HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Whole of Government Accounts, HC 31

Wednesday 8 June 2022

Ordered by the House of Commons to be published on 8 June 2022.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Shaun Bailey; Dan Carden; Kate Green; Peter Grant; Sarah Olney; James Wild.

Elaine Lewis, Executive Director, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, NAO and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1-84

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Cat Little, Director, General Public Spending, HM Treasury; and Vicky Rock, Director, Public Spending, HM Treasury.

Examination of witnesses

Witnesses: Sir Tom Scholar, Cat Little and Vicky Rock.

Q1 **Chair:** Welcome to the Public Accounts Committee on Wednesday 8 June 2022. Today we are looking at the Whole of Government Accounts for 2019-20, the year prior to the covid-19 pandemic. We on this Committee really enjoy these sessions on the Whole of Government Accounts, because they show the full accounts and liabilities of the British Government and the state. It brings together many public bodies into one document and explains to taxpayers how their money is spent, what challenges there have been and what challenges lie ahead, including many major liabilities.

These 2019-20 accounts are later than usual; they were due to be published in February this year and have only just been published this week, on Monday. So I pay tribute, through Elaine Lewis of the National Audit Office, to the team at the NAO for all the work they have done to ensure that we were on top of the issues for today.

Today we have senior Treasury officials in front of us. I would like to welcome back Sir Tom Scholar, the permanent Secretary, and Cat Little, the director general for public spending. I extend a particularly warm welcome to Vicky Rock, the director for public spending, who has really been the driving force behind producing the Whole of Government Accounts, which the UK is a world-leader in. I put that on the record because this is Vicky Rock's last session in front of the Public Accounts Committee before she moves on from the civil service. I just want to put on the record our thanks to you, Ms Rock, for the work you have done in pulling together this document over the years. Of course, we will ask you quite a lot of questions about the good and bad bits of it, but we want to put on the record that you have done an amazing job on this very useful document.

Before we go into the main session, which Peter Grant will lead on, I just want to pick something up with you, Sir Tom. You wrote to us on 14 April about the judgment on the customs undervaluation infraction with the European Union. At that point, the European Commission originally claimed that £2.7 billion of customs duty was owed, because of a mistake made—I paraphrase—at the UK end. Have you got any further update on that figure or on any further action by the Commission to the UK Government on this?

Sir Tom Scholar: The situation is still as set out in that letter; there has been no news since then. The Government are considering their response to that finding and as soon as there is more to say, I will write to you to keep you updated.

Q2 **Chair:** When you say, "The Government are considering their response," let us be clear—it is pretty clear in the letter—that the UK Government do owe money to the European Commission.

Sir Tom Scholar: There is certainly some money owed. The precise amount has still not been defined precisely by the Court and there is still room for discussion, negotiation or ultimately further legal proceedings. So the Government have to decide what their response to that finding will be.

Q3 **Chair:** So there may be further legal proceedings on this? The door is not closed on the legal proceedings?

Sir Tom Scholar: If I recall correctly, there is a judgment on some of the issues in front of the Court but not on all of them, and one thing that the court did not rule on was the precise amount of money, so that is still open.

Q4 **Chair:** Okay. Do you have any idea of the timeframe for this?

Sir Tom Scholar: It is under live, active consideration at the moment, so—

Chair: It sounds like it could take quite a long time to resolve.

Sir Tom Scholar: It is an extremely complicated dispute anyway, and it goes back several years. But as soon as there is more to say, I will write to you about that.

Chair: Thank you very much; we will keep an eye on the issue. Peter Grant MP will now kick off on the Whole of Government Accounts.

Q5 **Peter Grant:** Thank you, Chair, and good afternoon to all our witnesses. Ms Little, may I start with you? These are the accounts for the financial year that ended on 31 March 2020. It is now June 2022 and they have only just been finalised and audited. Why has it taken so long?

Cat Little: First off, it is obviously disappointing to us that this has taken far longer than we would ideally like. There are three main reasons why we are so far behind where we would like to be.

First, there were covid delays. That is mainly to do with the redeployment of resources in finance teams, to go and support urgent covid work at the time of the year end and the production of the 2019-20 accounts. We think that led to a delay of about six months in the production of the component accounts from Departments and other public sector bodies.

Secondly, we have had some delays because of the way in which we have implemented OSCAR II, which is the underlying financial system that produces the accounts.

Thirdly, we have got a large number of missing local audit returns, which inevitably has made the audit much harder. That is nothing to do with covid per se, but we were certainly seeing difficulties with the local audit market at the time, as the Committee knows.

Q6 **Peter Grant:** I think it is fair to say that two of those three—covid, certainly—were unforeseeable, and largely beyond your control. An issue with local government audit is potentially within the Treasury's control, but only to an extent. But on the middle one, the delays in implementing OSCAR II, if covid had not happened, how much of a delay would there have been that was purely down to OSCAR II not being ready and fit for purpose?

Cat Little: Our best estimate is a maximum of about five months—that is the worst-case scenario, we believe. It is difficult to calculate precisely; a lot of other things contribute to it. I should stress that implementing any major IT system is fraught with difficulties. We were in a position where we could not do nothing, because the system that we had used previously was out of date, out of service and not fit for purpose, so we had to do it. There were definitely issues with data submission, some of the subcomponents and the way in which it produced the accounts.

Having said that, there were also some benefits. Some parts of the process have been much quicker as a result of implementing that system. The key thing for us right now is to make sure, as we go through the 2021 consolidation process and the data collection process, that the system is operating as expected. So far, all the indications are that it is.

Q7 **Peter Grant:** How can it be that the delay would have been only five months when one of the fundamental difficulties was addressed only in April 2022? That was to do with the fact that Departments were not able to submit this year's numbers until last year's numbers had been audited. Are you saying that that could have been fixed earlier, but that there was no point in fixing it because you were not going to use it anyway?

Cat Little: Not necessarily. Some of the IT issues were found only once particular components tried to submit large amounts of data into the OSCAR II system. We needed a large number of people to be using the system, compiling the data, in order for us to find some of the issues that we encountered.

Vicky Rock: The April '22 date that you are referencing might be the date at which we opened up '20-21 for collection. So '19-20 data was all in well before April 2022; the April 2022 date is us working on the next year, '2021—so we are working on that year now, and we had started work on it before fully completing the previous one. One of the things we were trying to be really careful with is to make sure that every delay to '19-20 did not impact automatically on '20-21. Therefore, we made a change to our system to allow us to collect two years' data in parallel, and we have therefore made a start on the '20-21 data collection. That is the April date.

Q8 **Peter Grant:** Issues came to light when a lot of users tried to input a lot of data at the same time. Surely that was entirely predictable. Why was that not identified at testing, before the system went live?

Vicky Rock: We did not have issues with the system from a capacity perspective. The fact is that there is quite a long window for submission, and we do not have a lot of users for Whole of Government Accounts on the system at the same time. The issue that we have found for data was not widespread; it was more that particular bits of data in individual organisations were just quite unusual and had not come through when we were testing. It therefore took us a long time to resolve those individually on a case-by-case basis. So we had the majority of data in, but we might have had a Department such as Transport with a particular counterparty or transaction that the system, at the time it was first produced, did not know how to handle. We fixed it at the time, and we have applied the fixes that we made to all future years, so everything we have fixed on data collection we have done prospectively as well.

Q9 **Peter Grant:** But why did whoever designed the system never tell the system that those kinds of transactions were likely to be there? I presume we are talking about things that were not brand new and had been incorporated into Whole of Government Accounts before. Does that suggest that the initial specification for what had to be done in the system was not rigorous enough?

Vicky Rock: There is definitely an element of that. For everything you see in the accounts, we knew we needed to collect that, and it was built into the system. The challenge that we have is that there is an awful lot of additional data collected in WGA in order to allow us to do the consolidation. It was more about the collection of the counterparty data—if you are an organisation over here and you have a counterparty, a different transaction with someone else. We didn't anticipate all of those. That was quite hard work, and part of the challenge is that the original system we were using beforehand was a bit of a black box. You might have anticipated being able to replicate more of your logic from your initial system, but more of that had to be worked through in detail from scratch. That is where it came from.

Q10 **Peter Grant:** Are there any unresolved issues with OSCAR II for the production of the next set of accounts?

Vicky Rock: There is nothing unresolved now, but that is not to say that issues will not come up. The system has a lot of users and it is supported by a service desk, so you will always get a certain level of things that come up and need to be resolved. The question is more about whether those are things that can be dealt with in the usual course of businesses without adding to the production delay.

