

Sixth Report of Session 2022-23

Department of Health and Social Care

Department of Health and Social Care 2020-21 Annual Report and Accounts

Introduction from the Committee

The Department of Health and Social Care (the Department) leads the health and care system in England. The Departmental Group's accounts show that total operating expenditure increased to £191.9 billion in 2020–21, a 30% increase on 2019–20. This included a £20.5 billion (31%) increase in operating expenditure on the purchase of goods and services primarily related to its response to the COVID-19 pandemic. The Comptroller and Auditor General (C&AG) qualified his audit opinion on the accounts for several reasons. There was insufficient evidence to support: the Core Department inventory balance of £3.6 billion at year-end; £6.1 billion of inventory consumed during the year; £8.7 billion of inventory impairments; and the £1.2 billion onerous contract provision recognised by the Department for inventory purchased but not received at the year-end. There was also insufficient evidence to support the Group accruals balance of £17.2 billion. In addition, £1.3 billion of the Department's COVID-19 spending was spent either without the necessary HM Treasury approvals or in breach of conditions set by HM Treasury, and there was insufficient evidence to show that the Department's spending, particularly on COVID-19 procurement, was not subject to a material level of fraud.

Based on a report by the National Audit Office, the Committee took evidence on Monday 7 March 2022 from the Department of Health and Social Care. The Committee published its report on 10 June 2022. This is the government's response to the Committee's report.

Relevant reports

- DHSC report: [Department of Health and Social Care Annual Report and Accounts 2020-21](#) - (HC 1053)
- PAC report: [DHSC Annual Reports and Accounts 2020-21 \(Parliament.uk\)](#) – Session 2022-23 (HC 253)
- [Treasury Minutes](#), September 2020, Thirteenth Report of Session 2019-21, pages 32-36 (CP 291)

Government response to the Committee

1: PAC conclusion: Having spent £12bn on PPE, the Department has £4bn of PPE in storage that will not be used in the NHS and now faces the challenges and costs of its disposal.

1a: PAC recommendation: Alongside its Treasury Minute response, the Department should write to us setting out full details on how it plans to dispose of unusable and excess PPE, the volumes and cost (of the PPE disposed of and the related storage and disposal costs) and impacts (environmental or otherwise) this may have.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

1.2 In order to reduce the costs associated with storing personal protective equipment (PPE) that will not be used, the Department of Health and Social Care (the department or DHSC) is focusing efforts on accelerating the disposal programme. While the priority remains

to keep selling, repurposing and donating the stock, the department will maintain a pragmatic approach to managing stock and develop solutions that make sense economically and environmentally.

1.3 In March 2022, two Lead Waste Providers (LWPs), Suez and Veolia, were appointed to assess the options for disposal. The LWPs have completed assessments on the first set of products and, in May, began work on recovery. During the first month, the LWPs recovered 4,000 pallets, though it is expected that this will have increased to 15,000 pallets per month in the next few months.

1.4 Work to establish detailed operating plans from the pathfinding work is underway and is expected to be finalised in the coming weeks. These plans will provide details, by product, through to the end of December 2022 and will give a clear indication of what rate of recovery can be achieved and by when. Accordingly, the department will write to the Committee over the Summer to set out the detail in full.

1b: PAC recommendation: In addition, we ask that the Department now include an update on the progress of PPE disposal in the quarterly update they already provide the Committee following our Initial lessons from the government's response to the COVID-19 pandemic report (Thirteenth report Session 2021–22).

1.5 The government agrees with the Committee's recommendation.

Target implementation date: August 2023

1.6 The department will provide the Committee with regular updates on the volume of PPE that has been disposed of and the associated costs and benefits.

1.7 This information will be shared through the existing reporting mechanism established through [Treasury Minute 13](#). The department originally committed to providing these reports to the Committee until August 2022 but will continue to do so until August 2023 to allow the Committee to track progress on the efforts around disposals.

2: PAC conclusion: The procurement of PPE in response to the COVID-19 pandemic overwhelmed existing systems and has exposed weaknesses in the Department's commercial contracting capability.

2a: PAC recommendation: In its Treasury Minute response the Department should set out its 'commercial reset' plan and the timeline for scaling up its commercial capability across the Departmental Group to ensure sufficient support is in place to procure and manage existing and future contracts.

2.1 The government agrees with the Committee's recommendation

Target implementation date: Spring 2023

2.2 The department has undertaken a commercial reset with new structures implemented on 1 April 2022 and a six-month transition period is now underway. The process was designed to bring about a range of benefits, including:

- clearer lines of responsibility and accountability
- strengthened commercial governance and clear escalation processes
- reinforcement of best practice behaviours and compliance with procurement policy and process
- increased commercial awareness across the department, Health Family and Health System.

