HM Treasury

Treasury Minutes

Government response to the Committee of Public Accounts on the Seventh to the Thirteenth reports from Session 2019-21

CP 291 September 2020

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Government responses to the Committee of Public Accounts Session 2019-21

Seventh Report of Session 2019-21

Department for Digital, Culture, Media & Sport

Gambling regulation: problem gambling and protecting vulnerable people

Introduction from the Committee

Around half of adults in Britain gamble through, for example, betting on sports, going to casinos, and playing arcade or bingo games. In 2018–19, this resulted in commercial gambling companies in Great Britain yielding £11.3bn (that is, bets placed less winnings paid out), raising around £3bn in gambling duties. A significant and growing proportion of this revenue comes from online gambling. For some people, gambling can lead to serious harm, including mental health and relationship problems, debts that cannot be repaid, crime or suicide. There are an estimated 395,000 problem gamblers in Great Britain, with 1.8 million more gamblers 'at risk' who may also be experiencing harm.

The Gambling Commission (the Commission) regulates commercial gambling. It aims to ensure gambling is fair and safe, and has a duty to protect children and vulnerable people from harm. The Commission is a non-departmental public body and is funded by licence fees from gambling operators, which totalled £19 million in 2018–19, or less than 0.2% of the £11.3 billion gambling yield that year. The Department for Digital, Culture, Media & Sport (the Department) is responsible for gambling policy and the overall regulatory framework. It can introduce legislative changes where necessary, sets licence fees and has an objective to ensure commercial gambling is socially responsible.

Based on a report by the National Audit Office, the Committee took evidence, on 27 April 2020 from Sarah Healey from the Department for Digital, Culture, Media & Sport and Neil McArthur from the Gambling Commission. The Committee published its report on 28 June 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Gambling regulation: problem gambling and protecting vulnerable people* – Session 2017-19 (HC 101)
- PAC report: *Gambling regulation: problem gambling and protecting vulnerable people* – Session 2017-19 (HC 134)

Government responses to the Committee

1: PAC conclusion: *Government has a poor understanding of gambling problems and the consequences for people and public services, and therefore of how to target its limited resources effectively.*

1: PAC recommendation*: The Department and Commission should write to us within three months and set out what actions they will take to ensure they have the research and evidence base needed to better understand gambling problems, and to design an effective regulatory response.*

1.1 The Government agrees with this recommendation.

Target implementation date: Summer 2021

1.2. The government is committed to building the evidence base on gambling harms and using it to inform regulation and legislation.

1.3 Firstly, Public Health England are already undertaking a major evidence review looking at the prevalence and impacts of gambling-related harms and is expected to publish its findings in early 2021. In addition, the government is working with the Economic and Social Research Council to understand how the pool of academic researchers looking at gambling and gambling harms and bids for funding can be increased.

1.4 Secondly, in line with the published progress update on their *National Strategy to Reduce Gambling Harms*, the Gambling Commission is exploring the creation of a data repository that would enable access to anonymised datasets for research. Scoping work has been completed by the University of Leeds for how an independent repository could be structured and the recommendations are now being explored further with relevant stakeholders. Scoping work on the potential for a longitudinal study has been commissioned and published by the Commission, and it is considering what the next steps should be.

1.5 Thirdly, the Gambling Commission is piloting new questions as part of its ongoing survey activity. New questions based on the *Measuring gambling-related harms framework* published in 2018 will increase understanding of financial, social/relationship and health impacts of gambling and give richer data to inform decision making.

1.6 Finally, to improve the timeliness and robustness of available evidence, the Gambling Commission is also undertaking a review of existing research on participation in gambling and the prevalence of at-risk and problem gambling. The Commission will be publishing a consultation to seek input from interested parties including experts in the field. The consultation will be published in 2020 with outcomes implemented during 2021.

2: PAC conclusion: ***The Commission's ability to identify problems and intervene is hindered by its lack of data and insight into the problems that consumers have with gambling operators.***

2a: PAC recommendation*: In its response to this Committee, the Commission should provide an update on gambling patterns during Covid-19, an analysis of how far the industry has met the 10 commitments, and any regulatory action it has taken against the industry.*

2.1 The Government agrees with the Committee's recommendation.

Recommendation Implemented

2.2 Covid-19 datasets and analysis have been available from April 2020

2.3 The lockdown period has brought consumer behavioural change with gambling participation down, but players trying new activities, and more engaged gamblers reporting spending more time or money on at least one gambling activity.

2.4 To understand changing risks and trends, the Gambling Commission has been publishing monthly *Covid-19 impact data* from operators, consumer research and treatment service providers.

2.5 The Gambling Commission has prioritised the protection of players, taking emergency action to direct an additional £9 million of funds from regulatory settlements to ensure treatment and support services continue to operate effectively and withstand additional pressures caused by the Covid-19 outbreak.

2.6 The Commission has not diverted resources to assess the extent to which the industry has met its own voluntary commitments. The Commission has focused resources on ensuring mandatory player protection measures have been adapted and applied during lockdown. The Commission suspended three licences for failing to integrate to the Gamstop exclusion scheme and taken action against other online licensees who have failed to protect their consumers during this period.

2.7 The Gambling Commission has also expedited the imposition of additional online player protection measures including the removal of reverse withdrawals and lower customer interaction thresholds. The ban on gambling with credit cards and full implementation of the Gamstop self-exclusion scheme became mandatory from April 2020 adding additional player protections.

2.8 The Gambling Commission has committed to continue to collect, analyse and publish monthly data and research on Covid-19 until at least December 2020.

2b: PAC recommendation*: The Commission should also explain how it will improve the data and intelligence it uses to identify what is going wrong for consumers and to enable it to intervene quickly, including taking advantage of any opportunities presented by big data.*

2.9 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2021

2.10 The Gambling Commission uses a range of consumer data. The Commission's contact centre handled 35,856 enquiries in 2019-20. The Commission also operates an intelligence unit modelled on The College of Policing National Intelligence Model. The unit handles large volumes of intelligence from other Law Enforcement Agencies, consumers, the industry and other regulators.

2.11 The Commission's approach has proven effective at identifying and tackling common themes among consumer concerns. For example, the Commission's data and analysis prompted the joint work with the Competition and Markets Authority which has improved fairness and transparency in the gambling industry.

2.12 The Commission has recently implemented a new organisational structure which supports an improved focus on the collection and analysis of data. It has reviewed its processes for escalating priority issues from its contact centre to feed into its compliance and communications activity. This new approach has already identified consumer concern about gambling marketing, resulting in the Commission partnering with Twitter to publish guidance on how to limit exposure to gambling content and acting to prevent Google Ads from being served to vulnerable customers.

2.13 Beyond this work, the Commission recognises continuous improvement is required to ensure consumer issues are identified and acted upon quickly. To support further improvement, the Commission has developed fees proposals which take into account the need to appropriately resource and invest in data systems and capacity. The department is currently considering these proposals.

3: PAC conclusion: *The Commission is not proactive enough at influencing gambling operators to improve protections, and consistently lags behind the industry.*

3a: PAC recommendation*: The Commission should develop a plan for how it will be more proactive in influencing the industry to treat consumers better, including reputational tools such as league tables indicating how well each operator treats its customers.*

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

3.2 Raising of standards is a key strategic objective of the Gambling Commission. This is undertaken through licensing work, targeted compliance activity, and where standards are not met using enforcement powers. Personal accountability is being reinforced with action against gambling companies' senior management teams including reviewing their suitability to hold personal licences. In addition, the publication of regulatory sanctions acts as an influencing factor for the Boards of licensees, given the adverse reputational impact and the potential impact to their licensed status in other jurisdictions.

3.3 The Gambling Commission recognises that alongside use of its formal powers; more can be done to proactively influence the industry. The Commission has trialled a more collaborative approach by challenging the industry to work collectively on finding credible solutions to specific problems. Bringing together financial services technology providers and the Information Commissioner's Office on the development of a single customer view solution is one example where the Commission is testing the commitment of senior industry leaders to harness their collective resources and knowledge to proactively improve consumer outcomes.

3.4 The first phase of the Gambling Commission's plan has been to undertake an in-depth assessment of the approaches taken in other regulated sectors as recommended by the National Audit Office. This work is also being informed by advice from the Advisory Board for Safer Gambling on safer gambling league tables, and consumer research into what motivates gambling consumers to choose a gambling provider.

3.5 The Gambling Commission will update the Committee on the next steps once it has fully considered the advice and analysis that has been gathered.

3b: PAC recommendation*: The Commission should urgently investigate the impact of fixed odds betting that falls under ''lottery'' legislation and is accessible by 16 and 17 year olds.*

3.6 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

3.7 The minimum age to play the National Lottery has been set at 16 since it was launched in 1994, in line with the pre-existing age limit for society lotteries. This minimum age reflects the lower risk of harm that lottery products have compared to commercial gambling. The most recent combined Health Survey shows problem gambling rates of 1% for National Lottery draw-based games, 1.5% for other lotteries, and 1.8% for scratch cards.

3.8 The department is currently considering the minimum age for playing all National Lottery games in advance of the fourth licence being awarded, as announced as part of the response to the last *Gambling Review* in 2018.

3.9 The government *consulted on a range of options* in 2019:

a. retain age at 16 for all games
b. raise the age to 18 for instant win games only
c. raise the age to 18 for all National Lottery products.

3.10 Responses are being analysed and a decision will be announced in due course. The Gambling Commission has worked with the current operator to provide evidence to support DCMS ministers in making this decision, including player protection data and the number of 16-17-year-old players by product.

3.11 The government takes the view that proper consideration needs to be given to the question of parity of minimum age between the National Lottery and society lotteries. If there is a change to the National Lottery minimum age as a result of this consultation, it intends to consider the minimum age for society lottery products, working with the Commission and in consultation with the industry.

3c: PAC recommendation*: The Commission and the Department should urgently look at online fixed odds betting to ensure effective and efficient regulation and report back to the Committee with how they intend to increase effectiveness of online harm reduction within three months.*

3.12 The Government agrees with the Committee's recommendation.

Target implementation date: February 2021

3.13 The recommendation has been interpreted as relating to all online gambling, not specifically betting or fixed odds betting.

3.14 The Government and Gambling Commission want online gambling to be safe. Over the last 18 months it has strengthened age verification and ID checks for online gambling, tackled unfair terms, banned the use of credit cards, implemented a national self-exclusion scheme, and taken action to enforce the required standards of consumer protection.

3.15 The next phase of the Commission's work on online harm reduction is already underway, with consultations on tightened rules for High Value Customers and game design (focussing on online slots) now complete, and a further consultation on customer interaction to be launched shortly. This work combines the outputs of the Commission's challenges to industry, engagement with people with lived experience, and turning evidence into action to prevent gambling harm. It has also challenged industry to develop solutions to share customer intelligence to support harm reduction across different businesses, and pilots are expected to commence this year.

3.16 The Commission is also progressing work on advertising – working with the Advertising Standards Authority and others to support the updating of advertising rules and directing the industry to apply technology to minimise the marketing that is seen by children and vulnerable adults.

3.17 Additionally, the government has committed to review the Gambling Act to ensure that it is fit for the digital age. Online gambling will be an important consideration in the review.