Q11 **Peter Grant:** Ms Little, is it fair to say that there was significant overoptimism in the Treasury about how quickly all these issues could be resolved? Originally, you told us that you expected the accounts to be ready in June 2021, and then it was going to be autumn '21, after the summer recess, and now we are into June '22. It has taken almost twice as long as you thought it would to get those accounts done. Was that just over-optimism on behalf of the Treasury?

Cat Little: I don't think it was optimism; it is more the fact that the circumstances under which we have been operating have been changing quite significantly during the past couple of years, and certainly during the period under which we were implementing OSCAR II. We have always tried to be both realistic and timely when we have updated the Committee on our best assumptions. As Vicky explained, we were dealing with some novel issues that we had not come across before. We work with our suppliers to work out how quickly they can resolve them, and we are very reliant on their judgment and professional input. We have done our best to keep it updated and make sure we are as realistic as possible.

Q12 **Peter Grant:** Given the length of time it has taken to produce these accounts, and given that we know they are not complete—especially with regard to the accounts of a number of local authorities—how seriously does that compromise their usefulness as a tool for financial accountability and financial planning?

Cat Little: In terms of financial planning and decision making, we obviously have other sources of financial information and data that we use, and for the purposes of good financial resource allocation and financial management, it doesn't have a huge impact on those processes. Obviously, it matters that there is timely transparency to the public and financial information that has been audited and can be trusted, and that is a core part of what we encourage to be done.

Q13 **Peter Grant:** Sir Tom, it must be quite unusual for you to wait so long to be asked a question, especially when I am asking them. Looking at the headline figures for the Whole of Government Accounts, total assets is just over £2,000 billion and total liabilities is fractionally short of £5,000 billion. If you saw those figures on the accounts of a commercial organisation, you would say that it was insolvent. If you had the same income and expenditure figures that we have here for a commercial organisation going back a number of years, you would say that it is insolvent and hasn't been in profit for a number of years. Could you explain, in terms that a layperson would understand, why that analogy doesn't mean that United Kingdom plc is insolvent?

Sir Tom Scholar: Certainly. The most important point is that there is a very important asset that isn't captured by these accounts, which is the Government's future ability to raise money through taxation. That is outside the scope of the accounts. The accounts follow a private sector accounting standard, and it doesn't read across that easily. The way in which the Government will meet its future liabilities will be through a

mixture of taxation and borrowing, neither of which are captured in these accounts.

Q14 **Peter Grant:** Does that mean the only way we can come anywhere near a balanced budget is with significant tax increases in the not-too-distant future? I am not asking you to tell tales out of school from your meetings with Ministers but, looking at those numbers, it doesn't look as though Government or public sector income and expenditure are going to come into balance any time soon, unless there is a significant increase in taxation somewhere.

Sir Tom Scholar: The best place to look for that is the OBR forecast, which we have summarised in the performance report. We have worked very hard this year to make the performance report at the front of the accounts more informative and more readily accessible. One of the ways we have done that is by bringing in some of the forward-looking information provided by the Office for Budget Responsibility. If you look at that, you will see borrowing coming down over the next few years and debt coming down as the Government meets its fiscal rules.

Q15 **Peter Grant:** Even allowing for the lateness and incompleteness of the most recent accounts, what difference has the fact that this document is being produced every year made within the Treasury to your wider understanding of how public sector finances work?

Sir Tom Scholar: In a number of ways. First, it improves fiscal transparency by giving a broader definition of the balance sheet than would normally be done through the national accounts. The greater transparency is a good in itself. We have also used it over the years to identify major trends in the balance sheet and ways in which we can improve fiscal management. We have often discussed the balance sheet review on this Committee, which very much came out of the experience of compiling these accounts over the years. That has helped us in a number of ways to improve fiscal management and, ultimately, deliver savings for the taxpayer on both sides of the balance sheet.

Q16 **Peter Grant:** Ms Rock, are you satisfied that you had the correct balance between timeliness and completeness? At some point, you just had to take a decision to go with what you have got. Are you satisfied that you took that decision at the right time?

Vicky Rock: You are right that there was very much a trade-off between timeliness and completeness. The approach we took was to maintain the window to collect as many returns as we could. Particularly with the local government returns, it was quite a slow trickle-through of returns over the period.

There were, to an extent, some large components that dictated it. When you have large Departments, such as the Department for Health and Social Care, it is inevitable that you will have to keep your window for data collection open. In that case, you might as well collect as many additional local government returns as you can in that time and make the best use of it. At that point, when we had our largest components in, we were looking at how the local government picture looked and how we could fill gaps and get additional assurance where we didn’t have those audited returns and try to look for different sources so that there were no missing local authorities in these accounts. We thought that would detract from the benefit to a user. It would make the numbers quite hard to compare, year on year, if the number of consolidated local authorities suddenly fluctuated. Instead, we looked more at whether we could rely on the draft accounts and what state they were in with their audits.

What we have given you is therefore a complete account with everything consolidated, or as much as we possibly could. There are also additional assurance elements where we couldn’t actually rely on the audited accounts, so we did our best to get the quality to a point where it could be relied on—appreciating, though, that that has resulted in the additional qualification.

Q17 **Peter Grant:** Final question from me for now, Ms Little: what is your best estimate as to when we can expect to see the 2021 accounts audited?

Cat Little: Our best estimate is March ’23. We have even set out the ’2122 timetable, so we are trying to run both processes at the same time in the same way as this year. We are also looking at November ’23 for the ’21-22 account. That is obviously reliant on a number of assumptions, which I have set out in correspondence with the Committee. One of the big things that we have changed is to lift the audit threshold for local government to the same level as central Government. We have worked very closely with auditors to make sure that they prioritise the 10 local authorities that are above the threshold so that we can get moving as quickly as possible.

Q18 **Peter Grant:** Is the threshold that you are talking about a value or a scale of transaction?

Cat Little: Yes, £2 billion is the audit threshold.

Chair: There are only 10 local authorities.

Cat Little: Yes, only 10 local authorities exceed that threshold.

Q19 **Sarah Olney:** Sir Tom, looking at the staff costs on page 136 of the report, there is a table about the cost of exit packages. There is a total number of exit packages of just over 38,000, at a cost of just shy of £1 billion. In that, we see that 1,125 exits got a package of more than £100,000. Do you think that is appropriate?

Sir Tom Scholar: That will be, as it is the Whole of Government Accounts, an aggregation of the total number right across the public sector. I do not have a breakdown of either the bodies concerned or the reasons for the packages—I am sure that is something we could get. In each case, there will be schemes with applicable rules. I think that is all I can say at the moment, as it is not possible to give a summary judgement on the figure.

Q20 **Sarah Olney:** Are you broadly comfortable with that figure? Does that feel about right to you, in terms of what you would expect to see in a given year?

Sir Tom Scholar: We would have to look back and compare over previous years. Typically, any employer will have a compensation scheme that applies to exits—either compulsory or voluntary—that they apply. We would have to look back at the run of figures over the years to see if it is an outlier.

Q21 **Sarah Olney:** Okay. Ms Little, obviously there has been a recent announcement of a cut in civil service headcount by 20%, or 91,000 heads. What do you think the exit costs associated with that are likely to be? I appreciate that Departments are still working on their plans for this.

Cat Little: Indeed. At this stage, we have said to Departments that we expect all options and levers to be available in making those headcount reductions. That includes the consideration of redundancy. How Departments go about replying to that Commission depends on the sort of scale and numbers involved. A large number of people leave the civil service every year, or retire, so our hope is that we can minimise the use of redundancy. All of that is to come once we get returns back. We have the average voluntary redundancy costs—compulsory redundancy is slightly different. We can calculate it using ready reckoners, but to be honest, until we have the data, that is just speculation.

Q22 **Sarah Olney:** So you do not have any thoughts at this stage about how the cost of redundancy packages might play out from that announcement?

Cat Little: No, we don't.

Q23 **Chair:** Do you have a view? Is there going to be a view about whether Departments will be encouraged to choose certain groups to offer redundancy to because it might be cheaper?

Cat Little: At this stage, the Commission has clearly put the challenge to Departments, because Departments are best placed to understand how they deliver those reductions while delivering vital public services and maintaining the skills that they need. They need the freedom to think through all the different levers and controls that they might use to get there. We do not have a top-down central view at this stage. Obviously, that will form as we get information back from Departments over the summer.

