



HOUSE OF COMMONS

Public Administration and Constitutional Affairs Committee

Oral evidence: Government Financial Reporting Review, HC 252

Tuesday 5 November 2019

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Members present: Sir Bernard Jenkin (Chair); Kelvin Hopkins; Mr David Jones; and David Morris.

Questions 1-83

Witnesses

I: James Bowler, Director General, Public Spending, HM Treasury; Mike Driver, Chief Financial Officer, Ministry of Justice and Head of Government Finance Function, HM Treasury; and Vicky Rock, Interim Director, Public Spending Group, HM Treasury and Interim Deputy Head of Government Finance Function.

Examination of witnesses

Witnesses: James Bowler, Mike Driver and Vicky Rock.

Chair: I welcome our witnesses to this special session of the Committee on the Government financial reporting review. I am extremely grateful that you have come, and that you have been allowed to come, at this particular moment. We are the only Committee sitting today; everyone else has packed up.

The reason we thought this session was really important is that it is unfinished business, and we will want our successor Committee in the new Parliament to carry on this work. We particularly value the fact that we have officials in front of us rather than Ministers, because you will perhaps be able to give us some unvarnished factual truth about how this review is progressing and what will come out of it from an objective point of view, shorn of the politics, which is what we are not interested in in this session. To start with, will each of you identify yourselves for the record, please?

James Bowler: Certainly. My name is James Bowler. I am the director general of public spending in the Treasury.



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Vicky Rock: I am Vicky Rock, a director of public spending in the Treasury.

Mike Driver: I am Mike Driver. I am the chief financial officer at the Ministry of Justice, and I am the head of the Government finance function at the Treasury.

Chair: That is one of the horizontal professions.

Mike Driver: It is.

Q1 **Chair:** Excellent. We know all about that in this Committee. May I start with the first set of questions? We will ask fairly crisp, rehearsed questions, and if you can give fairly crisp answers, we will get through more quickly. There will be supplementaries, obviously. How has the vision for departmental annual reports and accounts changed, and what will it be like in two or three years' time?

James Bowler: I will start, if I may, and then hand over to colleagues. The two reports this Committee has done mean that we are due to do a fairly fundamental change of annual reports and accounts. We published a review earlier this year, which incorporated the two reports of this Committee's recommendations, and we will enact them in a manual to be published by the end of the year, which we have finished consulting upon.

We expect the biggest change in annual reports and accounts since 2014 to come from that—a culture change in what the reports are trying to do, by putting the user first. Essentially, we expect the improvements to be around balance, transparency, value for money and performance, and accessibility, but this will be a story of continuous improvement and we would very much welcome this Committee's continued engagement. Perhaps Mike could speculate about the future.

Mike Driver: I was reflecting on our accounts just this morning; I looked at the first set of Ministry of Justice accounts and compared it with our current set of accounts, and they are incredibly different. Our ambition is for accounts to continue to improve—to continue to be more accessible and more relevant to the reader, whether that is parliamentarians, our own staff, the public or the taxpayer. The work we have been doing, though, will allow the structure of the accounts to remain consistent, built around the three key elements of the accounts: the performance report, the accountability report and the financial statement.

The revised financial reporting manual—the FReM, which is the guide we use to set the standards for accounts—should provide much better performance reporting as we go forward. Our aim is to make the accounts that much more relevant to everyone. As an example of that, we have used language in the revised guidance that encourages greater use of visualisation in the accounts.

Our ambition is that you should not have to be an accountant to understand what the accounts are saying, but that you should be able to see much more easily what the broad story of the accounts is. Vicky may



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want to go into this in a bit more detail, depending on your questions, but we also want to shift from a situation of minimal reporting to best practice reporting. One of the things we have been doing is creating a series of best practice arrangements, which are available to the entire finance community across Government.

Vicky Rock: Thinking about that, one of the biggest changes in setting the standards through the financial reporting manual that will come into effect for 2020-21 is that the manual has now moved from setting the bare minimum requirements—that is something we had in the past—to something that sets best practice and gives a very clear articulation of what best practice is. It also introduces “comply or explain”—a brand-new concept for the public sector, but one that already exists in the private sector—to say, for example, “You need to provide trend data; you need to provide context. If you don’t, there needs to be a very good reason, and you need to tell people openly why you are not doing things.”

The shift from that minimum to best practice and comply or explain, and giving additional tools for visualisation such as infographics to say how you really promote best practice, is where the biggest shift is. For some organisations that will be quite a radical step, but I see most of this as levelling up of the reporting that is out there. We have brought out a lot of good practice examples in the Government financial reporting review. They are very much out there in the public sector. The approach here is to make that more consistent, so that the change you will see over the next two to three years will be those best practice examples being common, and then becoming standard, and then pushing best practice into new areas elsewhere.

Q2 Chair: What motivated our inquiry and our response to the original Government response is a frustration that if something is being debated in Parliament about the performance of a Government Department, at the moment the annual accounts are not an obvious document to draw from, because they do not tell you anything relevant, or it is not readily available. You would not get much from going into the Chamber with the Library brief and the report and accounts to quote from.