4: PAC conclusion: ***Where gambling operators fail to act in a socially responsible way, consumers do not have the same rights of redress as other sectors.***

4: PAC recommendation***: The Department and Commission should work together to assess the impact on consumers of gaps in redress arrangements and examine options for increasing statutory protections with an individual right of redress for breaches of the Social Responsibility Code of Practice. In their response to this Committee, they should explain how they intend to resolve these gaps and report back to the on a plan for more effective consumer protection and redress within 6 months.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2021

4.2 Consumers have access to comprehensive and free-to-use avenues of redress for contractual disputes, for example in relation to the settlement of bets. This is provided by approved ADR providers. The Gambling Commission has strengthened the requirements to be an approved ADR in the gambling sector and updated requirements on licensees in how they handle customer complaints.

4.3 The government agrees that work is needed to consider the current framework for consumer redress on issues that are non-contractual in nature. The Commission is not currently resourced or equipped to investigate and settle claims for redress with complainants and licensees. The department will write to the Committee within 6 months as requested to update on work in this area.

5: PAC conclusion: ***The Department and Commission do not know what impact they are having on problem gambling, or what measures would demonstrate whether regulation is working.***

5a: PAC recommendation***: The Department and Commission should develop meaningful outcome measures for problem gambling and associated harms.***

5.1 The Government agrees with the Committee's recommendation

Target implementation date: Summer 2021

5.2 The Gambling Commission tracks the rate of *problem gambling and publishes this information* regularly. The Commission's review of existing research on the prevalence of at-risk and problem gambling is being carried out to ensure that the most robust and reliable data is available to monitor the incidence of problem gambling in the population and identify significant shifts promptly.

5.3 However, a narrow focus on problem gambling prevalence does not take full account of the impacts of harms from gambling to individuals and affected others, and efforts are therefore also focused on how wider harms can be measured. The Gambling Commission's Advisory Board for Safer Gambling has issued advice on the potential data sources, and this is being considered.

5.4 The Gambling Commission is also piloting a new set of questions via its quarterly online omnibus survey to understand the public's experience of gambling related harms. This important work builds on the framework of harms devised by leading academics in 2018 and focuses on the themes of health, financial and relationship-based harms.

5.5 The first wave of survey data was collected in June and a further wave will be completed in December for comparison analysis. Subject to appropriate validation this data will provide valuable insight into the type, severity and extent of gambling harm being experienced, providing a richer dataset to sit alongside more regular tracking of problem and at-risk gambling rates.

5.6 The Gambling Commission is revisiting how it will use this refined evidence base to apply the guidance provided by the National Audit Office on Performance Measurement by Regulators, to better assess the impact of regulation.

5b: PAC recommendation*: The Commission should also urgently progress its impact evaluation processes, so it can clearly measure the effect of its interventions and report back to the Committee on what it is doing to both assess the impact and effectiveness of the penalties on incidents of problem gambling within three months.*

5.7 The Government agrees with the Committee's recommendation

Target implementation date: Spring 2021

5.8 The Gambling Commission's role in reducing gambling related harm is by regulating the conduct of licensees and tackling unlicensed gambling.

5.9 In September 2020, the Gambling Commission will publish a Strategic Risk Assessment of the risks to the statutory licensing objectives. This document will set out the risks to consumers and the public from gambling and the Commission's priorities to address them. The assessment will build on insight from the Commission's enforcement work, along with data and evidence, including advice from advisory groups – the Advisory Board for Safer Gambling, Digital Advisory Group and the Interim Experts by Experience Forum.

5.10 To support this greater scrutiny of the Gambling Commission's impact, the Board of Commissioners in liaison with the department will agree key metrics which will act on the Committee's concerns about being able to measure the effect of regulation. Details of these metrics will be incorporated into the Commission's management agreement with DCMS and published.

5.11 Finally, following an external Board effectiveness review the Gambling Commission has created a new Finance and Performance Board Committee which will review performance against the Commission's business plan and budget. The Gambling Commission is already required by statute to prepare and lay in Parliament an annual report and accounts. The latest annual report has been submitted to the department.

6: PAC conclusion: *The Commission's ability to protect consumers is constrained by limits imposed by the legal and regulatory framework.*

6a: PAC recommendation*: In its response to the Committee, the Department should set out a timetable for the planned review of the Gambling Act within three months.*

6.1 The Government agrees with the Committee's recommendation

Target implementation date: Autumn 2020

6.2 The Gambling Act Review remains a priority for this government but the response to Covid-19, including the changing risks of gambling related harm while people have been spending more time at home and online, has meant a redeployment of departmental resources. The department will publish further details on the Gambling Act Review shortly but may not be in a position to do so within the 3-month time scale recommended by the Committee. The department expects to be able to provide a timetable to the Committee later this autumn.

6b: PAC recommendation*: The Department should also set out details on how it will ensure the Commission has the funding and the flexibility it needs to regulate effectively in a legal situation in which currently fewer, larger firms means less funding for regulation.*

6.3 The Government agrees with the Committee's recommendation

Target implementation date: Autumn 2021

6.4 The department previously agreed that the Commission can hold and draw down funds in reserve when needed to ensure it has resources needed to cope with any shortfalls in fee income. The department is also currently considering proposals from the Commission for an increase in fees to provide increased resources to the Commission. The department is currently scoping the Gambling Act Review and considering whether more fundamental changes could provide additional flexibility and be best addressed in that context.

Eighth Report of Session 2019–21

Department of Health and Social Care

NHS Capital Expenditure and Financial Management

Introduction from the Committee

The Department of Health & Social Care (the Department) has overall responsibility for healthcare services. It is accountable to Parliament for ensuring that its spending, as well as spending by NHS England and NHS Improvement (NHSE&I), other arm's-length bodies and local NHS bodies, is contained within the overall budget authorised by Parliament. The Department is also responsible for ensuring that those organisations perform effectively and have governance and controls in place to ensure they provide value for money. The Department also sets an annual NHS capital budget based on local spending trends and central initiatives and is responsible for ensuring that the capital limit is not exceeded. Most of the funding allocated to the Department is given to NHS England to plan and pay for NHS services. In 2018–19, this amounted to £113.6 billion, with most of this spent by 195 clinical commissioning groups (CCGs) which purchased services from 227 trusts.

In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £33.9 billion in cash terms by 2023–24. This equates to an average annual real-terms increase of 3.4%. In January 2019, NHSE&I published the NHS Long Term Plan (the Plan), setting out how it aims to achieve the range of priorities set by the government in return for the long-term funding settlement.

Based on two reports by the National Audit Office, the Committee took evidence, on 22nd May 2020 from the Department of Health & Social Care and NHS England and NHS Improvement. The Committee published its report on 8th July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Review of capital expenditure in the NHS* – Session 2019-20 (HC 43)
- NAO report: *NHS financial management and sustainability* – Session 2019-20 (HC 44)
- PAC report: *NHS capital expenditure and financial management* – Session 2019-21 (HC 344)

Government responses to the Committee

1: PAC conclusion: *The NHS had not made the transformation required to meet rising demand before the COVID-19 pandemic.*

1.1 The Government notes the Committee's conclusion.

2: PAC *conclusion: In addition, a lack of clarity persists on key areas of health and care spending that are likely to affect the NHS's ability to deliver the Plan, including capital, education and training and social care.*

2: PAC recommendation*: To ensure a sustainable NHS, the Department and NHSE&I should review how it directs its support to the most challenged parts of the NHS and how this will support a coherent plan to return to normal services and service improvements after the COVID-19 peak. This includes continuing to take on board our previous recommendations and the current ones in this report on improving financial and service sustainability across the NHS. The Department and NHSE&I should write to the PAC by December 2020 to update us on its progress in this regard.*

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

2.2 Reforms to the financial framework began in 2019-20 to support the *NHS Long Term Plan* objectives of reducing the aggregate NHS provider deficit each year and returning the most challenged organisations to balance by 2023-24. In 2019-20 the number of trusts in deficit was successfully halved.

2.3 In 2020-21, the Financial Recovery Fund was planned to be the sole source of financial support for NHS providers and CCGs that were unable to deliver financial balance. To improve cashflow, payments were to be phased equally (25% per quarter) and paid as soon as possible during the relevant quarter.

2.4 In response to COVID-19, for the initial period covering April to September 2020, the NHS's financial architecture was simplified to allow a focus on the pandemic response. NHSE&I is in discussion with the department and HM Treasury on how this should evolve in the second half of the year. As local systems recover service delivery, NHSE&I will continue to reform the financial framework to ensure that delivering financial balance becomes the norm for all organisations by 2023-24. These reforms will balance the need to support efficient and sustainable services locally with the operational response to the pandemic.

3: PAC conclusion: ***Writing off the loans owed by struggling trusts does not solve the underlying problems facing these NHS bodies.***

3: PAC recommendation***: NHSE&I should set out a plan with a timetable of steps aimed at getting the 10 most financially distressed trusts back to financial balance and report back to the Committee on that plan by December 2020.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

3.2 The *NHS Long Term Plan* will put the NHS on a sustainable financial path, including all NHS organisations in financial balance. A majority of trusts in 2019-20 were in financial balance. There may be a case for separate funding for structural issues on an exceptional basis. The provider 'special measures' and CCG 'directions' regimes are being replaced with a Recovery Support Programme (RSP) aimed at local system wide improvement.

4: PAC conclusion: ***Access to health services has reduced substantially, creating backlogs that will need to be addressed.***

4: PAC recommendation***: NHSE&I should clearly set out and communicate to the public the range and extent of health services that will be available, what patients can expect in terms of access and waiting times, and what it is doing to encourage patients to access services when they need to.***

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The NHS recognises the need to restore services ensuring patients receive the care and treatment they need.

4.3 The NHS Help Us Help You campaign has led to a steady improvement in patients accessing services and NHSE&I has accelerated work to achieve restoration of key elective and diagnostic services. Work is ongoing with Royal Colleges, local systems and front-line teams to innovate and increase productivity.

4.4 NHSE&I has communicated the next steps in restoring NHS services in *a letter issued to system leaders* on 31 July.

4.5 Trusts, working with GP practices, have been asked to ensure that patients whose planned care has been disrupted by COVID-19 receive clear communication about how they will be looked after, and who to contact should their clinical circumstances change.

5: PAC conclusion: ***The NHS has still not published a capital funding strategy to support the NHS Long Term Plan.***

5: PAC recommendation***: The Department and NHSE&I should identify a capital strategy and provide clear guidance to local partnerships, that supports the NHS Long Term Plan, including expectations on how backlog maintenance costs will be addressed alongside competing priorities for digital investment and the Health Infrastructure Programme.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

5.2 The department published the *Health Infrastructure Plan* (HIP) in September 2019. This plan set out a five-year programme of investment in health and social care infrastructure, including a new hospital building programme. The HIP committed to providing detailed guidance on a new capital regime. This new capital regime has been in place since 1 April 2020 (see *Guidance on NHS system capital envelopes for 2020/21*) and provides greater clarity and confidence on the level of capital resource available, supports system working and discussion on capital priorities, and enables faster access to national capital funding for critical safety issues.

5.3 In a *Plan for Jobs* the government announced additional capital investment including £1.05 billion for NHS critical maintenance and A&E capacity, up to £250 million to make progress on replacing outdated mental health dormitories, and a further £200 million for the HIP to accelerate a number of the 40 new hospital building projects across England.