Q24 **Sarah Olney:** Thinking about those cuts, obviously one of the ways that cuts can be achieved is through increased digitisation of services. Is there a risk that by cutting some of the headcount you might put some of the digital change that is already under way at risk?

Cat Little: In the SR we made a number of assumptions about digital investment and transformation. You will be aware that we baked in a 5% efficiency assumption, which was already on the back of quite significant investment. Our ask is that Departments set out what would need to change to continue and how any headcount reductions might impact on plans under way. Again, we will find out in due course. In terms of a number of big skill areas, there is always a risk that skills that we vitally need in order to deliver transformation and public services are impacted, so we are very keen that we take account of that when we get returns back for Departments and that we understand what the consequences are.

Q25 **Sarah Olney:** One of the things that has obviously come through very clearly is the local authority audit. The slowness at which that happens has had a big impact on your ability to produce these accounts in a timely manner. I think something like only 9% of local authorities were able to get their accounts audited by the deadline. Is that figure correct? We know that one of the contributory factors to that is a shortage of public sector auditors. Sir Tom, can you tell us what you are doing to try to address that shortage of public sector auditors?

Sir Tom Scholar: I will start and then perhaps I can hand over to my colleague. This is a lead for DLUHC. At the end of last year, I think, it announced a plan on this, which is basically a mixture of extra funding, additional training and clearer guidance to the sector. Cat can perhaps go further than that.

Cat Little: You are right in saying that partly there are some constraints on public sector auditors, but there are a whole host of other factors at play. I think audit colleagues would say that the requirements for audit are changing and increasing, inevitably because of the experience of the last two years—there is more spending and more to audit. I have met with all the public sector audit firms with Ministers to better understand what we can do and how we can work together. There is not a lot within the gift of the Treasury, but with my wider responsibilities for Government finance, I see this as part of how we make finance, accountancy and audit attractive to people overall.

There is always a tendency for people to think that working in these professions in the private sector is somehow better. I am the first to put on record that working in Government with a variety of public service outcomes is a much more fulfilling experience, but I think there is a collective responsibility on us to attract and maintain the professionals we have in this space.

The other thing for the market is that a lot of the firms work across both private and public sector audits. There are no sole public sector audit firms. I think the NAO is unique in that respect. Our challenge to private sector colleagues is that we obviously want to make sure they have people they can rebalance across all their audit portfolios. Certainly, when I was a public sector auditor that is what we would do. I would move between private and public sector projects. We have to work together, in partnership, to meet the supply issue.

Q26 **Chair:** I want to turn to the challenge of the liabilities. Page 48 has a little handy chart highlighting the liabilities. Clinical negligence is something we have focused on in the past. Have you got any thoughts on trends in terms of clinical negligence liabilities?

Cat Little: Yes. The Health Select Committee recently published an interesting report on this, setting out some of the future trends. It is obviously a concern to us. While in recent years payments have been around £2 billion, you can see that the trends are rapidly increasing. They are set to double over the next decade. The Department of Health and Social Care currently has a consultation out that is looking at how we can enable claimants and defendants to achieve faster resolution of lower value claims. Certainly, this is a subject we talk about on a very regular basis for obvious reasons. This is a policy under consideration, and we will see what the consultation yields.

Q27 **Chair:** One of the big liabilities not yet in these accounts—it was a very small amount—was the covid liabilities. How do you see the liabilities bit of the Whole of Government Accounts looking after covid? There are obviously going to be some long-term liabilities. That relates to some of the work elsewhere. You highlight some of the work from the NAO on the covid cost tracker, but what is your feeling of where you sit now and the profile of that?

Cat Little: As the Committee knows, we have done a huge amount of work in live time trying to ascertain what our future liabilities might look like. Our expectation is that we will see in the 2020-21 accounts significant increases in public spending. We will also see much higher numbers of contingent liabilities. We will see more provisions and, of course, some of the qualifications that we have seen come through in 2020-21 accounts related to inventory and assets will also flow through. I suppose the good thing is that we are well abreast of all those issues because of the covid tracker, because we have just completed this round of the 2020-21 accounts, and we have been working very closely with the National Audit Office and with Departments to keep abreast of all the issues there.

Q28 **Chair:** But the covid cost tracker that the NAO put together—can I just check with Elaine Lewis? I should have welcomed you properly, Elaine. Elaine is representing the Comptroller and Auditor General today. Ms Lewis, can you remind us when the last covid cost tracker that the NAO will be publishing will be?

Elaine Lewis: We are due to publish one later this month. I don't think we have completely decided whether that will be the last one or not, but it is possible that will be the last one.

Q29 **Chair:** The NAO will not be doing it forever, Ms Little, but the Treasury has so far resisted taking that on in the long term.

Cat Little: We are publicly committed, for the next two years, to publicly continuing that work. We need to agree exactly when that transition happens and how often and how we do it, but we are very much committed to keeping going to make sure that that transparency is there.

Q30 **Chair:** After those two years, some of these things are long-term liabilities—the 20-year culture fund is I think the longest outlying one and there are 10 years, now 8 years, left on some of the business loans. I keep looking at Ms Rock, but she will not be here at that point—sorry, Ms Rock, we are writing you off already. Maybe Ms Rock might want to answer; maybe she could leave a tip for her successor. How will you be watching those longer term liabilities over time if there is not going to be a cost tracker?

Cat Little: Obviously, we still produce annual reports and accounts by Department. For specific covid schemes, we have regular oversight and governance, where we are talking about the collection of liabilities, particularly the main loans and the loans funds. We are not dependent on the Whole of Government Accounts in terms of making sure that the information and the transparency is there.

Q31 **Chair:** In terms of a learning document, do you not think that having that recorded somehow as a covid liability is potentially quite useful?

Cat Little: Potentially, yes. We will definitely take that away.

Vicky Rock: When we write the performance report, we write it in order for it to be useful and we draw out those elements that either you tell us you are most interested in or we anticipate you being most interested in.

You can see that EU exit is clearly drawn out and it has been for a number of years. Covid is clearly drawn out. Once these things are in the performance report, they draw together the numbers from the different parts of the accounts, and it is trying to synthesise that and say, "Actually, the ways that you can see covid impacting the accounts are here, here and here." That is the approach that has happened for EU exit.

What we naturally do with any of this is to look at how useful that is each year. If it is an area that this Committee and others are still relying on, then we will tease it out and continue to highlight it. There will come a point at which it becomes stable and it starts to shrink, and something else will be of interest to the Committee, so my personal perspective is that it would not make sense to commit to a particular number of years in the performance report of the Whole of Government Accounts, but our intention—the team's intention—would be to always make sure that the performance report reflects what you are interested in. If this is high priority, the performance report is a good way to highlight what is in the rest of the financial statements.

Q32 **Chair:** One of the things that covid highlights, as did Brexit, is that these documents over time provide a record for what has happened, which could be a blueprint for future action by future Governments. Hopefully, with covid, none of us will be around—we hope we do not have another pandemic anytime soon.

You mentioned Brexit, Ms Rock. The costs of the financial settlement with the EU are well recorded, but the other costs are not. We look at this routinely—we are having a session on Monday about regulation and the costs of bringing regulation into the UK when it was previously done under the aegis of the EU. Are you confident that there is enough detail to give the picture of what exiting the EU is actually costing in translating all those EU measures into UK provisions?

Vicky Rock: This gives you the IFRS picture and it gives you that on a consistent basis across all the contributing Departments.

Q33 **Chair:** You say "consistent". That is a very important word, because different Departments look at these things differently and will make judgments about when something is business as usual and when something is Brexit-related—just as with covid, I guess.

Vicky Rock: Yes, that is true. It is a good point. When we have been doing things such as the covid cost tracker with the NAO, we have given a lot of supplementary guidance to try to make sure that those returns are consistent. We continue to do that.

Q34 **Chair:** And the same with Brexit?

Vicky Rock: It is the same with the EU exit costs. But again, it is worth just highlighting that those are the IFRS figures and not second-order or third-order effects of EU exit.

Q35 **Chair:** Which gets harder to measure, but it is important, because sometimes those knock-on effects can have a big impact on a smaller organisation down the line, which is something to regularly look at. Talking about contingent liabilities, there is a contingent liability central capacity capability. How is that operating? Is it cracking on, Ms Little?

