

5.3 The Department has proactively responded, by developing a Disallowance Strategy that sets out a root-cause analysis of the past drivers of disallowance and mitigating actions. Central to the strategy is a £45 million investment to improve mapping data, which has been the greatest source of disallowance risk in recent years. Progress with implementation will be monitored by the co-sponsors of the Disallowance Strategy, Mark Grimshaw (CEO of the RPA) and Nick Joicey (Director General for Strategy, International and Food and Farming), held to account by the Permanent Secretary.

5.4 Whether or not particular control requirements have been met in full can be subjective so no Member State can be certain in advance of an audit that they will be found to be fully compliant. It is also unlikely to represent value for money and would be inconsistent with wider Government policy on proportionality to take mitigating action against every disallowance risk. However, through the Disallowance Strategy, the Department's aim is to reduce disallowance to as low as possible, and it expects to return to disallowance of c2% of scheme value by 2019. A single ancillary control failure will lead to a 2% correction, which is the lowest flat-rate applied by the Commission.

5.5 The Department will continue to contest flat-rate corrections from the Commission that it believes are unjustified or disproportionate compared to the risk to the Fund. The Department is also pressing for further changes at European level so that greater reliance is placed on the more robust domestic audit findings of the NAO. The NAO's recent audit of CAP payments in 2014 has indicated an error rate below the materiality threshold of 2%.

6: Committee of Public Accounts conclusion:

It is not clear that the Department has sufficient direct incentives to reduce disallowance penalties.

Recommendation:

HM Treasury should set out the mechanisms in place from 2016–17 to demonstrate that they are providing the budgetary incentives needed for the Department to do as much as possible to reduce disallowance penalties.

6.1 The Government accepts the Committee's recommendation.

Recommendation implemented.

6.2. The Treasury is working closely with the Department on the wider disallowance reduction strategy. The primary budgetary incentive for the Department was put in place through the agreement of disallowance budgets based on ambitious disallowance reduction targets. If disallowance incurred exceeds the amount of the Department's ring-fenced budget, this would lead to them having to find savings from elsewhere in the wider budget to meet the costs. This incentive mechanism was agreed as part of the Spending Review process following extensive joint discussions.

6.3. As part of the Strategy, the Treasury will consider with the Department whether there are additional budgeting mechanisms that could be put in place for the remainder of the Spending Review period to further incentivise reductions to disallowance penalties

List of Treasury Minutes 2015-20⁶

Treasury Minutes is a Parliamentary Command Paper, which is laid in Parliament, and is the Government's response to the Public Accounts Committee reports.

Session 2015-16

Committee Recommendations: 168⁷
 Recommendations accepted: 141 (84%)
 Recommendations not accepted: 27 (16%)

Publication Date	PAC Reports	Ref Number
December 2015	Government response to PAC reports 1 to 3	Cm 9170
January 2016	Government response to PAC reports 4 to 8	Cm 9190
March 2016	Government response to PAC reports 9 to 14	Cm 9220
March 2016	Government response to PAC reports 15-20	Cm 9237
April 2016	Government response to PAC reports 21-26	Cm 9260
May 2016	Government responses to PAC reports 27-33	Cm
July 2016	Government responses to PAC reports 34+	Cm

List of Treasury Minutes Progress Reports

The Government produces Treasury Minute progress reports on the implementation of Government accepted recommendations on a regular basis.

Publication Date	PAC Reports	Ref Number
January 2012	Session 2010-12: updates on 13 PAC reports	Cm 8271
July 2012	Session 2010-12: updates on 28 PAC reports	Cm 8387
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2014-15: updates on 27 PAC reports	Cm 9202
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 14 PAC reports Session 2014-15: updates on 23 PAC reports Session 2015-16: updates on 7 PAC reports	

⁶ List of Treasury Minute responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52

⁷ Recommendations up to April 2016

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