5.4 The department will finalise a Capital Strategy in 2020, following Spending Review 2020. This strategy will set out a more detailed vision for health and social care infrastructure across the department's priorities. Among other things this will include supporting the *NHS Long Term Plan*, managing backlog maintenance, digital investment and building new hospitals.

6: PAC conclusion: ***NHSE&I has yet to publish its long-awaited 'people plan' and there is a continued lack of long-term investment in people and training, which is not helped by the lack of alignment across the Department, NHSE&I and Health Education England.***

6: PAC recommendation***: The Department should review the effectiveness of having a separate body overseeing the planning and supply of the NHS's future workforce. NHSE&I should work with Health Education England to evaluate how workforce planning can be improved including the integration of training and education funding models with service planning and delivery in order to overcome persistent challenges. The Department, NHSE&I and Health Education England should write to the Committee by December 2020 to update us on progress in this regard.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

6.2 The department has ultimate responsibility for overseeing workforce planning, education and training. Statutory duties concerning workforce supply are ultimately placed on the Secretary of State for Health and Social Care. As the Committee recognises, planning the supply of the NHS' future workforce needs to be carried out for the short, medium and long term based on current and future service requirements, training lead times and be fully integrated with financial and service planning.

6.3 Joint working has already informed the development of the interim *NHS People Plan* and the *NHS Operational and Contracting Planning Guidance 2020/21*. In addition, from 2019-20 the Government's mandates for Health Education England (HEE) have been signed-off by HEE and NHSE&I before approval by the Secretary of State to strengthen the alignment between workforce plans and NHS service plans. HEE is expected to receive a multi-year settlement at Spending Review 2020, which should support future workforce planning.

6.4 While the publication of the full *NHS People Plan* will now follow Spending Review 2020, a *People Plan for 2020-21*, jointly developed by NHSE&I and HEE with stakeholders, has been published. A National NHS People and Workforce Board, chaired by the NHS Chief People Officer, has been established to assure progress against the plans and to ensure effective co-ordination of workforce planning. HEE and NHSE&I have also established seven Regional People Boards, which incorporate the Local Education and Training Boards.

7: PAC conclusion: ***We are extremely concerned by the widely reported shortages of personal protective equipment (PPE) faced by NHS and care workers during the COVID-19 pandemic.***

7: PAC recommendation***: The Department should write to the Committee within two months to clarify its governance arrangements and outline at what point in the future it expects to have a predictable supply of stock and ready access to PPE supply within the NHS and care sectors. This should include detail on the roles and responsibilities for the procurement and distribution of personal protective equipment across NHS and social care settings.***

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

7.2 The department is writing to the Committee as requested. The letter will outline that the department is already confident that it has a predictable and sustained supply of personal protective equipment (PPE) to meet the forecasted needs of the UK health and social care sectors, as well as a summary of how the PPE Programme is led and governed.

Ninth Report of Session 2019-2021

The Department for Environment, Food & Rural Affairs

Water supply and demand management

Introduction from the Committee

Overall responsibility for setting the policy and regulatory framework for water in England sits with the Department for Environment, Food & Rural Affairs (the Department), which oversees a complex delivery landscape of multiple regulators and privately-owned water companies. Ofwat regulates the services provided by water companies and sets them performance targets during its five-yearly price control process. The Environment Agency manages the water resource management process and must ensure water companies and other water abstractors abide by the terms of their environmental permits and licenses. These cover how much water they can take out of the environment and how they should handle and treat sewage.

Demand for water is about 14 billion litres per day in England and Wales. Due to rising demand and falling supply of water the Environment Agency now estimates that England will need an extra 3.6 billion litres per day by 2050 to avoid shortages. Water companies have a statutory requirement to set out every five years how they intend to balance supply and demand over the next 25 years through their water resource management plans.

Based on a report by the National Audit Office, the Committee took evidence, on Monday 1 June 2020 from the Department for Environment, Food & Rural Affairs, Ofwat and the Environment Agency. On Wednesday 22 July 2020 the Committee took evidence from Thames Water, Yorkshire Water and Wessex Water. The Committee published its report on 10 July 2020. This is the Government's response to the Committee's report.

Relevant Reports

- NAO report: *Water supply and demand management* – Session 2017-19 (HC 107)
- PAC report: *Water supply and demand management* – Session 2017-19 (HC 378)

Government responses to the Committee

1: PAC conclusion: *Government has failed to be clear with water companies on how they should balance investment in infrastructure with reducing customer bills.*

1: PAC recommendation: *The Department should provide more guidance to water companies on the level of investment needed to ensure resilience by 2050 and how they should balance this in their business plans with pressure to reduce consumer bills. The Department should write to us by 31 December 2020 to update us on progress in this regard and how they plan to accelerate the pace of infrastructure improvement.*

1.1 The Government disagrees with the Committee's recommendation.

1.2 As set out in the National Framework for water resources, *Meeting our future water needs: A national framework for water resources*, the department and regulators want to see ambitious outcomes from water companies, with wider social and environmental benefits. The department fully recognises this will require new infrastructure alongside other measures to manage demand.

1.3 The department and water regulators set out in detailed guidance the outcomes and assessment methods that water companies should use to inform their water resources management plans to achieve resilient water supplies, including guidance on how to justify optimal levels of investment. Companies are best placed to assess the condition of their systems, assets and finances, the key risks they face, and take responsibility for the measures necessary to address them.

1.4 The Water Industry Act 1991 provides a power for the Secretary of State to publish a statement setting out the government's strategic priorities and objectives for Ofwat's regulation, which must have regard to, among other things, Ofwat's duties. A statement was last published in 2017, *The government's strategic priorities and objectives for Ofwat*, which set out the priorities of resilient water supplies and protecting customers. The department expects Ofwat – as an independent regulator – to challenge water companies on the cost efficiency of achieving the outcomes expected by the department and regulators. The department plans to lay a further statement in Parliament in 2021-2022.

1.5 The department disagrees with the Committee's recommendation because, if implemented, it would risk the department acting in a way which may compromise Ofwat's statutory functions and undermine the statutory duties of water companies to provide efficient and economical water supplies. The department wrote to the Committee on 10 September providing an explanation of its views.

2: PAC conclusion: ***It is wholly unacceptable that over 3 billion litres are wasted every day through leakage, with no improvement in the last 20 years.***

2: PAC recommendation: ***The Department should hold water companies to account by publishing annual league tables showing their performance on tackling leakage against the targets set. Annual published league tables should be introduced by 31 December 2020.***

2.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

2.2 Water companies already publish their data. Water regulators review the data supplied by water companies as part of their statutory reporting processes. The information is published on joint department / regulator / water industry website called *Discover Water*. Ofwat also publishes an annual Service and Delivery Report which compares company performance, including performance against their leakage performance commitments.

3: PAC conclusion: ***Government has failed to develop a national message to consumers on the need to reduce water consumption and how to do so.***

3a: PAC recommendation: ***The Department should urgently develop a plan, with adequate funding, to increase public awareness of the need to save water. The Department should write to the Commission by 31 December 2020 to update us on progress in this regard.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

3.2 In the department's letter on 10 September it agreed to write to the Committee once the government response to last year's consultation - *Water conservation: measures to reduce personal water use* - is published.

3.3 The department and regulators have supported Waterwise and the water industry's recent *"Water's worth saving"* campaign and a longer-term campaign. This work was discussed at the National Drought Group in July 2020 - *National drought group, July 2020 statement.* This will be complemented with the plans set out in the department's response to last year's consultation on measures to reduce personal consumption.

3b: PAC recommendation: ***The Department should publish annual league tables showing water companies' and retailers' performance on reducing consumption. Annual published league tables should be introduced by 31 December 2020.***

3.4 The Government disagrees with the Committee's recommendation.

3.5 League tables comparing domestic water consumption data are already available on the Discover Water website. At the recent price review each company had a common performance commitment for household per capita consumption (PCC). Ofwat's next annual Service Delivery Report, which compares company performance, will include comparative data on companies' PCC performance.

3.6 A key priority for government is to improve water efficiency within the non-household (NHH) sector. The Retailer-Wholesaler Group in collaboration with the department, the Environment Agency, Ofwat, MOSL (the market operator for the water retail market in England) and Waterwise have developed an action plan for industry to identify and address key challenges in delivering water efficiency by improving:

- Understanding of the nature of NHH water consumption through smarter use and better sharing of data;
- The visibility of links between current and future business demand and water availability;
- The engagement of retailers in the water resource planning process;
- The effectiveness of existing or creating new targets, incentives and penalties for wholesalers and retailers to support greater NHH water efficiency.

3.7 The action plan was consulted on over the summer and will be finalised in December 2020. An outcome of the action plan may suggest a league table is appropriate in the future, however, the quality of meter data in the NHH sector is currently insufficient to develop a meaningful league table. There are also concerns that a league table may distort performance as it may not reflect differences between regions in terms of water supply, the needs of different types of NHH customers and regional economic activity. The department will write to the Committee on this work before 31 December 2020.

4: PAC conclusion: ***The PAC is not convinced that achieving the net zero target is sufficiently embedded in the oversight and regulation of the water industry.***

4: PAC recommendation: ***Ofwat should write to us within three months setting out how it will ensure water companies take full account of carbon emissions in appraising the options available to them.***

4.1 Ofwat agrees with the Committee's recommendation.

Recommendation implemented

4.2 The department's letter to the Committee on 10 September included an annex, prepared by Ofwat, on plans to ensure water companies take account of their carbon emissions in their option appraisals.

4.3 It is a requirement of the water resources management planning (WRMP) guidelines for companies to account for greenhouse gas (GHG) emissions within their options. In July 2020, Ofwat, the Environment Agency and Natural Resources Wales, issued updated WRMP guidelines for consultation that will inform the next set of WRMPs. The Regulators' Alliance to Progress Infrastructure Delivery (RAPID) is also working with water companies to consider how to assess proposed strategic schemes against challenging carbon emissions targets.

4.4 Ofwat's strategy commits to strengthening the sector's approach to climate change mitigation and adaptation. Ofwat welcomes the sector's ambitious industry-led net zero 2030 target for operational emissions and regularly engages with Water UK on its progress towards meeting this commitment. Ofwat is engaging with the UK Regulators Network to share and disseminate learning on approaches to climate change mitigation and risks and is working with the Environment Agency on approaches to maximise environmental value for customers and encourage further carbon savings.

4.5 Ofwat expects companies to take full account of the impact of GHG emissions in their decision making. In June 2020, Ofwat issued a consultation on reporting requirements for company Annual Performance Reports, *Consultation on regulatory reporting for the 2020-21 reporting year*. This includes a proposal to gather more information on water company GHG emissions, and whether this could include both operational and embedded emissions. This will complement Ofwat's ongoing work to develop its approach at future price reviews.

5: PAC conclusion: ***The Department has not demonstrated sufficient leadership to drive forward the implementation of product labelling, changes to building regulations and other measures that can make a major contribution to improving water efficiency.***

5: PAC recommendation: ***The Department should write to us within four months, setting out a timetable for when it expects to implement product labelling and any other changes, including to building regulations, designed to improve water efficiency.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

5.2 The department will set out relevant policy in the government's response to the consultation on measures to reduce personal consumption. The government's response will be published in the autumn of 2020 – this may not be within four months (by 10 November 2020) of the Committee's report. The Department will write to the Committee once the response is published.