How much is it your ambition that an MP interested in the Department should carry around the report and accounts with him or her and open it and show colleagues what is in it, why that is relevant and what needs to change? It does mean exposing vulnerabilities and shortcomings rather than just advertising how wonderful the Department is.

James Bowler: You are saying a range of things there. I think the key one is really the issue of balance, and a big theme of the manual we are now asking Departments to follow is balance, which means you set out not just what you met but what you did not meet. It means showing not a partial picture but a complete picture. There is a whole set of guidance that we can go through in more detail, if you wish, that sets out why that is the case.



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The second thing you are saying is, “Is this of any use?” I think it is becoming much more useful, because the performance report—the user-friendly narrative part of the accounts before you get into the drier, numerical part—is significantly better now and will continue to be significantly better. You just need to look at the best practice examples we have got there, which I think really do help the public and Parliament, as the primary user, to do that.

I guess the challenge going forward, which is one that your Committee is well placed to make, is that we encourage Select Committees that work with Departments, and you in their oversight, to say what they want in these reports and accounts. That is what you are doing, but for each Select Committee to say what it wants from the Department would be a key way of making sure that the reports and accounts continue to be as relevant as possible. There are lots of different things we can unpack there.

Q3 **Chair:** That is a very helpful comment, because Select Committees tend to be interested in more tangible issues, but the Scrutiny Unit of the House of Commons would certainly be interested in ensuring that Select Committees engage in that way. That is a very helpful comment to make.

What do you think will be the most visible changes? How long will they take to embed in the culture of Departments and the finance profession?

Vicky Rock: Why don't I start? Then Mike wanted to give his perspective from a Department. Some of the most visible changes will be the new requirements we are giving to Departments: the introduction of comply or explain. New mandatory reporting requirements will be coming in as a result of this, focusing on performance reporting, on trend data and also on risk reporting—really picking up the themes that came out of this Committee's reviews about the areas where the current reporting is not meeting the needs of users, and strengthening the requirements so we are not just telling people, “This is what you should be doing” but setting a much higher bar.

Q4 **Chair:** Can you give us an example?

Vicky Rock: An example would be the requirement for trend data in the performance report. We know that, in the past, our guidance has focused much more on the financial statements. We have always given a bit more freedom on the actual performance report, but now we are putting in a mandatory requirement to include multi-year trend data. The only acceptable explanation for why you would not do that would be if it was not available. Even then, we would expect that trend data to build over time, once it was available. That would be an example of a requirement that was not there that will be there for 2020-21.

Q5 **Chair:** Does this involve a cultural change in financial reporting, do you think? How long will it take to embed?

Mike Driver: It does require some cultural change. One of the things we have been trying to do as the Government finance function, as part of our strategy, is to ensure that we have the right people with the right



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capabilities doing our financial accounting and reporting. It has involved speaking to the chairs of audit and risk committees to make sure that they are aligned with this.

An example of this would be the way in which the civil service and the Government in particular have engaged with the Building Public Trust Awards with the National Audit Office, where there has been—and it is a recognised position from the National Audit Office—an improvement in the way in which financial accounting and reporting has been developing across many Departments. I think it is pretty crucial. Vicky talked about risk and changes there. Sir Bernard, you may know, but we have recently revised all of the risk arrangements for Government.

Q6 **Chair:** We are going to come to that.

Mike Driver: We are in the process of doing it. I will not go into any detail, but one of the important features of the approach we want to take—it is cultural in many respects—is to make sure that risk management is properly embedded in the financial accounts as we go forward.

Q7 **Chair:** What will an MP be able to pick up from the accounts that demonstrates value for money or lack of?

James Bowler: It is a marriage of performance and out-turn. The single departmental plan will set out what a Department is trying to achieve and its key objectives and its KPIs. Then, the annual report and accounts will report against that. When you talk about progress, those two things have been marrying up slowly and we expect them to be much better aligned going forward. That is part of the thing.

In terms of value for money, there will be trend data on spending and trend data on performance. You can link those two things to look at value for money.

Chair: I have a question on single departmental plans, but I will come back to that later.

James Bowler: Sure.

Q8 **Chair:** Moving on to the zero-based review of the financial reporting manual, how does this differ from previous reviews? What makes it feel different for you?

Vicky Rock: The scope and scale are unlike the typical annual review cycle that we do.

Chair: You would say that.

Vicky Rock: Specifically, one of the first things is that it has introduced structural changes into the financial reporting manual. It has brought in new principles or concepts that were not there.

The financial reporting manual now has a chapter on the purposes of financial reporting and it incorporates the four principles from your own



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report, given a high level of prominence in the financial reporting manual. It sets the scene about why it is important to get this right and what that involves. It sets out what we really mean by balanced reporting and what Departments have to do to achieve that. It sets out best practice examples. It also sets out the new requirements under a comply or explain approach. It is actually a much more rounded, substantial guide to financial reporting, it provides a substantial increase in the amount of guidance and it is setting expectations in performance reporting. In order to do that, it has been a much greater exercise.

There is a steering group to oversee it, we have just finished a six-week consultation, and we have tested it with focus groups within Departments to make sure that these new concepts being introduced by us can be implemented by Departments in practice. It is substantially different from a typical review cycle.