Cat Little: Yes, it certainly is, and they will imminently be producing their first annual report. It is running at full speed. The team have been providing more advice and sharing best practice. They have been producing reports on the stock of contingent liabilities and supporting Departments to comply with the contingent liability approvals framework. There is a lot of activity, and I am looking forward to seeing their report when it comes out.

Q36 **Chair:** Most people will not be aware that this Committee has a role in looking at contingent liabilities on behalf of Parliament. It is something that we are not uniquely interested in, I hope, but we are interested in it. A little thing I noticed, in terms of when we are looking at things such as the liabilities, is that the first time I saw the liabilities in the WGA was in a pie chart; now it is in a bar chart. Is there any particular reason for changing these graphs? Again, for continuity of comparison purposes, it is easier if it is in one format or another. Is there any particular reason you chop and change?

Vicky Rock: We are trying to make these documents as useful as possible, and a lot of the feedback that we get consistently is about the value of trend data. I appreciate that these numbers need context in order for us to really understand them. We are trying to do information that is good practice for accessibility, meets good digital standards and gives you five-year trend data, and you will see that in this year's performance report. We already had a lot of trend data beforehand, but we are now even more consistent in the use of that trend data.

Q37 **Chair:** Certainly trend data is incredibly useful, but is there a particular reason why you might reformat something from a pie chart to a bar chart?

Vicky Rock: It was purely based on usability for users and nothing else.

Q38 **Chair:** Once you have stuck on something that you think is better, will you keep that as a consistent image?

Vicky Rock: By preference, yes.

Q39 **Chair:** It just makes it easier for comparison purposes. One of the other things we have talked a little bit about before—I wonder if any more thought has gone into it, Ms Little—is that we have all these loans that have gone out. The banks are managing the business loans, but there are the culture funds and other things. Is there any prospect of some of these loan books being sold off at any point, or is the Government planning to keep them on their books?

Cat Little: I am not aware of any proposals to do that at this stage. Our firm priority is to make sure that we recover as much as we should and can, and that we manage the books as effectively as possible. I don't know if Sir Tom is aware of anything.

Sir Tom Scholar: I have nothing to add to that.

Q40 **Chair:** That is a very clear answer. Ms Rock, this is your last set of Whole of Government Accounts. What is your advice to your successor? I do not know if the interviews have happened yet, but this could be a good tip for anyone tuning in.

Vicky Rock: I think one of the great things about Whole of Government Accounts is that it has always been very noticeable how much this Committee and others prioritise it. The whole document is geared to be used, so a lot of the advice is to listen to what people want. We really welcome this Committee's feedback. You have given it to us last year and at other times in the past, and I appreciate that you have not had this document for very long. It has only been two days, but it is quite striking from my perspective—credit to the NAO for their assistance—that you are able to tease things out of it, which is exactly what we would want. It has not taken weeks of being locked in a darkened room to try to understand what is happening with various movements.

I think the main thing is that these documents are there to be used. We are here to listen and to take on board your feedback. If, as you are using this set of accounts, there are things that you would like to be done differently in the next year, or areas that you would appreciate more information on, please know that that is what we are here for—to try to make sure that these have the best possible readership. It is a huge amount of effort to produce from every component out there. They are world leading, as you say, but those things only really matter if people engage with them.

Q41 **Chair:** Just for the record, how many countries have you been to visit, or talked to about doing the same thing?

Vicky Rock: I couldn't count. We are regular presenters at the OECD and IMF. There is huge international admiration for the work of the UK here.

Chair: We find them useful, but it would be even more useful if every country did a similar thing. Thank you for that. We are going to move on—still on Government accounts, but perhaps less wedded to the document. Over to you, Sarah Olney.

Q42 **Sarah Olney:** Thank you, Chair. Sir Tom, we are talking a lot at the moment about the impact of inflation across a wide range of sectors, issues and Departments. What conversations are you having across Government about how the Government as a whole are going to manage these inflationary pressures on public spending and, in particular, major projects such as HS2 and MoD equipment plans? We have heard in Committee sessions over the last few weeks about how inflation will impact on those, so I wonder what conversations you are having.

Sir Tom Scholar: Again, I will start and then Cat can pick it up. Spending plans are fixed for the next three years. We expect Departments to stick to them, but, clearly, the world changes. Inflation is a significant issue. Our spending teams are in constant touch with the finance teams in the spending Departments to discuss the impact of inflation on their programmes and how they are seeking to manage that within their budgets. Cat, perhaps you would like to talk about some of the details.

Cat Little: It is worth thinking about how inflation impacts on the different buckets of major public expenditure. If I break it down into three areas, there is CDEL and the capital investment, and I will come on to MoD and Transport in a bit. A lot of that capital investment is committed on contracts. We work very closely with supply chains and our commercial colleagues to mitigate and manage the impact of all sorts of cost pressures, including inflation, within the commercial arrangements that we put in place.

You have then got RDEL, which I would split between pay and non-pay expenditure. For non-pay expenditure, where it is grants committed—again, commercially governed by our contracts and commitments to the supply chain—quite a lot of that we try to mitigate and manage up front in our commercial negotiations.

Pay is a really challenging one. For quite a number of our workforces, pay is set by the independent pay review bodies, and we are about to receive the recommendations from the pay review bodies. Obviously, the Government will have to take on board how pay review bodies have taken inflation into account in their recommendations to us. They are the main big buckets of expenditure, and how inflation impacts.

For major programmes, as Tom said, the capital budgets are set in nominal terms. For big investment appraisals such as HS2 and some of the MoD equipment plan programmes, we undertake the investment appraisal in real terms, but, once the budget is set, it is set. For very long-term projects, if there are supply chain inflationary increases that have not been managed through commercial procurement means, there will obviously be pressures on budgets. It is quite a complex picture at the moment because we have got some delays with supply chain consequences.

We are not yet confident in a lot of our profiling of forward expenditure over the medium term for some of our major programmes, so my team is currently undertaking a piece of analysis with all Government Departments to look at how inflation is impacting on major capital programmes. We will obviously have to keep a very close eye on what Departments are experiencing.

For Transport and MoD, we are in regular contact to talk about this. This is a very live subject. I am not surprised that they have raised it directly with you. It is almost impossible to quantify precisely as a direct consequence of inflation. There are lots of other things going on, particularly with those Departments and some of their major programmes. Some of it is inflation and some of it is supply chain challenges. Some of it is the shape of the market and some of it is very specific to particular projects. It is important that we are able to capture the data and disaggregate why cost fluctuations are happening, and that is the main task that we've got in hand.

Q43 **Sarah Olney:** Can you say a little more about how inflation will impact on things like the payment of benefits and state pensions that have been uprated? What impact will those decisions, or that uprating, have on the overall picture?

Cat Little: Both are uprated in line with CPI, so, obviously, that has significantly increased this year. Ultimately, for pensions, we make the payments through current contributions, as you know, so anything in excess of that is funded through taxation. It does not necessarily impact directly on the budgets that we set through the spending review.

Q44 **Sarah Olney:** Going back to the question that I asked about cuts to civil service jobs and how that will impact on the ability to deliver some of the efficiency savings, I wonder how you might plan to ensure that you keep sufficient skills and capability within the Departments to ensure that you can deliver both the projects and the efficiency that you were planning.

Cat Little: That is the challenge that we have now put to Departments, as I mentioned earlier. There is no shying away from the fact that that is a really big ask of Departments—to say, "We want you to continue to deliver the major programmes, the projects, the outcomes and the public services that we have committed to in the spending review, and we are also asking you to be more efficient, cleaner and smarter in the way that you do it, so that we can make those headcount reductions."

I think I would always go back to the civil service reform statement, which sets out the priority skills that we need, both to deliver public services and to enable transformation and efficiency. In particular, we cite DDAT—the data, digital, automation and technology function—commercial and project and programme management. Those three skill areas are especially critical to our ability to deliver, and it is our job in the centre, jointly with the Cabinet Office, to ensure that we are incentivising, prioritising and enabling that as a priority.

Q45 **Sarah Olney:** Now that you are planning for more cuts, was there not an opportunity to be more ambitious with spending and headcount reductions in the 2021 spending review?

Cat Little: Clearly, the context since the spending review is significantly changed. I think, as the Government have said publicly, with where we are in terms of cost of living and inflation, it is important that the Government take stock of the overall size and shape of the civil service. The other big thing that has changed since the spending review is the work that we have done to live with covid. Therefore, as the state reduces in size, and as we start to live with some of the big issues that actually drove the increase in civil service headcounts in the first place, I think it is right that we are setting a different ambition now.