2.3 The department discharges its commercial capability responsibilities through the Health Family Commercial Head of Profession (HOP) plan. This is part of the Best Practice Framework for professions in the Civil Service.

2.4 The department is aligned to the Government Commercial Function (GCF) standards; 96% of DHSC staff at Grade 7 or above in operational commercial roles having achieved GCF accreditation or are working towards this.

2.5 Following a skills review, a range of priority commercial capability activity is being implemented for 2022-23. This includes a bespoke procurement capability programme that will increase commercial capability for staff undertaking commercial activity and increase commercial awareness for all staff.

2b: PAC recommendation: The Department should also keep us informed of cases where it is has been both successful and unsuccessful in reclaiming money spent on sub-standard PPE or recovering money paid to suppliers where no goods were received.

2.6 The government agrees with the Committee's recommendation

Target implementation date: August 2023

2.7 The department has established a Dissolution Team to work through the contracts in dispute to maximise the value obtained from taxpayer's money. The Dissolution Team is expected to be in place until at least March 2023.

2.8 The department will provide regular updates to the Committee as part of quarterly reporting as laid out in [Treasury Minute 13](#). This will include information about the amount that has been reclaimed against the 'value at risk'. There will be some instances where the information is commercially sensitive and could impact the department's ability to successfully pursue cases to completion. Where this is the case, the department will consult with the Parliamentary Clerk to determine how best to provide the information to the Committee in confidence. The information will be made publicly available in due course.

3: PAC conclusion: There is no clear plan for how big the PPE stockpile needs to be and how the Department will build greater resilience into the NHS supply chain so that it can respond at pace to future urgent needs.

3: PAC recommendation: The Department should develop a clear plan to increase the resilience of the NHS supply chain to be able to respond at speed if there is another pandemic or variant of concern and needs to explain in detail to the Committee how it intends to work out what items and how much PPE it needs to hold as a national stockpile going forward.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2023

3.2 The department is undertaking a fundamental review of the clinical countermeasures, including PPE, that need to be readily accessible in event of a future pandemic or emerging infectious disease. This review factors in lessons learnt from COVID-19 pandemic, the updated analysis of risks undertaken for the next iteration of the National Risk Register and the department's new approach to pandemic preparedness.

3.3 Informed by expert advice and modelling, the department is working closely with the UK Health Security Agency (UKHSA) and NHS Supply Chain on the product mix and amounts

of PPE that need to be held to support resilience and response to a future pandemic or emerging infectious disease. The department expects to be able to offer more information on the results of this work to the Committee in early 2023.

3.4 Any potential PPE demand increases that may occur during the rest of this financial year as a result of possible COVID-19 variants of concern have been factored into amounts held in the existing provision to the end of March 2023. The amount of stock that needs to be held for a new pandemic or variant concern beyond this period is being considered as part of the wider work on stockpiling.

4: PAC conclusion: The Department has regularly failed to follow public spending rules and across the Departmental Group there is a track record of failing to comply with the requirements of Managing Public Money.

4: PAC recommendation: The Department should write to us by October 2022 setting out the systems and processes it has established as part of its 'financial reset' to ensure the regularity of expenditure and compliance with spending controls across the Departmental Group going forward.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: October 2022

4.2 The department is undertaking a finance reset programme, which is establishing robust financial controls and governance across the department and its arms' length bodies (ALBs). The department is making good progress in this area, with the programme of activity continuing through to the end of this calendar year.

4.3 The programme has put in place a proportionate, risk-based financial control framework that ensures that areas of spend subject to external controls (for example, by HM Treasury and Cabinet Office) are reviewed and approved as required by Managing Public Money. Internal delegations ensure that spending proposals below those subject to external controls are also subject to appropriate review and approval and maximise value for money.

4.4 To date, the department has:

- implemented updated financial delegations across the department and its ALBs, taking account of internal and external controls;
- developed a training programme which will be mandatory for all senior civil servants, aimed at increasing their awareness and understanding of their roles as budget holders; and
- re-developed internal business case guidance, to improve the quality of business cases going forward.

The department will provide a further update to the Committee by October 2022.

5: PAC conclusion: The Department's COVID-19 pandemic procurement highlighted the importance of achieving transparency in respect of how it identifies and manages declarations of interests.