6: PAC conclusion: ***Abstracting too much water from rivers and other sources, including chalk streams, can damage the environment, and there are particular risks associated with HS2.***

6: PAC recommendation: ***The Environment Agency should write to us within three months setting out clear objectives, and its planned mitigation actions and associated timescales for eliminating environmental damage from over-abstraction and sewage outflow.***

6.1 The Environment Agency agrees with the Committee's recommendation.

Recommendation implemented

6.2 The Environment Agency wrote to the Committee on 10 September with its plans on over-abstraction and sewage outflow. The letter included a commitment to develop a chalk stream action plan.

6.3 The Environment Agency has driven significant improvements in these areas including improvements to several thousand storm overflows in multiple price reviews and returning many billions of litres of water a year to the environment, including chalk streams. The Department and the Environment Agency recognise more needs to be done to protect the environment and communities will see further improvements, including from the £4.6 billion Ofwat allowed for in its recent price review for water company investment in environmental improvements to deliver the Environment Agency's Water Industry National Environment Plan for 2020-2025.

Tenth Report of Session 2019-2021

Ministry of Defence

Defence capability and Equipment Plan

Introduction from the Committee

The Department's Equipment Plan report 2019 to 2029 (the Plan) sets out its spending plans for the next 10 years on projects to equip the Armed Forces. This currently amounts to £181 billion of equipment and support projects (42% of its entire budget). The Plan also assesses whether its equipment and support projects and programmes are affordable. The Department needs to manage this expenditure effectively to ensure the Armed Forces can secure and maintain all the equipment that they need. It introduced the Equipment Plan in 2012 after identifying a significant gap between funding and forecast costs across the defence programme.

Equipment delivered through the Plan is key to meeting the Department's strategic requirements and objectives. In order to fully deliver the capability, it also needs sufficient trained personnel, information technology, and logistics and maintenance support. The Department estimates that around 20,000 civilians and military personnel within the Department are involved in delivering such capabilities. The Department has historically struggled to deliver new or replacement capabilities on schedule and in a fully functioning state.

Based on a report by the National Audit Office, the Committee took evidence, on 28 May 2020 from the Ministry of Defence. The Committee published its report on 15 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Defence Capabilities - delivering what was promised* Session 2019-21 (HC 106)
- NAO report: *The Equipment Plan 2019 to 2029* Session 2019-20 (HC 111)
- PAC report: *Defence capability and Equipment Plan* – Session 2017-21 (HC 247)

Government responses to the Committee

1: PAC conclusion: *The government has still not taken the strategic decisions required to establish an affordable Equipment Plan and deliver the crucial military capabilities needed by our Armed Forces.*

1a: PAC recommendation: *The Department must demonstrate financial prudence by developing the next Equipment Plan with affordability and long-term sustainability at its core. The Department should write to the Committee within one month of the publication of the next Equipment Plan to explain what it has done differently in order to reduce the Plan's affordability gap.*

1.1 The Government disagrees with the Committee's recommendation.

1.2 The department fully agrees on reducing the Plan's affordability gap and delivering long-term sustainability. However, the department disagrees with the Committee's recommendation as it will need to complete the Comprehensive Spending Review (CSR) and Integrated Review before reducing the Plan's affordability gap. It is therefore not possible to do this with the publication of the next plan – Equipment Plan 2020 (due October 2020) and not before the outcomes of the reviews have been reflected and agreed in the financial plans. With the publication of both reviews planned for later this year - the department's plan for affordability and long-term sustainability will be provided in the subsequent Equipment Plan, after the implementation of those reviews.

1.3 The years beyond 2020-21 remain challenging for the department to maintain affordability while delivering policy ambition. The controls on financial commitments will be maintained to ensure that the department remains able to deliver within its spending planning assumption, while retaining freedom of choice for the CSR and Integrated Review.

1.4 The CSR and Integrated Review will present an opportunity to address the funding challenges facing the department over the following three years, allowing it to make the capability choices and investment decisions needed to respond to the diversifying and intensifying threat set out in the Modernising Defence Programme. The long-term financial challenges within the Plan will remain until the outcomes of the reviews are implemented. The department will continue to work with Treasury to ensure that the department is adequately funded as it did with the 2019 Spending Round settlement.

1b: PAC recommendation*: The government's promised Integrated Review must balance ambitions for future military capabilities with an affordable long-term investment programme. Given the Review has been delayed, in the interim, the government should provide as much certainty as possible on as many defence programmes as possible.*

1.5 The Government agrees with the Committee's recommendation.

Target implementation date: Winter 2020

1.6 The department will work to ensure that it has a long-term financial settlement consistent with ambition through the multi-year CSR. The Integrated Review will be closely aligned to the CSR which will report later this year, although implementation of its recommendations will be a multi-year project.

1.7 The Integrated Review will define the UK Government's ambition for the UK's role in the world and the long-term strategic aims for national security and foreign policy – setting out the way in which the UK will be a problem-solving and burden-sharing nation. The Integrated Review is underpinned by existing commitments to continue to exceed the NATO target of spending 2% of GDP on defence, to commit 0.7% of GNI to international development and to maintain the nuclear deterrent. The department is fully committed to its part in supporting the successful delivery of the government's ambition for the Integrated Review.

1.8 Equipment Plan 2019 set out the department's equipment procurement priorities, pending the Integrated Review, and progress continues apace on major acquisition programmes. For example, in July, the first six ARES Armoured Vehicles have been delivered to the Army under the AJAX Armoured Vehicle programme. The Strategic Facility that will house the Poseidon MRA Mk1 fleet has been handed over to the department, and steel has been cut on the final unit of HMS Glasgow, meaning all sections of the first Type 26 frigate are now under construction.

2: PAC conclusion: The Department's focus on managing financial pressures on an annual basis creates bigger problems for future years as the budgetary imbalance grows, and slows the development of military capabilities.

2: PAC recommendation: In line with the Commission's recent recommendation on nuclear infrastructure programmes, we urge the Department and HM Treasury to consider greater flexibility to manage strategic programmes on a multi-year basis. Such an approach should be introduced cautiously, with the Department demonstrating why it should be trusted. Together they should report to the Commission by 31 December 2020 on the progress of discussions to this end.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

2.2 As part of the Spending Review and Integrated Review, discussions are underway between the department and HM Treasury (HMT) to review the nuclear funding model. Details on this will be shared once discussions have concluded. As recommended, the department will look to see how this could be explored more broadly.

3: PAC conclusion: The Department's ways of working have not helped it to deliver capabilities effectively, and its ambitions for the reform of capability delivery will be undermined if it does not change an internal culture that focuses on milestones and cost constraints but appears not to prioritise progress towards delivery against those two measures.

3: PAC recommendation*: The Department should decide how it is going to measure and demonstrate progress in transforming capability in a way that optimises delivery of results without undermining budgetary controls. It should report to the Committee on measures taken to combat poor practice in programme reporting and delivery by 31 December 2020.*

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

3.2 The department continually seeks to improve procurement and delivery of the capability needed by the Armed Forces. As part of the Modernising Defence Programme, an internal review of the department's end-to-end acquisition system was undertaken. This considered what changes were required to enable better delivery, and drive pace and agility so that the department is better able to exploit evolving technology.

3.3 The Acquisition and Approvals Transformation Portfolio is taking forward issues identified by the recent Acquisition Review, as well as embedding changes to the department's approach to investment decision making. It will include greater transparency, including up front agreement of the specific acquisition and approvals route and information requirements for each new programme.

3.4 As part of Project Speed, the department is continuing work to improve governance of major projects and expedite delivery. Defence expects to use this initiative to drive improvements across capability, transformation and infrastructure projects. The department will increase the number of Defence related Major Projects on the government's Major Projects and Portfolio list, providing suitable oversight from HMT and Cabinet Office to a larger number of Defence projects. The Infrastructure and Projects Authority's gateway review process will be applied to a larger number of programmes, bringing external support and challenge to project planning and reporting. HM Treasury will ensure assurance recommendations are completed before releasing additional funding.

3.5 The Integrated Review is an important opportunity to consider the department's approach to procurement. The department will write to the Committee by 31 December 2020 to provide an update.

4: PAC conclusion: ***The impact of COVID-19 will increase the widespread delays to deliveries of equipment and weaken the resilience of key suppliers.***

4: PAC recommendation: ***The defence and security industrial strategy offers the Department an opportunity to reset the relationship with its key suppliers. In return for commitments to support the defence industry as part of this strategy, it should set out its expectations of how the industry will improve its performance to address the endemic delivery and quality issues that afflict the sector. The Department should write to the Committee by 31 December 2020 on what steps it has taken to enhance contractor performance.***

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

4.2 The review of the UK's defence and security industrial sectors is considering how the department can ensure the UK continues to have competitive, innovative and world-class defence and security industries that drive investment and prosperity across the Union, that underpin national security now and in the future. This includes the broader relationship and contracts with industry. This review will inform the Integrated Review, and as such no final decisions have been taken on this work.

4.3 Alongside this review, the department has over the past 18 months introduced the new Strategic Partnering Programme (SPP), which covers 19 Strategic suppliers and accounts for over 50% of annual procurement spend. The SPP is developing genuinely collaborative relationships focusing on delivering continuous performance improvement through evidence-based joint workstream activity. As it matures, the SPP process will allow us to continually assess the quality of service delivered by the Strategic Suppliers, adopting regular 360-degree assessments of project delivery and the development of structured performance improvement plans where the service drops below the required levels.

4.4 The department will write to the Committee by 31 December 2020 to update on steps to enhance contractor performance.

5: PAC conclusion: The Department is full of good intentions as to how it will transform capability delivery, but it is unclear how it will know if this has happened.

5: PAC recommendation: The Department should set out clear metrics indicating what progress it expects to have made, and by when, against its objectives of improving the effectiveness of the reformed procurement process. It should report to the Committee on this by 31 December 2020.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

5.2 The department acknowledges the challenge of measures of effectiveness and metrics for reforming the procurement process. During the hearing, the Committee and the department explored the drive in the Acquisition transformation portfolio towards improving time taken in procurement as a key measure. The Portfolio has commissioned work which will start in September 2020 to establish the "time" baseline across acquisition. Once achieved, this will enable the department to understand the cumulative impact of multiple measures being taken across the department to improve time in Acquisition, including the cultural changes envisioned which are generally harder to measure.

5.3 *The NAO report on Defence Capabilities* recognised that there has been an improvement in this over the last ten years and in developing a Portfolio approach across Defence. While progress has been made on these measures, the department will write to the Committee by 31 December to provide further details on additional progress.

6: PAC conclusion: The Department has not yet established a stable basis for assessing the Equipment Plan affordability gap or a realistic approach to delivering efficiency savings.

6: PAC recommendation: ***The Department should write to the Committee as soon as possible setting out its approach—agreed with the NAO—for reporting on the Equipment Plan 2020–2030. It should also provide details of a stable methodology for assessing the affordability gap, and its plans for measuring efficiency savings realistically and improving financial capabilities as soon as possible. In due course, the Department should write to the Committee on the impact of the Integrated Review.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: October 2020

6.2 The Department *wrote to the Chair of the Committee* on 3 July 2020 to confirm that it agreed with the NAO that it will provide a summary of the Equipment Plan funding position for 2020-2030 and supporting data no later than October 2020. The department will also provide a brief update on work to improve financial management and an update on efficiencies in detail comparable to 2019. The department expect to demonstrate continued progress improving the robustness of forecasting and management of efficiencies and will present an analysis of affordability on a consistent basis to last year.