James Bowler: You might recall that in debating your two reports and how we were going to enact them, we agreed to have an advisory board to make sure that all points of view fed into this zero-based review. You proposed that the Institute for Government and Full Fact be part of that advisory group, and we accepted that. A major difference is that it was not just us marking our own homework, it was other people advising us.

Q9 **Chair:** We appreciate that. It is a good point to make. That answered my next question as to how you ensure that these commitments are actually carried out. You have got some external review. Why have you divided this into two phases? What is the purpose of that?

Vicky Rock: Pure practicality. It is in order to have as much ready as possible to be implemented straightaway. In phase one, we have focused on all the requirements that make a difference to what is going to be there for a user. Phase one introduces the new requirements, concepts and principles that we expect people to follow.

Phase two—which follows next year—was essentially separated so as not to delay phase one, which is the one we want to have the quickest difference on. Phase two will be much more focused on preparers, and is centred on how to make a manual as useful and as easy to navigate to a preparer as possible. It was purely to make sure that as much as possible was ready for the next accounts cycle.

Mike Driver: It changes the tone slightly as well. The last major review we did was in 2014. The two-phase approach is pointing to our intention to have a process of continuous improvement in this. So, rather than doing five-yearly reviews, we will pick these things up on a more regular basis.

Q10 **Chair:** How much is it the intention that if you pick up a set of accounts from one Department and then pick up a set of accounts from another Department, your familiarity with one Department's annual reports and accounts will immediately enable you to navigate the other Department's report and accounts in exactly the same way? That is in the same way as



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accounting standards in the commercial sector create complete transparency about commercial companies, as far as their statutory requirements are concerned.

Vicky Rock: We already have that common structure across all annual reports and accounts of performance reports, accountability reports and financial statements. You will already have seen—as you referenced—a high degree of consistency on financial statements, because we are all applying international financial reporting standards. We are improving that consistency.

Chair: May I challenge you on that? I am sure that is correct in substance, but it does not feel like that when you open the reports and accounts themselves—not to the lay user.

Vicky Rock: Consistency in that latter part of the document and in financial statements is probably where we have focused most of the time and attention in the past. I can understand the feeling that when you are looking at the performance report, it feels a lot more as if it is in the hands of that individual Department, and in the hands of the individual accounting officer.

Chair: “Subjective” is the word.

Vicky Rock: One of the things that we have done is to set out the different elements of the performance report that need to be there, and the different elements of the accountability report. Referencing the risk reporting, we are also setting out more of the minimum requirements when it comes to referencing progress against your single departmental plans, and our expectations in that area. Those are common elements that we believe that every Department’s annual report and accounts should include. That is what we are putting into the financial reporting manual. There will still be some narrative and ability for a Department to explain its context, but it is about increasing those core elements.

James Bowler: You asked us to be candid and not ministerial. We use IFRS accounting elements. We think we do that really well. We are the only country in the world that consolidates that up to the whole of government accounts.

For the whole of central and local government, we do 8,000 consolidated accounts all in one. The challenge is the culture change of user-friendliness of both that document—the whole of government accounts—and the other things. Much of what we will talk about today, and much of your challenge in your reports, is to make it more user-friendly, more useful and more accessible. The key there is that as you pick up different accounts you go: “Oh they do that well, or they do that well”, but it is not all necessarily identikit.

The phrase “levelling up” is a key challenge for us—getting best practice and making it the norm, and making sure that other people follow that. I think that is happening. The performance report element of accounts is getting better and better. My own accounts at the Treasury are



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significantly different from a couple of years ago. That is where the challenge lies and it is right that you are challenging us.

Mike Driver: This is a focus of the Government's finance function. For example, on 20 November, at our next meeting, we are focusing on financial reporting and the accounts. We have the Comptroller and Auditor General and his senior team coming to give us their feedback on the 2018 to 2019 accounts and how the process worked from their perspective and the lessons that we should be learning across Government.

One of the key things that a function can do that a Department is less able to do is share those stories and good practices much more effectively. In direct answer to your question, we would like to see accounts be more consistent across the whole civil service and government, because that allows different readers to get that picture of what is happening in those individual Departments.

Q11 **Chair:** I appreciate you are taking great care over this and seeking to engage widely across Government Departments, users and representative user groups, but why does it take so long? How quickly can you go?

Mike Driver: May I challenge back slightly on that? It is not taking that long. I think we are making very significant progress. I will use a Ministry of Justice example. Our accounts for 2017 to 2018 were acknowledged by the NAO at the Building Public Trust Awards to be the best set of accounts that they had audited. This year, HMRC's was in the top three of the sets of accounts audited by the NAO, so I think Departments are making very significant progress.

Clearly, the accounts are an annual process, so perhaps it feels slower because of that. We are absolutely committed to improving the quality of financial reporting and accounting.

Q12 **Chair:** Are you meeting any resistance? What resistance are you meeting?