5: PAC recommendation: The Department should maintain and improve accountability by embedding their revised processes so that these are undertaken on a timely basis each and every year and normalise the transparency of the results by inclusion of the full list of interests identified in every Annual Report and Accounts.

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 As part of the preparation of the 2021-22 Annual Report and Accounts, the department has implemented the agreed revised process for identifying and disclosing interests and related parties, incorporating all lessons learned from the 2020-21 process and recommendations from the National Audit Office (NAO).

5.3 As in 2020-21, the department will continue to include a full list of interests in each and every annual report and accounts.

6: PAC conclusion: There have been inappropriate unauthorised payoffs made to staff by health bodies, and the planned large-scale NHS restructuring increases the risk of this happening again.

6: PAC recommendation: The Department should write to us alongside its Treasury Minute response setting out how it will monitor and control the approval of all redundancy payments made by entities within the Departmental Group to ensure such payments are properly authorised in advance and are not irregular.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

6.2 The department has processes in place for monitoring and controlling the approval of exit payments.

6.3 ALBs are required to comply with schedules of delegation issued by the department, including approvals required in respect of special severance and redundancy payments. Updated ALB delegations were issued on 4 May 2022. Details regarding arrangements for commissioners and providers are set out below.

6.4 Longstanding published Clinical Commissioning Groups (CCGs) guidance on losses and special payments specified special severance payments must be approved by HM Treasury.

6.5 Guidance to Integrated Care Boards (ICBs) was issued on losses and special payments including severance payments through the ICB programme on 31 May 2022. Additionally, the importance of due process relating to exit payments was further emphasised to commissioners and providers at a series of roadshows and workshops over the last six months.

6.6 In April 2022, detailed written guidance relating to exit payment processes and approvals was circulated to CCGs and the proposed ICBs.

6.7 Special severance payments which occurred in CCGs were submitted via the Region to the NHS England Executive Human Resources Sub Group (EHRSG). The EHRSG is chaired by a National Director and reviews and scrutinises the appropriateness of such payments. Any CCG case which was approved was then submitted by NHS England to Treasury via the Department of Health and Social Care. The same process is to be applied for Integrated Care Boards (ICBs) with enhanced assurance reporting from regions over such payments

6.8 For NHS Trusts, NHS England has an internal process whereby the Trust Appointments and Approvals Committee (TAAC) scrutinises and approves certain proposed

severance cases and contractual payments over £100,000 to all NHS Trust staff to ensure they are properly authorised in advance and are not irregular.

6.9 Regarding foundation trusts, NHS England conduct a due diligence check on all non-contractual severance payments to ensure probity and compliance with Managing Public Money.

6.10 All the above cases are reported quarterly to the NHS England Board to provide additional governance at senior level.

7: PAC conclusion: With 23 days to go until the financial year end the UK Health Security Agency did not have an agreed budget for the new financial year.

7: PAC recommendation: The Department should not get into this position again and should write to the Committee to set out what steps it has put in place to ensure that all organisations it sponsors have a budget in place to allow sufficient time for financial planning for the year ahead.

7.1 The government agrees with the Committee's recommendation.

Target implementation date: March 2023

7.2 The Department has written to the Committee setting out the steps implemented to ensure the department's Financial Planning and Budgeting process allows its Arm's Length Bodies sufficient time to plan for the year ahead.

8: PAC conclusion: There is no clear plan as to how the Department will bring forward the publication date of its annual report and accounts.

8: PAC recommendation: The Department should develop a detailed and realistic plan for bringing forward the preparation and publication of its annual report and to improve timeliness of its accountability for the use of taxpayers' money.

8.1 The government agrees with the Committee's recommendation

Target implementation date: December 2023

8.2 The department has a plan to bring forward its accounts preparation process to allow pre-summer recess laying of its annual report and accounts (ARA). This has been communicated to national and local auditors.

8.3 The department will not be able to support pre-recess laying of the ARA for 2022-23 due to the significant accounting complexities associated with International Financial Reporting Standard 16 - Leases, the residual impact of the delays to laying prior year accounts due to the pandemic and the impact of the Health and Care Act 2022.

8.4 The department is working to return to pre-recess laying of the ARA from 2023-24 onwards and is working with the NAO to enable this. However, this ambition is dependent upon the capacity of the national and local audit markets. Significant work is underway, in conjunction with the Department for Levelling Up, Housing and Communities and others, to relieve the current pressures in the local audit market and further work will be required in the coming months to establish whether it is possible for a group with such reliance on this market to return to pre-recess laying in 2023-24.