6.3 The publication of the Annual Report and Accounts for 2019-20 (also to be published in late October) will contain an update on the financial management improvements as agreed with the Committee last summer.

6.4 Managing these ambitious, complex programmes can be challenging, but the department has already achieved £7.5 billion of efficiency savings and last year secured an extra £2.2 billion for defence as part of the 2019 Spending Round. The department is embedding an improved approach to identifying and developing efficiencies through its Transformation programme, which will allow greater insight into the risks and maturity of efficiencies, including those within the Equipment Plan.

6.5 The department will write to the Committee on the impact of the Integrated Review in due course.

Eleventh Report of Session 2019-21

Ministry of Housing, Communities and Local Government

Local Authority Investment in Commercial Property

Introduction from the Committee

Local authorities have a range of powers to acquire commercial property. In some instances, authorities also have powers to finance these investments through borrowing. This legal framework allows them to secure properties to support their regeneration, local growth and place-making activities. Local authority borrowing and investment takes place within the prudential framework, made up of powers and duties and a set of statutory codes and guidance to which authorities must have regard. New codes and guidance were published in December 2017 and February 2018, following our 2016 report, but they are clearly not being complied with by some local authorities. Local authorities have a high degree of autonomy within this framework and can set their borrowing at whatever level they decide is affordable. The codes and guidance seek to restrict borrowing purely for the purpose of profiting from investing the borrowed money. According to the Chartered Institute of Public Finance and Accountancy (CIPFA) borrowing purely to invest for yield has traditionally been presumed to be unlawful, unless undertaken by an arm's-length trading company. The Ministry of Housing, Communities & Local Government (the Department) has overall policy responsibility for the prudential framework alongside its wider responsibility for the overall local government finance system. This means the Department is ultimately responsible for ensuring the prudential framework is functioning as intended and understanding and monitoring the risks to local authorities' finances from their borrowing and investment activities. The integrity of the prudential framework, and the Department's role in ensuring the framework functions effectively, have become increasingly important as local authorities have responded to a sustained period of funding reductions by generating income through a variety of commercial investment models.

Based on a report by the National Audit Office, the Committee took evidence on 15 May 2020 from the Ministry of Housing and Local Government. The Committee published its report on 13 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Local Authority Investment in Commercial Property* – Session 2019-20 (HC 45)
- PAC report: *Local Authority Investment in Commercial Property* – Session 2019-20 (HC 312)

Government responses to the Committee

1: PAC conclusion: ***The Department has been complacent while £7.6 billion of taxpayers' money (including the extra £1bn spent in the first half of 2019–20) has been poured into risky commercial property investments.***

1: PAC recommendation***: The Department must be more active in its oversight of the prudential framework and strike a better balance between supporting localism and ensuring that local authorities act within the frameworks that underpin local freedoms. To do this the Department should:***

- ***communicate publicly the types and scale of commercial activity, including new innovative types of commercial investment, where it has concerns that behaviour is not consistent with the spirit of the prudential framework;***
- ***publicly challenge behaviour where it has concerns; and***
- ***work with the LGA and other sector bodies to ensure that the Department's concerns are understood and communicated consistently across the sector.***

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2021

1.2 The department is implementing its capital strategy designed to improve government's data, ensure the Prudential Framework is robust and drive sector compliance with the Framework's objectives. As the department implements its strategy, government will reinforce what is, and is not, acceptable within the intent of the Framework. As a first step, the department is considering a range of interventions for addressing instances where there is clear disregard of the Framework's principles. The intent is to provide a spectrum of options from timely engagement and challenge with authorities where issues are identified, to the potential for statutory intervention.

1.3 Sir Tony Redmond's Review of Local Authority Financial Reporting and External Audits was published on 8 September. In responding to the review, the department is reinforcing its message to the sector by clearly setting out the links between its objective to address problematic commercial investment activity and the role of audit, which supports regulation of the Prudential Framework through transparency and accountability.

1.4 As part of the capital data review, the department is engaging with the sector as well as working with key stakeholders, including the Local Government Association (LGA). In so doing, the department is actively communicating government's objective to better constrain excessive risk from local authority commercial activities. Through the review, the department also intends to better understand where authorities find guidance or messaging by regulators unclear and then work with the Chartered Institute of Public Finance & Accountancy (CIPFA), LGA and other relevant stakeholders to address the specific issues.

1.5 Furthermore, the department continues to work with HM Treasury as it implements reforms to the Public Works Loan Board (PWLB), which clearly defines acceptable and unacceptable investment using PWLB loans.

2: PAC conclusion: ***The Department's failure to ensure that authorities adhere to the spirit of the framework has led to some authorities taking on extreme levels of debt which is both risky and sends a mixed message to the sector.***

2.1 The Government notes the Committee's conclusion.

3: PAC conclusion: ***Where a local authority uses prudential borrowing, it must set aside money each year to repay the debt.***

3a: PAC recommendation: ***For its future oversight of the prudential framework the Department needs to develop, and rapidly deploy, interventions that target extreme risk taking. These should be used as part of a wider package of measures to limit non-compliance with the framework, regardless of scale.***

3.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2021

3.2 The department is aware that some local authorities are not complying with the statutory guidance for Minimum Revenue Provision (MRP). The *Post Implementation Review of Changes to the Local Authority Capital Finance Framework* (April 2019) found examples of deviation from the statutory guidance to be fairly widespread. Common examples included not charging MRP on certain asset types.

3.3 The department is developing options for appropriate levers for intervention ranging from light-touch through to the potential for direct intervention to target all forms of non-compliance. The department recognises that government needs a range of interventions where local authorities are not complying with the Framework and taking on excessive risk. It is important to the department to establish an effective system that addresses current risks but is sufficiently flexible to also address future risks as sector behaviour inevitably evolves. The department also recognises that any system of intervention needs to be proportionate and not cut across the benefits of local decision making. As such, interventions should serve to reinforce, rather than conflict with, the principles of the Prudential Framework.

3.4 In considering the use of interventions, the department is mindful that the *Post Implementation*

Review of Changes to Local Authority Capital Finance Framework found that the majority of local authorities appear to be using the framework sensibly and effectively to support the delivery of policy objectives in their local area.

3b: PAC recommendation: ***The Department should undertake a review of the MRP guidance and consider whether its statutory basis should be strengthened and how to require local authorities to improve the clarity and transparency in relation to commercial property purchases.***

3.5 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2021

3.6 As the Committee will be aware, the department strengthened its Statutory Guidance on Minimum Revenue Provision (MRP), with effect from April 2019. It is now working up proposals to strengthen the application of Minimum Revenue Provision further through Regulations.

3.7 The Department recognises that some local authorities' practices are not in line with the intent of the Framework, as they are either not charging MRP on debt relating to certain investments or the level of MRP is too low. Following the department's investigation in 2019 into MRP practices, it has stated that it will consider, in discussion with CIPFA, whether clarification of the framework is needed to ensure local authorities' practices meet its intent regarding MRP. This work will be taken forward alongside other initiatives to ensure alignment of government's objectives, and clear messaging to the sector.

4: PAC conclusion: ***The actions taken by the Department to address risky and non-compliant behavior have been too little and too late.***

4. The Government notes the Committee's conclusion.

5: PAC conclusion: ***Taken together these changes represent a significant 'hard' intervention and demonstrate that the 'soft' approach of guidance changes has failed.***

5: PAC recommendation: ***The Department should take steps to ensure that future interventions are more timely and effective, and subject to rigorous postimplementation review to ensure lessons are learnt.***

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021

5.2 The department recognises the importance of evaluating interventions and has conducted a post implementation review of the changes made to the statutory investment guidance. The findings of the review have provided useful insight that has informed the department's current strategy. As discussed in recommendation 2(a), the department is further developing a range of usable interventions that can be applied in a timely manner. Additionally, the data review will ensure that government is sighted on risks earlier allowing for more proactive intervention in future.

5.3 The department remains committed to assessing the impact of its interventions in a timely and robust way. Once it has implemented changes to the Framework, it will conduct evaluations and lessons-learned exercises at an appropriate point. The department intends that the current capital data review will provide a better understanding of sector activity against which the outcome of departmental actions can be assessed.

5.4 On timing, government will only be able to evaluate interventions once the changes are in place and sufficient time has passed for a measurable effect to have occurred. The government does not envisage undertaking any evaluations until 2021.

6: PAC conclusion: ***The prudential framework has been impaired by the emergence of new forms of behavior in the sector, and now requires fundamental review.***

6: PAC recommendation: ***Working with CIPFA and sector stakeholder bodies, the Department should undertake a thorough review of the prudential framework, that addresses the issues we have identified. The Department should publicly report within the next 12 months. This review should incorporate the recommendations relating to challenging behaviour in the sector, designing effective interventions and improving the data held by the Department set out elsewhere in this report.***

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2021

6.2 The department agrees that sector activity has called into question whether the Prudential Framework remains fit for purpose. The department will undertake a number of activities to strengthen the Framework:

- The department is developing options to address specific instances where authorities are not complying with the intent of the Framework, including options for timely intervention.
- The department is undertaking a review to ensure it has the data it needs to understand the trends and drivers of borrowing and investment in the sector, and the associated risks to financial sustainability. This work will also provide an evidence base for further policy decisions. Better data is also needed for government to fully understand the capital system, to ensure future interventions are effective but do not have unintended consequences.
- As set out in the responses to the other recommendations, the department will work with a range of stakeholders, including CIPFA and LGA, to support the delivery of appropriate training, providing clear guidance and to strengthen local governance.

6.3 The department's intention is that the Prudential Framework will continue to allow local authorities to delivery capital strategies that best serve their communities, while ensuring that risk to the local government financial system remains within acceptable limits.

7: PAC conclusion: ***The Department does not have access to the data it needs to carry out its oversight responsibilities properly.***

7. The Government notes the Committee's conclusion.

8: PAC recommendation: ***The Department should write to the Committee by September 2020 setting out its approach and timescale for improving its data on council commercial activity, and how this relates to its broader review of the prudential framework. The Department should also set out how it intends to use its improved data following the data reviews to strengthen framework compliance. The data review should address the concerns we have raised relating to data on new forms of commercial activity, and on the use of data to assess framework compliance.***

8.1 The Government agrees with the Committee's recommendation.

Target implementation date: September 2020

8.2 As set out, the department is conducting a data review over summer 2020. The initial phase of the review will establish the data and knowledge gap and set about collecting the data needed. As stated above, it is the department's intention that the output from the data review will then inform further policy decisions based on sound evidence. The output will also inform future data collections so that the Department has the data it needs for effective oversight.

8.3 The Department is working closely with CIPFA, HM Treasury and the sector on the review. The department will write to the Commission in September 2020 to provide the Committee with an updated position.