James Bowler: You are champion of the functions and I think that has helped a lot here. If it is not in the function and not in the finance side of things, the joy of Whitehall is that there are still individual Departments in their individual places with individual accounting officers saying that what they are signing off is fair, balanced and understandable. There is still that personalisation, which has a lot of benefits to how people want to present things. That can get in the way of some standardisation.

Vicky Rock: There is a very high appetite for Departments to learn from each other. One of the things that we are doing at the upcoming finance leadership group, as well as having the Comptroller and Auditor General there, is to have two Departments showcasing what they do and how they do it. Sometimes it is not so much that there is a barrier of people thinking it is a bad idea, but that you have limited time and resources in a Department. How do you direct it—how do you take that time to step back to plan and think about what practical steps you could take to make a difference?



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Even though those mandatory requirements have a year to come in, when it comes to the best practice bank of examples, it is already online. We have HMRC and the Home Office coming to showcase to Departments how to do quality and speed. Speed is a real factor for Select Committees, if they want to be able to have hearings before the summer recess. You asked me earlier about the aspiration to have Select Committees really using this document. For me, it is a very high aspiration and the question is how we support that. The resistance is more about the capacity. We work on getting the finance leadership to really believe in that.

Within the function, we also work on capability; we work on the tools and training to make sure that people can have these good ideas and think about how to report well. However, it is for the actual mandatory stuff that we look to increase the bar over time.

- Q13 **Chair:** A new phrase is going to enter my lexicon of great phrases: “the joy of Whitehall”. I take it that you mean that, actually, the joy of Whitehall and the friction between Departments is a creative process, and that resistance is not necessarily a negative but a testing in the fire of new ideas and new concepts.

James Bowler: We could do a whole Committee hearing on that. What you have here is really good practice coming from all over the place, which has not been mandated. People are saying, “This is a really good way of doing it,” and people are copying that—bidding each other up. But of course—and it comes straight to parliamentary accountability—these accounts are owned. There is personal responsibility by the accounting officer, the permanent secretary and the official—not so much the Minister—to these accounts. With that personal responsibility, where they expect to have a Committee meeting with their Select Committee, can come some individualism.

We are at the centre, and you—the Committee—shadow the Cabinet Office a lot. The centre needs to balance how much it is telling Departments what to do all the time on a broad level, how much it is encouraging them and how much it is helping them. They tell you very quickly if you have got that balance wrong, I can tell you.

Chair: This is terrific. Thank you very much.

- Q14 **Mr Jones:** The Government have committed to a programme of thematic reviews, focusing on various reporting issues. How will the Treasury decide which areas to focus on in these new reviews?

James Bowler: We will decide, basically, on where we think the most progress can be made—where there is an obvious gap, perhaps. Two reviews are due to conclude by the end of the year. One is on how we represent statements to Parliament, which focuses on the user side of explaining the accounts, and the other is how we did in implementing some specific standards, which focuses on the preparer side. We took that dual approach.



Going forward, we will look to see where we can make most progress. In doing that, will we decide of our own volition? Well, no, we have got a user preparer group going forward, which has lots of external people, including parliamentary representation. We will happily hear their ideas. We have got our independent financial reporting advisory board, which will feed in some ideas, and we would be very happy to have Select Committee and parliamentary views as to where we can make the most progress.

Q15 **Mr Jones:** What outcomes do you expect from these reviews?

James Bowler: This is about the continuous improvement that Mike was talking about. The idea is that we pick some areas that we can really focus on to make things better. The outcome would be to change the guidance and implement it for the next reporting round. I think the idea is that, rather than proceeding on a completely broad front and getting nothing done, we should pick a couple of areas a year to burrow right into and try to make a step change in improvements.

Q16 **Mr Jones:** Presumably it is your hope that this will make a big difference to users of these reports. What do you envisage will be the improvements, so far as users are concerned?

James Bowler: I think it can also help the preparers of the report, but I think for users it will be about the concept of levelling up. It is a really good example of how to take stock of how everyone is doing and to say that some people are doing it really rather well.

In our review, we published some examples, and we have a bank of best practice examples as well. It could be the device that says, "Look at how one Department is doing it. Why don't we make that best practice for everyone?" I think that can be the step forward. That will mostly be about how that Department is helping users to engage with their accounts and showing people stuff in a useful, accessible way. That is the focus.

Mike Driver: May I build on that for just a moment? Vicky and I were talking about this while we were waiting to come in today. There are examples that we don't even know about and don't share effectively enough. We produced a document for all our staff and we put it on the intranet—we provide it to the Select Committee on Justice—explaining how to read the accounts. These are big documents and you need something that helps you navigate through them. Those are the sorts of ideas we want to share, so that we can help the user to understand, not just the story of the accounts, but the way in which they can link different pieces of data together.

Vicky Rock: This is a whole new programme for us. We haven't had thematic reviews before, but they allow a deep dive into a particular subject area from the perspective of a user. We look across all Government Departments and ask, "How well is it being done right now? How do you change your mandatory guidance, the tools you give people, your best practice guidance and"—to pick up Mike's point—"best practice sharing?"

That is to ensure that what we put in our manual is being translated in practice to achieve the objectives we want. That way of checking between the requirements that we set and what is being produced is what they are matching. We close the loop back round to ask: Where do we need to change our guidance? Where do we need to support better implementation?