Q46 **Sarah Olney:** Thank you. Sir Tom, reflecting on the covid-19 pandemic, which obviously happened after the Government accounts that we have just been looking at, what lessons do you think you will be implementing on how Departments could plan their spending so that they can remain flexible enough to respond to future emergencies but also achieve savings at the same time?

Sir Tom Scholar: Well, we have—I think I have previously written to the Committee on this—done a lot of work to learn the lessons and start to implement them with Departments. A lot of that is focused on improving Departments' abilities to forecast their spending, and on better risk management, clearer financial reporting, and a more robust approach to audit and assurance. We have done a lot of training with Departments as well—directly to accounting officers, to the finance teams—and we have updated our guidance to capture all of that.

Those are all things that have directly come out of the experience of managing what, for many Departments, was a completely unexpected change in their spending profile. Looking back on it, in some cases, that was completely unavoidable. In other cases, we thought, and they thought, "We could have done better on forecasting and anticipating." That is the direct response on the core financial management, if you like.

Alongside that—not yet complete, but equally important—is the formal evaluation of the various support programmes. For each of the big programmes—furlough, and the business loan schemes and so on—we have commissioned proper evaluation, which we will publish. They will help policy design for any future intervention. That is one thing that we have discussed in this Committee before: we have a responsibility to take everything we have learned over this episode and ensure that it is available for people facing anything similar in future.

Q47 **Sarah Olney:** This Committee regularly sees that improving efficiency can sometimes reduce the quality of services, increase costs elsewhere, or have a disadvantageous impact on service users. Besides the existing guidance in the green and magenta books, what more are you doing to follow up with Departments about the impacts that efficiency plans have on service users?

Sir Tom Scholar: Two ways, principally. In the spending review last year, the settlements that the Treasury reached with each Department explicitly incorporated both financial settlement and a clear expectation of what service the Department would be giving with those funds. That was at the moment of setting the three-year plans. There is then a continuous, ongoing monitoring and evaluation process. The vehicle for that is the outcome delivery plan, which is not just an annual document but a framework for engaging between the centre—the Treasury and the Cabinet Office—and the spending Departments, to try to address exactly that by keeping track of service delivery and service quality, so that we are looking not simply at financial control, but at what the public is getting from the money that is being spent.

Q48 **Sarah Olney:** We have spoken a bit about the covid cost tracker and the continued reporting. When we last looked at the cost tracker, we concluded that the Treasury does not yet know how much money in total has been lost to fraud and error across the Government's response to covid-19. We have had details of estimates on the bounce back loan and furlough schemes, but can you give us an estimate on procurement for PPE and other covid-19-related goods and services?

Sir Tom Scholar: The latest estimate for that will have been published in the 2020-21 report and accounts, but there will be a new estimate under preparation now. PPE will be in the DHSC '21-22 accounts, which I think the DHSC is due to publish in the autumn.

Cat Little: The '20-21 accounts were published in January this year, and as Tom said, there will be a further iteration in which we will see further evolution of this. From memory—I will need to check the figures—there was around £6 billion of impairment and write-offs related to PPE. I would need to go back and check that figure, but it is in the public domain.

Q49 **Peter Grant:** I will stick with the question of inflation for another minute or two, Sir Tom. Inflation will hit different parts of Government in very different ways. The MoD's current equipment plan, for example, is likely to be severely hit. Inflation will affect the discount rate that applies to the parts of Government that have significant contingent liabilities or longerterm liabilities. What steps are you taking to ensure that different central Government Departments and different bodies—local authorities and health boards, for example—are protected in the event that inflation hits them harder than it does the rest of the economy?

Sir Tom Scholar: I will turn again to Cat for the detail, but the headline of the answer is that we set spending plans for RDEL and CDEL in nominal terms—in cash terms. We expect Departments to manage within their budgets, and we set various requirements to put them in a good position to be able to do that, including having some kind of contingency to meet unexpected pressures, such as cost pressures, which could come from inflation or from exchange-rate movements. In the big projects, that is obviously something that also needs to be considered when long-term contracts are entered into. I don't know whether you want to add to that, Cat?

Cat Little: To build on some of the details, as Tom said, we want Departments to be set up to manage their budgets independently, without recourse to the Treasury. The way we incentivise and do that is, first, we expect Departments to hold a contingency of 5% of their gross expenditure. That is a requirement under the central budgeting guidance. If you take the MoD equipment plan, as the Committee knows, it has both an equipment plan contingency and a wider departmental contingency so that it is able to manage the highest estimates of its risk within its costing of those plans. That should take into account estimates of inflation. In fact, I think MoD is one of the few Departments that tries to estimate some of the long-term risks from inflation. The same is true of Transport. All Departments must have some sort of contingency and a good estimation of the sort of financial risks that they are experiencing.

Having said all that, this is quite an unusual spike in inflationary pressures. To the extent that we can, we obviously want to work with our commercial teams to make sure that we are sharing that risk and managing it effectively within the commercial contracts that we have available. We recognise that that is a partnership often with industry and other supply partners. That is not a straightforward thing to do, but that is what commercial teams are there for and that is one of their main tasks. Then, within the Treasury, our spending teams are constantly looking at the combined impact of inflation on delivery, on supply chains and how that is impacting on forecasts. When those things net off, at the moment, two months into this spending review, I am not seeing a significant amount of additional pressure solely from inflation within the forecast. Anything could change over the course of this year, but it is that constant monitoring that is important for us.

Q50 **Peter Grant:** A 5% contingency does not last very long when inflation is at 10%, and inflation, effectively, for some parts of the public sector will be close to 15%. From what you said there, my question is: what are you doing to make sure that parts of the public sector that are hit by an effective rate of inflation that is higher than the headline rate are protected? I have to say that it seems from your answers that you are not doing anything in particular to protect them. Is that correct?

Sir Tom Scholar: We have set plans. It is a fundamental principle of public finance that we do our budgeting over a number of years, over a three-year period, and we set budgets in cash terms. Obviously, 40 or 50 years ago, budgets were set in real terms and adjusted for inflation. That is not the way it has been done in the modern era, and there are good reasons for that. We then build in these protections to put Departments in a position where they are able to manage that, but in the end, they do have to manage and that will also include a constant process of monitoring costs and trying to contain costs. If there are impacts, the Departments need to address those, but we need to keep on top of them. As we say, as of now, we are completely confident in the way the spending review is unfolding.

Q51 **Peter Grant:** Given the near certainty of some seriously disruptive industrial action across the entire rail and underground network, given the fact that a lot of transport providers are cancelling services because they cannot recruit the staff, and given that other parts of the public sector are going to follow suit, is it realistic to think you will get through even this year and keep pay increases to the level that the Government originally intended?

Sir Tom Scholar: I don’t think we can speculate on that. We have the pay review bodies just about to report and then the Government will consider their recommendations and make their decision in the usual way. That is all coming in the months ahead.

Q52 **Peter Grant:** Some of us think that a lot of public sector workers have been remarkably patient. They understand the difficult position that everybody is in, but they are not going to carry on accepting 2% and 3%

pay increases when their electricity bills are going up by 40% and 50%, are they?

Sir Tom Scholar: That is among the range of factors that the pay review bodies are charged with. It is their job to consider all the factors and come up with recommendations to the Government. We are waiting for those recommendations.

Q53 **Peter Grant:** Thank you. I want to now look at the specific question of the nuclear liabilities fund and the contingent liabilities for the costs of decommissioning nuclear power stations. In the 2019-20 Whole of Government Accounts those provisions are set at £157 billion. The most up-to-date figure I have for the nuclear liabilities fund, from March 2021, is £14.8 billion, which is less than a tenth of what we think is going to be needed, and the vast majority of that money—almost £11 billion of it—came from the taxpayer. How concerned are you, Sir Tom, that at some point in the future the taxpayer is going to have to pick up a massive bill for the decommissioning of nuclear power stations? It should have been the responsibility of the companies that are making a profit from operating them.

Sir Tom Scholar: For many years nuclear decommissioning has been known as a very long-term liability of the Government, stretching at least 100 years into the future. That is reflected in the Whole of Government Accounts and in the OBR's long-term fiscal sustainability report.