9: PAC conclusion*: Changes to external audit might improve its ability to provide assurance related to local authority commercial investment activity but it will not be a silver bullet.*

9a: PAC recommendation*: As part of its review of the prudential framework, the Department should consider a wider package of changes, rather than relying primarily on (post-Redmond) external audit to address failings in the local governance of commercial investment activities.*

9.1 The Government agrees with the Committee's recommendation.

Target implementation date: July 2021

9.2 The department recognises the importance of external audit for transparency and accountability, and that auditors are important actors in ensuring proper local governance. However, the department agrees that changes to external audit would, in themselves, not resolve the issues raised by the Committee with respect to local authority commercial investment. The department's responses to the other recommendations outline the proposed programme of work.

9b: PAC recommendation*: The Department should write to the Committee within three months of the publication of the Redmond Review setting out its response to the review, including not only how the Department intends to strengthen local audit but also how this will support improved governance of commercial investment activity.*

9.3 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

9.4 The department will write to the Committee following the publication of the *Review of Local Authority Financial Reporting and External Audits* on this basis. The department is already actively considering the role of external audit in transparency, accountability and driving compliance with the Framework. For example, the department actively engages with the National Audit Office with respect to the Audit Code and associated guidance. The department is considering carefully how the outcomes of the review and the department's response could, alongside other measures, serve to constrain risks and ensure that authorities appropriately comply with the Framework.

10:* PAC conclusion: *Local governance arrangements are not robust enough with some authorities' commercial investments not being properly transparent or subject to adequate scrutiny and challenge.

10: PAC recommendation*: The Department should:*

- ***work with LGA to disseminate good practice about transparent and inclusive decision making;***
- ***following discussion with the sector, set clear expectations about the details required in capital strategies not only about planned investments but also previous investments including their performance against expectations, financing costs, the scale of contingency reserves, and their contribution to service budgets; and***
- ***work with relevant partners to support local arrangements for scrutiny and challenge of council investments.***

10.1 The Government agrees with the Committee’s recommendation.

Target implementation date: July 2021

10.2 The department has taken steps to improve the transparency of capital plans through updating the Statutory Guidance on Local Government Investments in 2018. The changes include the requirement for councils to publish an Investment Strategy on the council’s website and the use of indicators to allow members and the public to understand the risk and performance of investments. The department’s *Post Implementation Review of Changes to the Local Authority Capital Finance* reported that the introduction of the capital strategy has helped to develop a more focused approach and has been useful in presenting the cumulative impact of decisions to members.

10.3 However, it also reported that there is still progress to be made in terms of transparency and, although there were some excellent examples of this identified as part of the review, this was not wide ranging. Therefore, the department agrees that more could be done to ensure that local authorities are transparent and consistent in the information that they report on the risks and performance of their investments.

10.4 The department intends to use the capital data review to collect evidence on local authority practices for managing, monitoring and reporting performance and risk, and how consistently the sector is complying with guidance. The department will then consider, with relevant partners, what further actions are needed.

Twelfth Report of Session 2019-21

HM Revenue & Customs and HM Treasury

Management of tax reliefs

Introduction from the Committee

Tax reliefs reduce the tax an individual or business owes. Many tax reliefs, such as the income tax personal allowance, are integral parts of the tax system and define the scope and structure of tax. The UK also had 362 tax reliefs at October 2019 where government opts not to collect taxes due in order to support social or economic objectives. Some of these tax reliefs reflect policy decisions to support a particular group or sector, such as the housing market. Others are designed to incentivise the behaviour of individuals or businesses by making a choice less costly, such as tax reliefs on pension contributions, or reliefs on research and development expenditure.

HMRC is responsible for estimating and reporting the cost of tax reliefs. It has reported estimates for 158 reliefs with economic and social objectives. These estimates indicate that the aggregate cost of these reliefs could be £159 billion a year. The additional tax that would be collected if these reliefs were removed is likely to be less than £159 billion as some taxpayers would respond by changing their behaviour and there may be wider economic impacts. The cost of the remaining 204 reliefs with economic and social objectives is not known.

HM Treasury and HMRC (the exchequer departments) work in partnership and oversee tax reliefs. HM Treasury leads on the design of tax reliefs and monitors their value for money and relevance. HMRC implements tax reliefs, monitors their use and cost, and evaluates them.

Based on a report by the National Audit Office, the Committee took evidence, on 10 June 2020 from HM Treasury and HM Revenue and Customs. The Committee published its report on 13 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *The management of tax expenditures* – Session 2019-20 (HC 46)
- PAC report: *Management of tax reliefs* – Session 2019-21 (HC 379)

Government responses to the Committee

1: PAC conclusion: *The Committee are concerned that HMRC does not understand the impact of any of the largest tax reliefs, including reliefs on pensions which were forecast to cost £38 billion in 2018–19.*

1a: PAC recommendation*: HMRC should: within 3 months, establish and publish the criteria it will use to determine which reliefs to evaluate.*

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

1.2 Following the NAO's report on the management of tax expenditures, Her Majesty's Treasury (HMT) and Her Majesty's Revenue & Customs (HMRC) have been developing a set of criteria to determine which reliefs to evaluate. Once these criteria are finalised and subject to Ministerial approval, HMRC will publish them.

1b: PAC recommendation: *HMRC should within 12 months, have evaluated the impact of pension tax reliefs.*

1.3 The Government disagrees with the Committee's recommendation.

1.4 The Government has undertaken several consultations on aspects of pensions tax relief over the last few years, including:

a. *Pensions tax relief administration: call for evidence* (July 2020)

b. *Public service pension schemes consultation: changes to the transitional arrangements to the 2015 schemes* (July 2020)

c. *Changes to income thresholds for calculating the tapered annual allowance from 6 April 2020* (March 2020)

d. *Reducing the money purchase annual allowance: consultation* (response: March 2017)

e. *Strengthening the incentive to save: consultation on pensions tax relief* (response: March 2016)

1.5 These investigations included gathering views and evidence from stakeholders to understand the regime's impacts and the impacts of possible changes. The evidence provided directly influenced policy development. For example, responses to the 2015 wide-ranging consultation on pensions tax relief indicated there was no clear consensus for reform at that time, and so at Budget 2016 the then government announced it would not make fundamental reform to pensions tax reliefs at that stage.

1.6 The government will continue to engage with stakeholders to understand the regime's impacts and gather evidence through consultations such as those listed above but does not think it is the right time now for a formal evaluation.

2: PAC conclusion: *HMRC and HM Treasury are insufficiently curious about the impact of some key tax reliefs on different groups.*

2a: PAC recommendation: *HMRC should assess the groups and sectors benefiting from all significant reliefs and publicly report the results during 2021.*

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021

2.2 HMRC recognises the importance of publishing more information to aid understanding of the use of tax reliefs. HMRC already publishes statistics about groups and sectors benefitting from some major tax reliefs, such as the sectors and regions of claimants of R&D tax credits, Patent Box and Employment Allowance. HMRC also publishes information on the number of claimants of Entrepreneurs' Relief (now Business Asset Relief) by claim size. The evidence from HMRC's statistics on Entrepreneurs' Relief and the evaluation of the relief published in 2017 helped inform the changes to the relief at Budget 2018 and Budget 2020.

2.3 By the end of 2021 HMRC will improve the accessibility of this information in its statistics and publicly report more information on the groups and sectors benefiting from the most significant non-structural reliefs where the data is available to do this. HMRC will not be able to assess the groups and sectors benefiting from all significant reliefs due to data limitations. For many reliefs, taxpayers do not need to indicate on their tax return that they are claiming them. This includes VAT relief for construction of new dwellings which taxpayers do not have to indicate on their returns that they are claiming. Where claims are required for reliefs, HMRC collects a limited amount of information about the characteristics of claimants. HMRC weighs the costs to taxpayers of providing data against the benefits of generating analysis. Where HMRC does not hold sufficient data on their use, the collection of data on these reliefs and claimants would increase the administrative burden on taxpayers.

2b: PAC recommendation: *For pension reliefs, HMRC should publish data showing who is benefiting, split by: income; groups with protected characteristics such as gender, age, ethnicity; people working in the public and private sectors; and people in defined contribution and defined benefit schemes.*

2.4 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021

2.5 HMRC will publish data showing who is benefitting from pensions reliefs to the extent data is available. HMRC publishes *annual statistics* showing the total costs of pensions tax relief. Estimates are necessarily based on a combination of data sources, listed below and published in the document *Background and Methodology*:

a) contributions to occupational schemes from the ONS' Annual Survey of Hours and Earnings;

b) contributions to personal pensions taken from data provided to HMRC by pension providers.

c) pension scheme's investment income supplied by the ONS; and

d) administrative data held by HMRC on Real Time Information payments made by pension schemes'

2.6 HMRC publishes information on contributions to personal pensions based on data reported by *pension schemes* for administrative purposes. There is no additional statistical burden placed on pension providers to report employer contributions so tables showing contributions are not split by gender, age, country and region.

2.7 There is insufficient data available to produce statistics on all protected characteristics. Any disaggregate of the cost of pension tax relief is reliant on data reported to HMRC, data collected by third parties, and organisations such as the ONS. The government is working towards improving the information that it publishes on pensions tax reliefs.

2.8 Equalities impacts are considered throughout policy development and are published as part of this process, either as part of consultations or in tax information and impact notes.

3: PAC conclusion: ***The exchequer departments are not transparent with Parliament on which tax reliefs need to change taxpayer behaviour for government objectives to be achieved.***

3a: PAC recommendation***: HMRC should, within three months, publish a list of all new and existing reliefs with objectives that include changing behaviour and specify the objectives of each.***

3.1 The Government agrees with the recommendation.

Target implementation date: Autumn 2021

3.2 The government will explore the best way to collate and publish the objectives of non-structural tax reliefs, many of which have been in place for a long time. It will take time for the government to consider the best way to present this information in an accessible way. This work will take place through the course of 2021.

3b: PAC recommendation: ***For any new or amended tax reliefs HM Treasury should identify in the Budget's supporting documents whether they are intended to change taxpayer behaviour and how the government will measure whether that objective has been met.***

3.3 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

3.4 The government is committed to continuing to improve transparency and will aim to ensure that the Tax Impact and Information Notes (TIINs) for new tax reliefs and changes to existing reliefs specify where they are intended to change behaviour. The information in TIINs is reviewed by Ministers ahead of publication.

3.5 The government will measure the impact of tax reliefs through monitoring and evaluation. The government has committed in this response to establish and publish the criteria it will use to determine which reliefs to evaluate. HMRC also agrees that there is scope to publish more cost estimates and the results of a more structured programme of internal evaluation analysis performed from 2021, subject to Ministerial approval.

4: PAC conclusion: *HMRC cannot explain why the cost of some tax reliefs is considerably greater than government forecasts presented to Parliament.*

4: PAC recommendation*: HMRC should, as part of its next annual statistical publication on tax reliefs due in October 2020, identify all significant cost variances within tax reliefs, and report the reasons for those variances, explaining whether variations in cost are proportionate to the impact of the relief.*

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

4.2 HMRC's annual official statistics on tax reliefs include graphs of the absolute costs of the most significant reliefs and their cost as a proportion of GDP, which allows for monitoring the cost trends over time and whether cost changes are proportionate to the size of the relief. In the 2020 statistics HMRC will expand commentary on the variance over time of the costs of these high priority non-structural tax reliefs.