Q17 **Chair:** Thank you. Can you undertake to continue the engagement with the external fact checkers and user groups in those ongoing reviews?

James Bowler: Yes. The advisory board for our report is wound down, but we are doing a user and preparer group, which will include a parliamentary representative, academics and think-tanks, as well as the people who prepare the accounts. That is a formal group that is first due to meet in December.

Q18 **Chair:** Including the groups you named earlier?

Vicky Rock: Yes. We have approached them and asked them to be members as well. We have certainly approached the IFG and are just waiting for confirmation.

Q19 **Chair:** Why not just have continuity of the existing review group?

Vicky Rock: The existing review group—it's just about making sure there is the balance between users and preparer. This we want to have more of a user focus. We had excellent engagement through the previous group, so we are looking to those individuals.

Chair: I take that as an assurance.

Q20 **Kelvin Hopkins:** A number of witnesses to our past inquiry highlighted spin in annual reports as an obstacle to confidence in reporting. How can you ensure that Departments report in a more balanced way, particularly where performance is below expectations?

James Bowler: That has been a big part of the report we did earlier in the year and the guidance going forward, where balance is requested. I think the answer comes in a couple of areas. There is now a principle of balance. People building accounts are asked to ask themselves two questions: Is the information complete? Is it in its full context?

The point of that is so that people have to say what is not met as well as what is met—not just the things that are going well. We are asked to set things out in plain English, so you can't sweep it under the carpet, and to put things in context and in trend, so that you don't just have a number; you have a trend of numbers, so that you can see whether it is better or worse than the year before.

As Ms Rock said earlier, we are building from a bare minimum to this concept of "comply or explain". That means to set out all the best practice or explain why you haven't. It won't allow the preparers of accounts to pick and choose what they put in.

Q21 **Chair:** That sounds like a compromise, doesn't it?



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James Bowler: I don't think that is right. I think we really have tried to push quite hard on what we can, through guidance and whatever. Probably the biggest change will come by marrying performance to out-turn. So, we are moving quite rapidly with saying what Departments are trying to achieve. I might talk about outcomes in a bit more detail later if you want to get into that.

There is this map thing. At the start of the year, what is the Department trying to achieve? Then it should report in the annual report and accounts how it is doing against that. The SDP and the annual report and accounts do that. By doing that, you will see more clearly the reality of how people are doing, and it will be harder for people just to pick out what is going well.

Then there are all sorts of assurances that move into that. The accounting officer has to sign off these accounts, with some personal responsibility, and say that they are balanced, true and understandable—have I got that in the right order?

Vicky Rock: "Fair, balanced and understandable."

James Bowler: Fair, balanced and understandable. We have to go through an audit and risk committee, which is chaired by a non-executive director, who also has to look at the accounts, so there are several levels of assurance there. I know why you are saying that it might be compromised, but we think we are pushing there, and we can perhaps talk a bit more about the data and how you can actually see it.

Q22 **Kelvin Hopkins:** That sounds very promising for the future, but there are ongoing concerns that Government Departments selectively report in a way that is clearly designed to keep the prying eyes of the National Audit Office, and possibly the Treasury, away from what is really happening. I can think of examples.

I won't trouble you with them now, but there are some examples of where Government Departments are clearly hiding costs and expenditures from Treasury sight. These things leak out over time. There are techniques they have used, which we have seen in our report. Are we really going to see a time when Government Departments cannot disguise what is going on inside them, and the NAO and the Treasury will really get a grip of them?

Vicky Rock: I would like to pick that up on the practicalities. One of the things that we are doing right away is being much more explicit about what we mean when we say "balanced reporting". The concept of fair, balanced and understandable has existed in the public sector for a little while, but there is obviously still not always that level of trust between users of the accounts.

One of the things we have already done is to be very clear and say, "This is what balanced reporting means, and this is what you need to be achieving," including things like not being selective, giving the whole picture and giving the context that goes with it. That is some of the



theory. Mike Driver and I are, through the function, supporting Departments and audit and risk committees to make sure that follow-through happens, and that you, I and Departments have an equal understanding of what balanced reporting looks like in a Department.

Mike Driver: Building on that—you may well come back to this—that is why risk is such an important feature of what we are trying to do as we go forward. We are bringing an approach to risk management very much into the scope of the annual report and accounts, so that the key issues that Departments are facing and the risks they face in dealing them will be much more transparent through the performance section of the report.

James Bowler: You raise a really important topic. I am very interested in this from my spending role in the Treasury. On the numerical side, I do not think Departments can effectively hide the numbers from the Treasury, the NAO and what-have-you. They are required to set out not just their budgets every month to us but, most importantly, their balance sheet, their assets, their liabilities and their contingent liabilities, and that reporting is world class.

Where there is more to do, and where we focused this report, is on the performance side of things. A Department can't say, "We thought we were only spending 100, but it turns out we are spending more," because that all comes out in the out-turn. The slightly more subjective thing is how you are doing against your desire to reduce crime or against your KPIs. That reporting can be more subjective, and that is where we want to push things.