The standard way the Government meet their long-term liabilities is not through pre-funding up front as a private sector company would do; that is a typical private sector way of meeting a long-term liability. The Government typically meets future liabilities—for example, state pensions and other future liabilities—through future revenue, which is a mixture of taxation and borrowing. Nothing has changed there.

We have had a correspondence between the Committee, the Treasury and BEIS on the precise funding of one aspect of that, which is the advanced gas-cooled reactors. That is by no means the whole of the nuclear decommissioning cost but a particular part of it. I can certainly talk more about that. I recognise that it is a rather confusing picture and quite involved, and that in part reflects the legacy of various restructurings of the past. But, taken as a whole, nuclear decommissioning is a long-term liability, which is all factored into long-term fiscal plans.

Q54 **Peter Grant:** Although it is correct to say that it is a very long-term liability, stretching potentially to 100 years, a lot of that liability is going to have to be paid quite soon. We are talking about £3 billion a year for the next 10 years. Probably about half of the total liability falls within the next 15 to 20 years, which is fairly short term in financial planning terms when you are talking about those amounts of money. You mentioned that the Government meet their liabilities either through revenue or through borrowing, but borrowing eventually has to be paid back by the taxpayer, doesn't it? You haven't given me much reassurance that, at the end of this period, we are not going to see the Treasury or somewhere else in

the public sector having to pay for this work to be done, because not safely decommissioning a nuclear power station is not an option. If the private sector is unable to do it, taxpayers are going to have to pick up the tab, aren't they?

Sir Tom Scholar: Yes, it is a liability of the Government. It is also factored into the fiscal plans. The cost sometimes changes, but it is not like it is an unexpected cost that is suddenly going to have to be met. It is fully expected and budgeted for. Part of each spending round with BEIS is a look at the costs of nuclear decommissioning. Also captured in the accounts is a provision in the tax regime for the cost of decommissioning. Again, that changes depending on the profile of decommissioning over time.

Q55 **Peter Grant:** You mentioned the exchange of correspondence you had had with the Committee, particularly about the way in which the nuclear liabilities fund has been invested. I know that our vice-chair, who is not able to be with us today, has done a lot of work on this. Most of it is invested into the national loans fund, which has been delivering a very low rate of return just now. Given that at the moment the nuclear liabilities fund has less than 10% of the money it will need, why are you continuing to invest so much of it in areas that are delivering such a low rate of return?

Sir Tom Scholar: To be clear, this is not a cash investment into a deposit account that then provides a return. It is not that we have raised money to invest in an account with a low rate of return. In effect, the way we are meeting these future costs is the same as how we would meet the cost of any other long-term liability: out of future Government revenue. The confusion here arises—and I recognise it is an extremely complex and sometimes confusing picture—because as a legacy of the restructuring of British Energy between 1996 and 2005, there is a legacy fund, which was previously a private sector fund and is now under public sector control. At the time of the restructuring 20-odd years ago, it was expected to meet the future costs of decommissioning. Over time, it has proved to be insufficient. The Government had already accepted and underwritten that liability 25 years ago, so that is an obligation of the Government.

What we have decided to do, rather than borrow money to invest in a fund, which is what a private sector company might do, is to meet the future costs in the standard way in public finance, which is through future revenue. That has no impact at all on the public finances today and is completely the standard way of meeting a long-term liability for a Government.

Q56 **Peter Grant:** You co-signed a letter with your counterpart in BEIS on, I think, 22 April—I'm sorry, but I don't have the exact date here—where you set out the reasons in more detail for so much of the money going into the national loans fund. In the letter, you described a difference in accounting treatment, in that by having the money in the national loans fund there is no increase in Government debt or Government assets. If you invest it elsewhere, there is an increase in Government debt, but to begin with there is no corresponding increase in Government assets, so the bottom-line figure does not change. Could you explain why the second of those scenarios is so bad compared with the first, if neither changes the bottom line?

Sir Tom Scholar: There are two basic reasons: risk profile and balance sheet liquidity. If the Government decides to raise money, to borrow money, by issuing debt and then to invest in risky assets, because any asset is risky, that clearly introduces a degree of fiscal risk that does not exist if you do not enter into that transaction. Certainly, it is true that risky assets can yield higher returns, but they can also yield much lower returns. It is a principle of public finance that we try to avoid incurring additional risk wherever possible. We do not, for example, fund our future pension liabilities by issuing Government debt and investing in corporate bonds or equity, which would be a theoretical possibility but would introduce a great deal of risk into public finance. We finance future pensions through future revenue, and that is the same approach we take to the future costs of nuclear decommissioning.

The first reason is the public finance principle of minimising risk. The second is balance sheet liquidity. If we were to invest in risky assets, we would have to borrow to do that. That would mean an increase in borrowing and then an increase in debt, which would mean—within a constrained debt ceiling at the margin—less to invest in other priorities of the Government, in particular infrastructure, which would be another capital asset for which there is a very high social utility. It is not a particular set of decisions relating to nuclear decommissioning; it is simply the application to that particular liability of general principles of public finance.

There is, as I tried to explain in the letter, one exception to that, which is the pre-existence of this £3.5 billion fund—the mixed assets portfolio, which is a legacy fund from 20-odd years ago. If we were starting from scratch—if this were a new liability that we were deciding to fund from scratch—we would do it all on the Government balance sheet, rather than have this vehicle, but this vehicle exists and is therefore part of the funds available to meet the future costs.

Q57 **Peter Grant:** You describe some investments as risky. Do you regard the mixed assets portfolio as a risky investment?

Sir Tom Scholar: Yes. It is a fairly illiquid portfolio. I am not familiar with the precise composition of the assets, but any asset is by definition risky.

Q58 **Peter Grant:** You said that you wouldn’t invest in risky assets, but currently 20% of the nuclear liabilities fund is invested in the mixed assets portfolio. Is it more correct to say that there is a limit to how much it is wise to invest in those kinds of areas?

Sir Tom Scholar: That is a legacy of decisions taken between 1996 and 2005. The Committee has written to us, and one of the things you recommended in your report is that we and BEIS should have a look at whether that is still appropriate. We are just starting to do that with them, and we will respond to that in the usual way.

Chair: Yes, that partly came out of a previous report that we launched.

Q59 **Peter Grant:** Do you accept that there is an additional risk that, by having so much of the fund invested in low-risk but potentially low-return investments, when pay-up time comes the fund is nowhere near enough to meeting the liabilities?

Sir Tom Scholar: It is not a cash fund that is invested; it is a future liability of the Government. The Government needs to meet its future liabilities out of revenue, and that is part of our long-term fiscal planning.

Q60 **Peter Grant:** It is not just a future liability; it is a current and ongoing liability. As I mentioned, you are looking at £3 billion this year, and a similar amount for the next 10 years. It is not about preparing to pay a

huge bill in 50 years’ time. It is about having to pay quite a big bill every year for the next 50 or 60 years.

Sir Tom Scholar: Yes, and that is all expected and budgeted for.

Q61 **Peter Grant:** I want to move on to another area, which is the significant increase in Government sanctions activity over the last few months, clearly as a result of the escalation of illegal Russian activity in Ukraine. When the Government moved to sanction one of the biggest banks in Iran in the early 2010s because it believed it was closely associated with Iran’s illegal nuclear programme, the bank sued the Government and it took five years to settle. The Government eventually settled for £1.25 billion in an out-of-court settlement. How concerned are you, given the nature of the people who have been sanctioned this time, that the Government will face a whole series of expensive and time-consuming litigation?

Sir Tom Scholar: I think, from memory, that in the case of Bank Mellat, the settlement was a lot lower than that, but I will check the record. Any sanctioning of any entity is obviously ultimately subject to legal challenge. The Government, though, is very confident in the legal soundness of the sanctions that have been imposed.

Q62 **Peter Grant:** I think you may be correct. I think the £1.25 billion was the outstanding claim at 2019. I don’t have the figure for what the actual settlement was.

Chair: About £80 million, I think.

Sir Tom Scholar: I think the original claim was for $4.5 billion, and we settled at $100 million. That is my recollection, but we will check that.

Chair: Elaine Lewis from the NAO is nodding. Can you remember?

Elaine Lewis: I think it was £80 million.

Chair: If it was not that, I am sure Sir Tom can write to us.

Q63 **Peter Grant:** Apologies for getting that wrong at the beginning. I appreciate that you can't say very much in open session, but does the Government have a view as to how much it might need to set aside as a contingent liability, just in case any of these sanctions are successfully challenged?