4.3 HMRC also plans to publish more information on initial forecast estimates in the tax relief statistics, starting in October 2020. In the first instance, this will focus on high priority non-structural tax reliefs which have been announced since the introduction of the Office for Budget Responsibility (OBR). The NAO noted in their recent report on tax reliefs, that it is more difficult to compare the costs of established tax reliefs with published government forecasts because projections cover a maximum of five years. There may be cases where it is not feasible to make credible comparisons, due to differences in time periods covered by the original forecasts and difficulties factoring in other complexities such as economic changes and wider policy changes. In cases where it is not feasible to develop an approach to compare costs with forecasts for high priority non-structural tax reliefs, HMRC will explain why.

5: PAC conclusion: *HMRC and HM Treasury do not publish sufficient information on the value for money of tax reliefs to enable Parliament to hold government to account.*

5a: PAC recommendation*: HMRC should ensure that the results of internal, as well as external, evaluations are published, and are easily accessible to Parliament and the public.*

5.1 The Government agrees with the recommendation.

Target implementation date: December 2021

5.2 The government recognises the importance of transparency in providing information to inform the understanding of tax reliefs. HMRC includes links to external evaluations and research reports about tax reliefs in the annual statistics publications. HMRC will continue to publish externally commissioned evaluations and to include relevant internal evaluation findings in consultation documents.

5.3 HMRC's internal analysis takes a wide range of forms from comprehensive impact assessments to analysis to feed into policy advice to Ministers on specific options, proposals and decisions, which is necessarily confidential. In 2021 HMRC will put in place a more structured programme of internal evaluation work including plans to start publishing this analysis from 2021, subject to Ministerial approval. It will however remain the case that unpublished information included in policy advice for Ministers will be subject to the normal confidentiality arrangements for such advice.

5b: PAC recommendation*: HM Treasury should in 2021, prepare its first annual report setting out the results of its value for money assessments of tax reliefs*

5.4 The Government disagrees with the recommendation.

5.5 The current value for money assessments made by HM Treasury are part of the policy making process and part of advice to Ministers, which is necessarily confidential.

5.6 The government continues to increase the amount of information publicly available on costs of tax reliefs. For instance, HMRC is providing more information on costs. In order to accelerate provision of additional material on costs of reliefs, HMRC has prioritised analytical resource to undertake a project to publicly provide more information on the costs for reliefs where none are currently published.

5.7 The Government commits to consider the recommendation made by the NAO to “develop a robust methodology for assessing the value for money of different types of tax expenditures” and what indicators could be used to increase understanding around the value of tax reliefs.

6: PAC conclusion: HMRC and HM Treasury are far too slow in identifying and responding to some of the most serious problems identified with reliefs, including cases of abuse.

6: PAC recommendation*: HMRC and HM Treasury should, within 3 months, write to the Committee to explain how they will accelerate their response when reliefs are costing much more than expected, are subject to abuse, or are not achieving their objectives.*

6.1 The Government agrees with this recommendation.

Target implementation date: Autumn 2020

6.2 The government agrees that it is important to quickly identify when and why reliefs deviate from their expected impact. The government already keeps tax reliefs under review and takes action where appropriate – for instance in the recent changes to Entrepreneurs’ Relief, now Business Asset Disposal Relief – and there are changes to reliefs in most Finance Bills.

6.3 Tax changes are considered at fiscal events where Ministers take decisions on priority actions required in the tax system and bring these forward to Parliament to consider. As part of this process, officials already provide Ministers with an overview of cost and effectiveness across reliefs and identify areas where there is a case for action. Going forward, HM Treasury and HMRC will provide more detailed advice to Ministers on cost trends of tax reliefs, alongside the annual tax relief cost publication.

6.4 The departments take a range of steps in response to abuse, HMRC uses ‘*spotlights*’ on Gov.UK to warn of concerns about avoidance with regards to individual reliefs. On R&D specifically, HMRC has used funding provided by the November 2017 Budget to increase the number of compliance staff in its R&D team by 100 full time equivalent (FTE). From 1 April 2019 returns which make or amend a claim for R&D relief must be made in a CT600 accompanied by a tax computation. HMRC meets with its Research and Development Consultative Committee approximately twice a year, which provides opportunities to communicate with stakeholders, and also to work together with them on problematic issues.

6.5 HM Treasury and HMRC are committed to providing timely, high quality advice to Ministers on the tax system, in line with the objectives of Ministers and the Department. HM Treasury and HMRC have committed to set and publish criteria for evaluating tax reliefs and consider indicators for increasing understanding of the value of tax reliefs, both of which will support future Ministerial advice.

Thirteenth Report of Session 2019-21

Cabinet Office / Department of Health and Social Care / Department for Business, Energy and Industrial Strategy / Ministry of Housing, Communities and Local Government / HM Treasury

Whole of Government Response to COVID-19

Introduction from the Committee

The UK Government implemented an extensive range of measures in response to the COVID-19 pandemic. The final costs of the government's response are large and uncertain at this time and will depend on the continuing health and economic impacts of the pandemic. At the time we took evidence for this inquiry it was on the basis of the Comptroller and Auditor General's report in May, which set out that, between 31 January and 4 May 2020, the government made more than 500 announcements on its response to the pandemic, and had announced £124.3 billion of government programmes, initiatives and spending commitments. That £124.3 billion included: £6.6 billion for health and social care measures; £82.2 billion for financial support to businesses, including support for retaining jobs, loans and grants; £19.5 billion for individuals, including benefits and sick pay and support for vulnerable people; and £15.8 billion for other public services and the wider emergency response, including funding for local government services, education and children's services.

Based on a report by the National Audit Office, the Committee took evidence on 15 June 2020 from the Cabinet Office, the Department for Business, Energy and Industrial Strategy, the Ministry of Housing, Communities and Local Government and HM Treasury. The Committee published its report on 23 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: *Overview of the UK government's response to the COVID-19 pandemic* Session 2019-21 (HC 366)
- PAC report: *Whole of Government Response to COVID-19* Session 2019-21 (HC 404)

Government responses to the Committee

1: PAC conclusion: *We are astonished by the government's failure to consider in advance how it might deal with the economic impacts of a pandemic.*

1.1 The Government notes the Committee's conclusion.

2. PAC conclusion: The Commission understands and acknowledges that the usual processes for scrutinising and approving spending decisions may need to be relaxed when urgent action is needed during an emergency.

2: PAC recommendation*: The Cabinet Office should review its contingency planning for the most serious risks and ensure that these consider whole-of-government impacts, including economic modelling. It should report back to the Committee on what action has been taken by September 2020.*

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021
Or after the end of the pandemic, whichever is first.

2.2 Contingency planning across government operates under a framework of subsidiarity, with designated lead government departments for specific risks and impacts. A number of departments, including HMT, BEIS and Cabinet Office have a role in monitoring emerging economic risks, and to ensure the public finances are resilient to those risks. The government will, at the appropriate time, undertake a usual post-response lessons learned process. This will also consider the government's readiness and contingency planning policies and processes.

2.3 The government already has systems in planning in place to consider the economic impacts of risks. The National Security Risk Assessment assesses all risks, including pandemics, against a set of seven impact criteria; 'economic impacts' is one of these criteria.

2.4 The government has been building its capacity for monitoring and responding to economic shocks - at a local, national, and sectoral level - for some time. HM Treasury has procedures in place continually to monitor the UK economy, including identifying and preparing for emerging economic risks, as well as to ensure the public finances are resilient to those risks. BEIS regularly conducts desktop exercises on large company failures (circa two per annum) in order to build departmental capability in responding to economic shocks. HM Treasury also took part in Exercise Cygnus. Examples of recent large company failures that have been managed across several government departments include Thomas Cook (2019), Carillion (2018) and Monarch Airlines (2017). In addition to these experiences, departments have also been driven by lessons learned following the economic crash in 2008, and measures taken in the event of a withdrawal agreement with the EU was not reached in 2019.

2.5 The scenario used for Exercise Cygnus was predominantly focussed on the effect of an influenza pandemic on public services. Due to the different nature of COVID-19, response actions were taken that were not part of the influenza pandemic planning, including a national level lock down. The existing monitoring systems and economic impact plans enabled the government to understand the scale and nature of the challenge of COVID-19 to the economy as a whole and to act quickly. HM Treasury has announced unprecedented policy packages to keep as many people as possible in their existing jobs, support viable businesses to stay afloat and protect the incomes of the most vulnerable – including the Coronavirus Job Retention Scheme (CJRS) and Business Interruption Loan Schemes (CBILS).

2.6 Additionally, government is already reviewing the contingency planning approach. The Integrated Review (IR), amongst other objectives, is comprehensively assessing the UK's strategic approach to improving UK resilience. This includes consideration of our economic resilience to a wide range of malicious and non-malicious risks, and reviewing our capabilities to ensure it can anticipate, mitigate, respond to and recover from the economic impacts of events. The IR will draw upon the best available data on the UK risk and capability landscape, whether internal or external to government, to inform its thinking and develop our ability to handle economic impacts in the future, irrespective of cause.

3: PAC conclusion: ***The Commission is concerned that lessons have not been learned ahead of a potential second spike of infections.***

3: PAC recommendation*: The Cabinet Office and the Treasury must be open and transparent about the planning and preparations across government for a possible second infection peak, particularly the lessons being applied from the first wave of infection. As part of these plans, we expect to see more detail on the specific issues highlighted below on procurement of essential medical supplies, support for individuals and businesses, and funding to local government.*

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The government has strengthened and diversified supply chains of PPE – looking to innovative UK-based manufacturers as well as new suppliers abroad. PPE delivery statistics are *published online on a weekly basis*. In publishing data, the government aims to provide regular summaries for Ministers, policy makers and external stakeholders on PPE items distributed. In partnership with the e-commerce industry, the government has designed an online portal to help care providers who are under-represented in terms of access to wholesalers.

3.3 The business support measures in response to the pandemic include loan schemes, grant funding, the Future Fund and Coronavirus Jobs Retention Scheme. Teams in BEIS and across Whitehall continue to work with stakeholders to understand the issues businesses are facing as a result of the pandemic. This will continue to inform the government's business support plans.

3.4 The government has introduced further measures as part of its comprehensive package of support for local authorities. This includes un-ringfenced grants and the Infection Control Fund. The government has committed almost £28 billion to local areas to support councils, businesses and communities. MHCLG also has a co-payment scheme to cover irrecoverable losses in sales, fees and charges income in 2020-21. The government has confirmed that it will extend the period over which councils must manage shortfalls in local tax income relating to 2020-21, from 1 to 3 years.

4: PAC conclusion: *Effective coordination and command structures are critical for good decision making in any ongoing emergency.*

4: PAC recommendation*: The Cabinet Office should review crisis command structures to ensure that longer-term decision making, as well as the immediate operational response, is properly informed and coordinated effectively across government. The Cabinet Office should update the Committee on the outcome of its review by 1 September 2020.*

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021
Or after the end of the pandemic, whichever is first

4.2 The government undertakes a lesson learned process following any civil emergency, and command, control and coordination arrangements evolve in response to those. There will be an important moment to look back, analyse, reflect and to learn lessons. But now is not the right moment. We are still at a critical phase in the response to the pandemic.

4.3 The government has been proactive in implementing lessons learned around pandemic preparedness, including from Exercise Cygnus. This includes being ready with legislative proposals, planning for recruitment and deployment of retired staff and volunteers and improving plans to flex systems and expand beyond normal capacity levels. Additionally, as is normal with all responses, the Cabinet Office is capturing new insights from the Covid-19 pandemic and incorporating these into capability improvements within COBR alongside preparations for other risks that may occur concurrently to Covid-19, such as severe flooding or a terrorist attack.