Q23 **Kelvin Hopkins:** Will public confidence in the reporting of Government Departments' spending be raised in the future? Are you confident that that will happen?

James Bowler: Yes, I am. I will separate it out. I think the UK financial reporting of the numerical side of the accounts—budgets, balance sheets, assets, liabilities, contingent liabilities and financial transactions—is world class, and people should be extremely confident in the out-turn data. You can look at all sorts of international comparisons that say how well we do things. We have, for example, an independent Office for Budget Responsibility, and a whole of Government accounts that is world class. I think progress can be made in that first part of the pronouncement—the performance side—as I will probably set out a bit later. Some of the stuff we do there is less world class. We could copy from others and do things slightly better in terms of our performance reporting.

Q24 **Kelvin Hopkins:** That leads to my next question: why can performance information not be independently checked?

James Bowler: I think a proposal in your reports asked whether the NAO should do more of its audit on the performance side, and the NAO itself said that it could only check the facts. It checks the financial side and the facts on the performance side, but as it said, it cannot do the lot.



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When you are after more independent assurance, you need to look at other areas. Our public finance and economy forecasts are done independently. I think the best practice around the world is by the Office for Budget Responsibility, and I know you have a close interest in the UK Statistics Authority and how our statistics are produced, which is obviously done independently. You have to marry those various things, but there are limitations to auditing every word in the accounts, and those are set out in our response to your report.

Mike Driver: Let me pick up on the point about the UK Statistics Authority. The Finance Leadership Group has tried to encourage people from different functions to join us. Ed Humpherson is in charge of the UK Statistics Authority. He is now a member of the Finance Leadership Group, and he can bring his knowledge and experience of a statistical approach to the approach that we take to accounting and financial reporting.

I stress that with the National Audit Office the accounts are audited, the financial statements are consistent, and the performance report is checked for consistency against the financial statements. We mentioned earlier the role of audit and risk committees, which we believe have an incredibly important role within Departments in checking not just the financial statements, but the flow of the entirety of the report.

We want to continue to build on the work that audit and risk committees do, and we are currently setting up a meeting with the chairs of those committees to ensure that they are completely au fait with the changes that we are looking for through our review.

Q25 **Kelvin Hopkins:** Given that you accept that the accounts that report on value for money must be credible, do you think that an annual report with unchecked performance data can ever meet those objectives?

Vicky Rock: In our response to the financial reporting review we included a chapter about trustworthy reporting, and we looked at what sources of trust we can rely on in addition to external audit, which covers all the financial statements in some, but not all, of the performance report. That document talks through the “three lines of defence” model. The first one is about getting it right in the first place—having skilled staff, and the requirements and professional obligations that people have as members of institutes to provide accurate information. We also have the oversight that the Cabinet Office, the Treasury and others provide in setting the requirements.

The things that we do here, and the requirement for contexts, trend data and risk reporting, gives us an extra level of reliance. We have the important role of internal audit and the way that it supports accounting officers and audit and risk committees.

The accounting officer is able to take responsibility and sign a performance report personally. That is fair, balanced and understandable, and we are explicit about what we mean by that. An audit and risk committee is also a significant source of challenge and scrutiny in that process. I would put a



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lot of onus on Departments and their governance structures, to ensure that what comes through in the first place is right, checked and subject to proper scrutiny.

- Q26 **Kelvin Hopkins:** One last question. Some years ago, the phrase “burying bad news” became common in the Government’s political parlance. Are you confident that in future Government Departments and Governments will not be able to bury bad news?

James Bowler: I think that phrase comes from what date you release a bit of information on; the beauty of the annual accounts is they are there, they are standard, they are out-turned for the whole year. They are due to report before the summer recess and have Select Committee reports on them, so it would not be a brilliant place to try and hide anything. It is not about slipping something out: if I can borrow Mike’s one—you can’t really slip that report out while no one is looking.

- Q27 **David Morris:** How can accounts better reflect activities and outcomes, rather than just reporting on the way those services are currently organised?

James Bowler: The answer is by marrying up performance reporting in the single departmental plans in the annual report and accounts, so the single departmental plans say “These are the objectives of the Department; these are the key performance indicators and this is what we are trying to achieve,” and then the annual report and accounts report how that is doing. Key to that—and perhaps we will explore this—is the extent to which what Departments are trying to achieve are outcomes in the first instance, and therefore the reporting on them is reporting on those outcomes. I will perhaps explain, in a couple of minutes, why I have said that.

- Q28 **David Morris:** What changes do you want to see in the activity reporting as a result of the financial reporting review?

James Bowler: In terms of the activity reporting, we are very keen that people do not just report at the highest level, but report at a programme, project and policy level, underneath just the very stock data, and there is quite a lot of best practice on how people are doing that. There are examples in our book about how MoD are setting that out, which is very accessible to the public, and DCMS are reporting on all their activity by programme since 2007, all in a line. That context, that trend, is, I think, really important, so that people can understand how things are progressing over time, and how things compare to previous years; and you get a better understanding of performance.

Vicky Rock: Two practical things that we have done with the guidance that we have written are, first of all, to tell the Departments to report by policy or programme or project, where it is appropriate. We have also specifically told them in the manual, which we have not done before, to engage with their Select Committees.