Sir Tom Scholar: I think, as an accounting matter, this would be a

remote contingent liability. Perhaps I can turn to an accountant to help me.

Cat Little: I suspect it wouldn't meet the test to become a contingent liability. There would have to be a very high likelihood of a cash transaction taking place in the future, and our assessment would be driven by legal advice.

Q64 **Peter Grant:** Do you know what the legal costs were in the Iran case? I presume that if it settled out of court, the Government had to pick up its own legal costs. Do you have any indication as to how much those were?

Sir Tom Scholar: I think I wrote to the Committee with that information at the time. I can't remember it off the top of my head, but I'm very happy to look it up.

Chair: I think, from memory, that we have something on the record on this.

Q65 **Peter Grant:** Is there a concern that, even if there is a number of unsuccessful and quite possibly just vindictive and petulant claims—some of the individuals are quite capable of taking the Government to court just because they can—there a risk that, even without any of those claims being successful, the Government could end up with quite a significant legal bill?

Sir Tom Scholar: Well, if people take legal action, the Government will contest it, and if there are costs associated with that, there will be. But in the Bank Mellat cases, I can't remember the figure but the cost was a tiny fraction of the amount at issue, and I think it was excellent value for money to incur those costs.

Q66 **Peter Grant:** Are you satisfied that the Office of Financial Sanctions Implementation is adequately staffed with the right kind of people to be able to monitor and, if need be, enforce these sanctions?

Sir Tom Scholar: Yes, we are satisfied about that. We have increased staffing continuously over the last few years as the activity of the office has grown—very rapidly over the last few months—and we have a further increase planned. But yes, we are satisfied we have got the resources that we need to do the job.

Q67 **Peter Grant:** Finally, are you satisfied, Ms Little, that Government Departments are properly geared up to avoid unintentionally breaking the Government's own sanctions? Are you satisfied that they have the expertise and understanding so that we don't end up with headlines that a Government Department has been illegally dealing with somebody it shouldn't have been?

Cat Little: That is probably not something that the Treasury can give direct assurance over. That is obviously what we would ask our accounting officers and Departments to consider, so I'm not sure I can give you a particularly informed view on that.

Q68 **James Wild:** I just want to ask a couple of questions about the assets side of the report, which I have to say I find is a very accessible and very good document. I will be promoting it to my constituents to have a look at.

Chair: It will have more than three fans, then!

James Wild: Hopefully.

On page 44, the report says that the Government "exceeded its target to raise £5 billion in capital receipts…between 2015 and 2020." Is there a new target for what it is the intention to raise over the next five years?

Sir Tom Scholar: This is on disposals of Government estates. I think the answer to that is that there will be. The Government Property Agency is now the single body—it is a Cabinet Office body—that manages the Government estate. They have a programme of consolidating offices. For example, over the last five years, they have closed 32 offices in London, at a saving of £170 million a year. On the one hand, they are consolidating. On the other hand, as the Committee knows, the Government has a programme to decentralise the civil service out of London, so, at the same time as in some locations, particularly London, we are consolidating, we are also opening new offices in other places. Precisely what their target is, I am not sure, but I'm sure we can find out.

Q69 **James Wild:** Yes, property is one element, but there is obviously a whole host of assets in here, so how will this document, which has pulled together the overall picture, be used, whether by UKGI or whoever, to look at the question "Do we need to hold this asset? Would we be better served by getting rid of it to raise revenue? Does the Government need to hold it?"? How will that systematically be done, now that this document is in existence?

Sir Tom Scholar: I think the main way in which we have done that is through the balance sheet review, which we have discussed before and which very much came out of the preparation of previous iterations of the report. Taking the complete picture, which the report provides, of the Government's balance sheet, we have gone back to Departments to ask exactly that question, on both the liability and the asset side of the accounts. And that has now been incorporated into the regular dialogue that spending teams have with their Departments.

Q70 **James Wild:** I know the Treasury did some work in 2018 on intangible assets and whether they were recording them properly and whether we are doing enough to actually maximise value. Again, are you confident that we are doing all we should be doing to commercialise the quite significant assets that we hold in the public sector?

Sir Tom Scholar: We certainly hope so. We have a new office to look at just that, in the Government Office for Technology Transfer. We even have a new book of guidance with a new colour: the Rose Book.

Chair: The Rose Book—a full rainbow.

Sir Tom Scholar: I don't know who comes up with the names.

Cat Little: I think it is us.

Chair: Do you get the set when you leave the civil service? The rainbow of books.

Sir Tom Scholar: Colours you have never heard of in any other context.

Chair: They are ever inventive in the Treasury.

Q71 **James Wild:** I have one question on the points Ms Olney raised on public sector pay-offs. Obviously, a £95,000 cap was introduced and then taken away. What guidance will the Treasury be giving to the public sector to minimise any pay-offs to a reasonable level, which most people would consider to be around that level?

Sir Tom Scholar: I think that, at least as far as the civil service goes, this is a Cabinet Office set of rules.

Cat Little: We have done quite a lot of joint work thinking about the current context of headcount reductions. This is something that is currently under review. As you say, we want to incentivise cost constraint and control, given the context that we are currently operating under, but primarily it will be for Cabinet Office Ministers to decide, in consultation with the Chief Secretary.

Q72 **Chair:** Ms Little, we touched earlier on risk, contingent liabilities and so on. It might be helpful if you could give us some practical impacts of the work that you have done through the contingent liabilities central capability—something that is different now as a result of bringing that together.

Cat Little: Most of what they have been doing is training and support and guidance. I know that they have been working very closely with the Departments with the greatest number of contingent liabilities to actually roll out contingent liability training, which can be as simple as explaining how the accounting standard applies and who needs to be aware of it, and sharing best practice examples. They have also been working with Departments on the approval process, to make sure that we are raising the number and the standards in the way we do that.

This year, for the first time, we have included Departments' compliance with the contingent liability framework as part of our year-end financial management assessment with all permanent secretaries. Small things like that make a massive impact, because they create the culture and the tone that this is really important, that we are measuring it and monitoring it, and that we are driving up standards as a result. We have also jointly updated MPM this year for improving the contingent liability guidance.

Q73 **Chair:** That sort of begs the question: why wasn't it done before? I probably have seen a change in quality and an improvement in the liabilities that I am notified of. Do you think there was a gap before? Obviously there was if you are dealing with it and if you are doing this basic training. Is that fair to say?

Cat Little: This is possibly before my time in the Treasury. I know that teams in the Treasury have cared deeply about this, because I have been on the receiving end in a Department being told off for not complying with the requirements. I think it is just that the sheer scale of the number of contingent liabilities—the complexity of what we are now looking at in Government—has meant that we have had to put more resources and effort into it.

Vicky Rock: I think partly it is about having the centres of excellence, so that if you are in a Department you can access the expertise more readily, and that is a lot of what it is doing. Departments had expert skills, but their landscape got more complex very quickly, and therefore to have it at the centre was worthwhile. Certainly, even before the contingent liabilities central capability, those Treasury controls over the approval of contingent liabilities still existed throughout the whole time, but this capability has brought more expertise to it. It has brought the Government Actuary's Department and skills from the private sector as well, so that it is more robust.

Some of the good areas where you will see the difference is those contingent liabilities that therefore have not been taken forward, because there was an alternative way to do this or the plan was not well thought through—there was no exit strategy for Government. It is those sorts of challenges that came out of the balance sheet review and started to be implemented in the Treasury through a more robust mechanism, and now you have that real centre of excellence that has been set up.

Chair: So not rocket science.

Sir Tom Scholar: Just to add, I think it is a great example of the practical, real-world valuable effect of the Whole of Government Accounts. We started the work that led first of all to the balance sheet review and then to the creation of the contingent liability unit. We started that in 2016-17, and it came directly out of the experience of pulling together the Whole of Government Accounts and looking at two things: the increasing trend of contingent liabilities over the years; and then looking across Departments at the differing experiences of spending teams and talking to Departments about them. There was a clear sense that there was real scope to spread best practice and improve overall performance. I do not think we would ever have known that if we had not been producing this annual document.

Q74 **Chair:** That is a good advert for the Whole of Government Accounts. One little niggle for this Committee is that we sometimes get them a bit late in the day—they have been slightly slow at sending them to us. We recently became aware that there was not even a protocol or process in place for that. In fact, us having to be notified and talked to about it meant that they did put those protocols in place, because they suddenly realised that we were part of the equation, but not until quite late.