4.4 The governance structures of the response evolved over the last seven months, to reflect the longer-term nature of the decisions needed, and to coordinate a widening of the response to the coronavirus pandemic across government. At the appropriate time, the government will review this approach, and incorporate any learning into future response planning.

5: PAC conclusion: *There were fundamental flaws in the government's central procurement and local distribution of vital goods and equipment.*

5.1 The Government notes the Committee's conclusion.

6: PAC conclusion: *The unit cost paid by the government for PPE and medical equipment is higher than it would have liked but it considers the purchase of this equipment value for money given the alternative of not having enough equipment.*

6: PAC recommendation*: In line with our previous recommendation from our 2020 report on NHS capital expenditure and financial management, the Cabinet Office should review the lessons learned in relation to the government's procurement of PPE and how far it was able to deliver and distribute essential equipment to where it was needed in good time. The Cabinet Office should update the Committee on the outcome of its review by 1 September 2020.*

6.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

6.2 Since the beginning of the outbreak, the government has massively strengthened and diversified the UK's supply chains of PPE – and has now procured over 31 billion units of PPE through new suppliers abroad as well through UK manufacture, ensuring that appropriate due diligence is undertaken on all contracts. The government is now confident in the stocks and sources of supply of PPE to meet the needs of health and social care over the next 7 and 90 days and are increasingly looking further ahead.

6.3 To ensure that PPE reaches those who need it, the government massively scaled up the distribution network at the start of April to supply PPE across the whole of the UK. Having begun with a supply chain designed to accommodate delivery to 226 NHS Trusts, the government is now providing critical PPE to respond to Covid-19 to 58,000 different settings, including care homes, hospices and community care organisations. This is an unprecedented shift in scale. The government has now delivered over 2.8 billion units of PPE since 25 February 2020; including the release of over 157 million units to local resilience forums (LRFs) and 220 million units to designated wholesalers for onward sale.

6.4 Furthermore, the government has established an online PPE portal to enable primary, social and community care providers to purchase critical PPE, as well as ensuring that organisations that have an urgent clinical need for PPE but cannot get it through the usual channels can contact the National Supply Disruption Response 24 hour helpline, to access emergency deliveries of PPE.

6.5 The government continues to adapt and refine its PPE response, taking into account lessons learned since the start of the pandemic.

7: PAC conclusion: ***The majority of business support measures have been one-size-fits-all, but some crucial sectors of the economy need more bespoke support.***

7: PAC recommendation***: The Department [BEIS] and the Treasury should engage with key sectors and industries, such as the aviation sector, to develop bespoke support measures aimed at helping those businesses through the ongoing effects of the pandemic.***

7.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

7.2 The government recognises the extreme disruption the pandemic has had on people's lives, their businesses and jobs. This is why it has delivered one of the most generous and comprehensive packages of support globally, with a total fiscal response of close to £200 billion. The measures introduced, including loan schemes, grant funding, tax deferrals and the Coronavirus Job Retention Scheme, have been designed to be accessible to businesses in most sectors and across the UK.

7.3 The government recognises however that some sectors have been disproportionately impacted by the pandemic. After careful review of the evidence, the government has acted to deliver targeted support to a number of sectors, such as arts, culture and heritage through a bespoke £1.57 billion package, and hospitality, leisure and retail through the Retail, Hospitality and Leisure Grant Fund, the Eat Out to Help Out scheme and a reduction in VAT for hospitality, holiday accommodation and attractions.

7.4 As part of its normal operations the government has also always considered providing support to strategically important companies that can reasonably be expected to have a long-term viable future, and whose failure or distress could cause disproportionate harm to the UK economy or society. Companies must have considered all other options before being considered, and any support given will be on terms that protect the taxpayer, with existing lenders and shareholders expected to contribute to and share in the financial burden. Since the start of the pandemic, the government has announced support of £30 million for one firm, Celsa Steel (UK) Ltd, to enable the company to continue trading.

7.5 The government continues to collect evidence on the impact of the pandemic, including on specific sectors, which will of course inform our efforts to support the recovery and back UK business going forward. Sector teams in BEIS and across Whitehall are working closely with their stakeholders including Business Representative Organisations to understand the issues that they are currently facing as a result of the pandemic.

8: PAC conclusion: ***Central government has not given local authorities the clarity or support they need over longer-term funding.***

8: PAC recommendation***: The Ministry needs to minimise the risk of local authorities running into severe financial difficulties by taking action to identify authorities at risk and working with the Treasury to determine a clear and timely financial settlement to support all local authorities through the next phase of the pandemic.***

8.1 The Government agrees with the Committee's recommendation.

Recommendation implemented

8.2 Government is committed to supporting local authorities through the pandemic. On 2nd July the Secretary of State announced a comprehensive package of financial support to local authorities, with three main elements. Firstly, an additional £500 million of funding for expenditure pressures, taking the total support provided by government to £4.3 billion, including £3.7 billion of non ringfenced funding and the £600 million Infection Control Fund. Secondly, an income guarantee scheme which will reimburse 75% of eligible irrecoverable income from sales, fees and charges, above 5% of planned income for 2020-21. Third, that collection fund deficits accrued in 2020-21 can be repaid over three years rather than the usual one; and that, at the forthcoming Spending Review, the Ministry will agree an apportionment of irrecoverable council tax and business rates losses, between central and local government.

8.3 The department is mindful that the effects of the Covid-19 pandemic on local government finances are complex and still developing. MHCLG is therefore continuing to engage with local authorities including a monthly exercise to monitor local authority finances, the *fourth round of which has been published*. Local authorities reported expenditure pressures to the end of July totalling £2.5 billion and income pressures totalling £3.6 billion. In addition, any councils experiencing considerable financial difficulty are encouraged to contact MHCLG to discuss this further. There will be a Comprehensive Spending Review later this year, which will be the right opportunity to consider the longer-term needs of local government.

Treasury Minutes Archive[1]

Treasury Minutes are the government's response to reports from the Committee of Public Accounts. Treasury Minutes are Command Papers laid in Parliament.

Session 2019-21

Committee Recommendations: 87
Recommendations agreed: 82 (94%)
Recommendations disagreed: 5

Publication Date	PAC Reports	Ref Number
July 2020	Government response to PAC reports 1-6	CP 270
September 2020	Government responses to PAC reports 7-13	CP 291

Session 2019

Committee Recommendations: 11
Recommendations agreed: 11 (100%)
Recommendations disagreed: 0

Publication Date	PAC Reports	Ref Number
January 2020	Government response to PAC report [112-119] 1 and 2	CP 210

Session 2017-19

Committee Recommendations: 747
Recommendations agreed: 675 (90%)
Recommendations disagreed: 72 (10%)

Publication Date	PAC Reports	Ref Number
December 2017	Government response to PAC report 1	Cm 9549
January 2018	Government responses to PAC reports 2 and 3	Cm 9565
March 2018	Government responses to PAC reports 4-11	Cm 9575
March 2018	Government responses to PAC reports 12-19	Cm 9596
May 2018	Government responses to PAC reports 20-30	Cm 9618
June 2018	Government responses to PAC reports 31-37	Cm 9643
July 2018	Government responses to PAC reports 38-42	Cm 9667
October 2018	Government responses to PAC reports 43-58	Cm 9702
December 2018	Government responses to PAC reports 59-63	Cm 9740
January 2019	Government responses to PAC reports 64-68	CP 18
March 2019	Government responses to PAC reports 69-71	CP 56
April 2019	Government responses to PAC reports 72-77	CP 79
May 2019	Government responses to PAC reports 78-81 and 83-85	CP 97
June 2019	Government responses to PAC reports 82, 86-92	CP 113
July 2019	Government responses to PAC reports 93-94 and 96-98	CP 151
October 2019	Government responses to PAC reports 95, 99-111	CP 176
January 2020	Government response to PAC report 112-119 [1 and 2]	CP 210

[1] List of Treasury Minutes responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52

Session 2016-17

Committee Recommendations: 393
Recommendations agreed: 356 (91%)
Recommendations disagreed: 37 (9%)

Publication Date	PAC Reports	Ref Number
November 2016	Government responses to PAC reports 1-13	Cm 9351
December 2016	Government responses to PAC reports 14-21	Cm 9389
February 2017	Government responses to PAC reports 22-25 and 28	Cm 9413
March 2017	Government responses to PAC reports 26-27 and 29-34[2]	Cm 9429
March 2017	Government responses to PAC reports 35-41	Cm 9433
October 2017	Government responses to PAC reports 42-44 and 46-64	Cm 9505

Session 2015-16

Committee Recommendations: 262
Recommendations agreed: 225 (86%)
Recommendations disagreed: 37 (14%)

Publication Date	PAC Reports	Ref Number
December 2015	Government responses to PAC reports 1 to 3	Cm 9170
January 2016	Government responses to PAC reports 4 to 8	Cm 9190
March 2016	Government responses to PAC reports 9 to 14	Cm 9220
March 2016	Government responses to PAC reports 15-20	Cm 9237
April 2016	Government responses to PAC reports 21-26	Cm 9260
May 2016	Government responses to PAC reports 27-33	Cm 9270
July 2016	Government responses to PAC reports 34-36; 38; and 40-42	Cm 9323
November 2016	Government responses to PAC reports 37 and 39 (part 1)	Cm 9351
December 2016	Government response to PAC report 39 (part 2)	Cm 9389

[2] Report 32 contains 6 conclusions only.

Treasury Minutes Progress Reports Archive

Treasury Minutes Progress Reports are the Government's response on the implementation of recommendations from the Committee of Public Accounts. Treasury Minutes Progress Reports are Command Papers laid in Parliament.

Publication Date	PAC Reports	Ref Number
February 2020	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 1 PAC report Session 2015-16: updates on 3 PAC reports Session 2016-17: updates on 14 PAC reports Session 2017-19: updates on 71 PAC reports[3]	CP 221
March 2019	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 4 PAC reports Session 2014-15: updates on 2 PAC reports Session 2015-16: updates on 7 PAC reports Session 2016-17: updates on 22 PAC reports Session 2017-19: updates on 46 PAC reports[4]	CP70
July 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 4 PAC reports Session 2014-15: updates on 2 PAC reports Session 2015-16: updates on 9 PAC reports Session 2016-17: updates on 38 PAC reports Session 2017-19: updates on 17 PAC reports	Cm 9668
January 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 4 PAC reports Session 2015-16: updates on 14 PAC reports Session 2016-17: updates on 52 PAC reports	Cm 9566
October 2017	Session 2010-12: updates on 3 PAC reports Session 2013-14: updates on 7 PAC reports Session 2014-15: updates on 12 PAC reports Session 2015-16: updates on 26 PAC reports Session 2016-17: updates on 39 PAC reports	Cm 9506
January 2017	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 7 PAC reports Session 2015-16: updates on 18 PAC reports	Cm 9407
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 15 PAC reports Session 2014-15: updates on 22 PAC reports Session 2015-16: updates on 6 PAC reports	Cm 9320
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
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
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539

3 Includes updates to Treasury Minutes published up to July 2019
4 Includes updates to Treasury Minutes published up to October 2018

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