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We have encouraged Departments very strongly in that area in the past, but we are putting the onus very much on them to make sure that they are talking to their Select Committees and getting their feedback about how to break down that performance in a way that is going to be meaningful and tailored to that Department.

James Bowler: You asked us to be candid about—as officials versus Ministers—where we are. The reason I brought up the issue of outcomes is that we would say that the UK at the moment is not world best practice on how it reports on outcomes. So we think the reporting has got quite input-focused—so x people, or x amount of money—rather than, “We as a Department or we as a Government are trying to achieve the outcomes that most matter to the public.” So we have been doing quite a significant bit of work, which we are near the end of, which we hope will change that quite significantly. That is to just try to bring the UK system back to a much more outcome-focused system.

This work has been helped by a report by Michael Barber, who did a report for the Treasury on this topic and how we can best do that. In the last spending round, in September, we set out where we were going to go, and it started to show the outcomes that each Department would want to achieve. Some of them already have these, but this would be all of them. Those outcomes are, for example, reduced crime, reduced violent crime, better life expectancy, better educational attainment. So there are actual outcomes, and then a whole set of metrics by which you can measure whether those outcomes are being achieved. We are pretty much ready to roll that out.

I am jumping in there because my best answer to your question is that that is where the Government can most improve, and we as officials can most improve our service to the public sector. I do think that things have got a bit input-focused, where it is, “If you are worried about this, don’t worry, because we are spending this amount of money on it.” The best example would be that the Prime Minister himself said, “I’m not interested in 20,000 police for the sake of it. I am interested in 20,000 more police so that they can reduce crime.” In terms of your questions, that, for me, would be the biggest step forward that we can make on that, and we are hoping to do just that in the new Parliament.

David Morris: Thank you.

Q29 **Mr Jones:** Other countries seem to have taken further steps than the UK in presenting information in a user-friendly way. The Committee has seen examples of the Canadian InfoBase repository, which we find impressive. Is anything preventing the UK Government from presenting information similarly? If not, why has it not been done?

Vicky Rock: That is an excellent question. First of all, we very much talk to and work with other countries. There are areas where other countries can learn from us, particularly in our financial reporting and whole of Government accounts, and there are areas where we can learn from other countries. The Canadian tool is absolutely excellent—I have used it



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myself—but it is quite difficult to lift and implement that Canadian approach by itself, because the approach in Canada is quite different.

In Canada, they do not do annual reports and accounts for each Government Department; it is a completely digitised way of reporting. So whereas in the UK, to look at Mike Driver's example, we will have that performance and accountability and the financial statements for a Department signed off and audited in one piece, in Canada they do quarterly financial updates. They do not do a Q4 or end of year one; it is a web-based report into a consolidation of the whole of central Government.

In order to do something like that in the UK, you would need not just to introduce a new technology over the top of what we have got right now, because if you were to try to produce annual reports and accounts and a web-based version at the same time, it would be really challenging in capacity, timing and how you would do that. You would actually need to work on getting that digital element right at Department level first. You could imagine having an MoJ annual report and accounts that was fully web-based and you could build that into something like an InfoBase store. There are steps you would take to improve accessibility and how attractive it is—the Canada tool draws you in and you want to use it.

Q30 Mr Jones: Yes, and it is also very clear. The information presented is easily assimilated and understood, whereas, frankly, departmental reports and accounts are byzantine. It is very hard to work your way through them. I appreciate that it is challenging, but surely it must be possible to take steps to move towards something that is as user-friendly, or approaching as user-friendly, as the Canadian example.

Vicky Rock: Yes, but there is one advantage to having an annual report and accounts, which is the narrative that comes with it. That explanation alongside the figures is really valuable. Having the tracking for a Department between what Parliament voted to be spent and the out-turn—and, as we get better on that, the outcome—in a single place is really valuable. Also having it at departmental level, such that a Select Committee can engage with it, is useful.

When I think about what we can do to be better and closer to the Canada example, first of all, we have the whole of Government accounts: the idea of a uniquely comprehensive consolidation. The UK is the only country that can actually see spend for all of central Government and local government in one place. However, when it comes to making it web-based, we are investing in new technology in the Treasury to improve how we collect and consolidate financial information, and we are looking at which other elements of that that we could then put online.

It is difficult, just because of the sheer quantity involved, but we are looking at talking to data scientists and others to see what can be done. One thing I am very keen on is to make the data accessible, so that people can then create their own tools. I know that the Scrutiny Unit has one, and the National Audit Office has one as well.



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Q31 **Mr Jones:** Frankly, it sounds from your answer as if we are some way off having a similarly useful user-friendly information hub as that enjoyed in Canada at the moment.

Vicky Rock: But we do have the annual reports and accounts. There are elements here that we have in the UK system that are quite strong in their own right, even though we are not as strong on the digital interface as in Canada.

Mike Driver: Over time, we could go to wholly web-based accounting. One thing that would have to change for us to do that is Parliament's appetite for bound sets of accounts. However, there are opportunities for us to continue to modernise in the way in which we present and explain data. We are really trying to do that, both because of what we were talking about around trust and also for the accessibility and transparency of that data.