Cat Little: We absolutely recognise that. One of the things that the COA has been doing is simplifying and updating the contingent liabilities approval framework. Any process that needs a decision tree and a checklist and multiple experts to navigate it is clearly not the simplest way of applying an approval framework, so that work is under way.

Q75 **Chair:** We take our role very seriously. As a Committee we are Parliament in this respect, so it is really important that we can see clearly what we are expecting to look at. It usually comes through me, of course, because of the speed at which we are dealing with these issues.

We have talked about the covid cost tracker and measuring the costs of EU exit, but we have also challenged in other arenas here about measuring the cost of net zero and looking at fraud more generally—I have a specific question I need to ask Ms Little on that. Do you think that these are areas that you could look at in future in the Whole of Government Accounts, so that you can see trends or patterns? It could be a document or a record of how Governments have dealt with issues in the past when dealing with knotty, cross-cutting issues.

Sir Tom Scholar: As Vicky was saying earlier, you want the Whole of Government Accounts and the performance report to be of contemporary relevance—to be directly addressing the issues people are interested in at the time.

In general, if you look at statutory reports of one sort or another, they sometimes just end up being Christmas trees, acquiring more and more bits to them, getting longer and including things that no one is interested in any more. You want the Whole of Government Accounts to be relevant at the time.

For the foreseeable future, that will include, for example, reporting on the experience of fraud under the covid schemes because, as you said earlier, that is for the next 10 years—or eight, now—but that will not be certain until the last lot of business loans have been paid back, so that is something we will certainly keep the focus on. There will be other things where there is a need to learn lessons and set them out transparently, but perhaps not for an annual update. At some point—not yet, I think—we will get to that with covid expenditure.

Q76 **Chair:** With patterns and trends you can see whether the cost of investment in some area, such as electric charging points—perhaps that is a bit trite for something as big as the Whole of Government Accounts— or something else that is trying to achieve net zero or reduce carbon emissions, will lead to reduced costs in another part of the accounts. It is spending to save, I suppose. Could this be a useful document in that respect? Is that something you are thinking about?

Sir Tom Scholar: Yes, it is certainly something we should think about. On net zero, reporting the impact on the targets of Government spending is both complicated and partial, because it is not just spending but regulatory action, the tax system and consumer behaviour—firm behaviour—that has an impact. It is certainly something we are looking at. In the Budget last year, the spending review document had for the first time quite an extended section that gave quite a lot of qualitative information, some quantitative, and a clear table setting out the total amount of spending, and we said that is something we will continue to produce. I need to think a bit more about how that would work in a WGA context.

Q77 **Chair:** I can see that it is a challenge, but it is a very long-term programme over time, and vital for the planet. We know that it has to be done, but we also need to see what these long-term changes cost in the short, medium and long term, and what the impact is. It is an important thought. Similarly, on environmental reporting, you have your team in the Treasury looking at the environmental impact of things. Is that going to be reflected in this document?

Vicky Rock: Yes. For the first time, we put a small amount in the performance report this year on sustainability reporting, so reporting against the greening government commitments and a brief amount of reporting against net zero. We very much see that as the beginning stages to build upon in future publications.

Q78 **Chair:** Good. So again, keeping it relevant and all that. I think we get the general theme and very much appreciate that.

I want to go back to you, Ms Little, on the issue of fraud and error. You said that DHSC procurement fraud wasn't reported in the DHSC accounts. They don't include an estimate of procurement fraud directly; they are stated as estimate impairments, and that is different. We are concerned that we don't lose this, buried in DHSC accounts. We as a Committee— and it is not just this Committee—feel very strongly that we need to keep track of this. Do you want to revisit that answer?

Cat Little: I was talking about PPE impairments and write-offs, but I appreciate—

Q79 **Chair:** But even if it is an impairment or a write-off, we still need to keep proper track of that. There are a lot of legal cases going on at the moment between that Department and suppliers.

Cat Little: We provide specific guidance on how much we expect Departments to produce when it comes to covid spend and tracking, and obviously that is something we will continue to enhance. If there are specific things that the Committee is worried about, as Vicky said earlier, we welcome your feedback so that, as we do the accounts direction each year, we can include more data and produce more consistent information for you and for the public, so please do tell us.

More broadly, for fraud and error, the Public Sector Fraud Authority is going to be producing an annual report that builds on what we already do as Government in fraud reporting, so that we try to catch all aspects of fraud and error. It is quite difficult, as this Committee knows, to make that distinction, but that will, of course, have a covid section which will produce as much information as we can.

Q80 **Chair:** That is certainly important. When we had the Department of Health and Social Care in recently, we were very concerned about the poor record-keeping, which we and the NAO have talked about in the past. It was very stark in that particular hearing, with no records kept of some of the decisions made, which is extraordinary. Are you giving any central guidance as head of the finance function?

Cat Little: I know that the commercial function has a commercial standard. In fact, all functions have a standard that sets out the minimum requirements for audit evidence and record keeping. From a Treasury perspective, we expect people to keep a record of the basis of significant commercial decisions, and it is disappointing if that is not the case.

Q81 **Chair:** Some of it was because it was going through things like private offices, where you had people who were not commercial or financial. Are you giving any thought to making sure that what you would call the normal record keeping of Government, where there is never not someone in the room taking a note—I am sure that your good colleagues behind you have done it in their time, and it is possible that you have all done it as well—appear years later as a record of the meeting? They just weren't kept. Is that something that you have found to be a problem more broadly when trying to look back and see what the decision making was?

Cat Little: I have to say that we have not experienced this as a significant problem. From a Treasury perspective—so much goes through the Treasury—it is amazing how good our record keeping and corporate memory is. It is always a challenge in any big organisation. Knowledge management is inherently difficult. On big commercial financial decisions, I think we have said before that one of our big lessons learned from covid is that functions need to be embedded and should be used to assure decision makers, and their expertise should be part of the decision-making process and records should be kept.

Chair: I think we would expect the same, but it is useful to get that on the record. You have also just held up the Treasury as a paragon of virtue on this, so we hope we won't have any problems with you in the future. That is now on the record, too.

Q82 **Peter Grant:** Ms Little, I want to go back to a question I asked you at the beginning of this session, about the optimism bias in the Treasury, which you said you didn't think was a fair description. The Comptroller and Auditor General's report on the accounts says, in paragraph 12: "HM Treasury did not anticipate the extent of delays and was over optimistic when laying out account production and audit timelines." Did you sign off on that report?

Cat Little: Obviously I see the Comptroller and Auditor General's report, but I certainly don't have the right of sign-off on his comments.

Q83 **Peter Grant:** So do you disagree with that part of the report?

Cat Little: I don't disagree with it—obviously, that is the Comptroller and Auditor General's judgment. What I would say is that we are always trying to be realistic, as I said earlier. I can debate the extent to which our judgment has optimism in it, but the most important thing is that we are using evidence and making assumptions based on the best possible information available at the time. I have to say that optimism is not something that the Treasury is usually accused of.

Q84 **Peter Grant:** Fair point. I suppose we are used to dealing with NAO value-for-money reports, which are always agreed and signed off by the relevant Department. Given that this is a different kind of audit report that has not necessarily been agreed and signed off by the Treasury, is there anything in it that you take issue with, because clearly we are going to rely on it quite a lot when producing our own report? Is there anything in the NAO report on these accounts that you disagree with?

Cat Little: No. I should say that I have regular engagement with the Comptroller and his team to talk through all the issues that we are facing, and not just with the Whole of Government Accounts but with all accounts and financial reporting. There is certainly nothing in the report that I object to. I have always found that setting out our perspectives and having a good discussion openly about professional judgments is exactly what we need from our auditors, and I think it is a really healthy and independent perspective to have.

Chair: I should just highlight, given that you have mentioned it, that the NAO does very important work for us and the Treasury on this. The section setting out the Comptroller and Auditor General's report and his commentary begins on page 203, and his own report and recommendations begin on page 209. We have not gone through all of that in detail today, partly because of the speed with which we have had to deal with this, but it is very clearly laid out in the document. I am sure that we will come back to this as a working document between now and the next accounts being published in 2023. We are very much looking forward to the next one, because of course that will cover covid. We will be very interested to see what trends emerge.

Thank you all very much for your time. I say a further thank you and goodbye to Vicky Rock. I think we might be seeing you in another guise at some point. Thank you for your service in the civil service and on this particular issue. Thank you, Tom Scholar and Cat Little.