Q32 **Mr Jones:** Speaking personally as a parliamentarian, I will be far happier to be able to access the information I want on my iPad than having to look at a bound set of accounts and reports.

Mike Driver: We produce a PDF version of the accounts online, but as I say, we need to go one stage beyond that to make it more accessible.

James Bowler: We need to make it interactive.

Vicky Rock: We would absolutely love to do that.

Mike Driver: We might take that away and think about whether we can do something there.

Q33 **Chair:** Part of the motivation behind this whole inquiry, and indeed the subsequent revisited report, is an anxiety that only exceptional Ministers seem to want to have this information regularly in their own Departments. Some Ministers are not interested in the accounting of their Departments.

What Michael Heseltine had in the MINIS system—management information system for Ministers—for example, was regarded as a sort of breakthrough, yet that kind of programme-level detail that should be the meat and drink of any Government Department delivering programmes or policies. The public and parliamentary Committees need to see that to have confidence that Departments are being properly run. This system seems to deliver that. Having now seen the system, can I add it to our shopping list, please?

Vicky Rock: There might be an area in which we need your support as well. We have been in discussion with the Journal Office to try to promote web-based interactive annual reports and accounts, and we are meeting a strong level of resistance; they think that this sort of bound paper copy is still the focus. We would really like to make the switch to digital. Many companies in the private sector have. There is nothing in our accounting or auditing standards that means that this needs to be a paper-bound document.



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Q34 **Chair:** If I may say so, the question of web-based or paper-bound obscures the underlying issue: is the performance data for each Government programme actually available? It is somewhat available in the single departmental plans, which I have a question about, but why do Select Committees not get that information on an ongoing basis? Whether it is web-based or is produced from a photocopier, I do not care. That kind of programme-level data is much more relevant. "Is this particular programme being assessed? Is it ahead of budget or behind? Is it ahead of time or behind?" That is the sort of thing we are interested in.

James Bowler: Very much point taken. I think we are trying to marry the accessibility of the digital versus the quantity of the data available in trying to do that. The SDP is doing quite a lot of this, and I think it is now better than it has ever been. You have had them in front of you, I think. Infrastructure and Projects Authority set out for, I think, our 130-plus biggest projects, how they are doing on cost, schedule and RAG—red-amber-green—rating. I think they have plans to do more of that, including how the project has gone.

As you say, people are particularly interested in those big Government projects and how they are doing. Maybe that is where some of the lack of information has been. We are trying to increasingly plug that hole, but I just reference that.

Q35 **Chair:** With RAG ratings, the traffic lights tend to be fairly subjective.

James Bowler: Yes.

Q36 **Chair:** But seeing in hard terms what the original timeline for a project was or what the original cost was against progress and out-turn per programme—if this information was published as a matter of course, it would lose its toxicity. It would become part of the meat and drink of accountability.

At the moment, with RAG ratings, you are invited into a Minister's office and you say "Well, I can't really show you this. Don't tell the officials I have shown it to you." Obviously, it is advice to Ministers in some respects and therefore, its candour might be a little bit diluted if it is always going to be published. However, I think we need this kind of conversation between Government and Committees on a regular basis, so we understand what is going on in Departments.

James Bowler: Yes, I agree. I was suggesting that, on those major projects, there will be more to come. Perhaps I am anticipating some of your single departmental plan points.

Q37 **Chair:** The point about single departmental plans is that we are still not publishing the full versions. Okay, there are commercial confidentiality matters, there are security matters that probably have to be redacted, but why can't the single departmental plans be basically published unabridged?

James Bowler: On this issue, you have had Cabinet Office colleagues and the chief executive of the civil service do this and there has been



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ministerial correspondence, in particular with the Public Accounts Committee on it. I am afraid I do not bring any news on that front, but the system as it works is in two folds. There is a public version of the single departmental plans and an internal one. The progress that is needed is that the public version gets a lot better. However, the reason people have been resistant to publishing the unabridged, internal point is that the centre has spent quite a lot of time trying to make sure that the decision making in Department uses its internal SDP as its management information that it takes to boards and so on.

You will perhaps know that the history of SDPs has been one of increasing influence. To a certain extent, some Departments just published internal and external ones and then put them in a drawer, but other Departments have used them more and more. We have been very much encouraging the latter. The view is that if we then published the internal, unabridged version of that, which we finally got Departments—mostly, but not totally—to use as their management information, would there then be a step back and they would go back to doing something for public sight rather than for their internal use, stick it in a drawer and go back to using their own management information? That is the unvarnished answer.

Q38 Chair: I absolutely understand that it is not quite the Italian system of two sets of accounts to run the business—

James Bowler: I hope not. Not that I recognise that system.

Q39 Chair: But, you know, there is the unvarnished truth, which is sometimes difficult to discuss without provoking political controversy.

James Bowler: Yes. The answer to that lies in making the things we publish and the SDPs much better. The key thing I would point to with that is what you are trying to achieve in terms of outcomes—the conversation I had here: you can't spin the metrics you publish. They are what they are. The stats are independent. Secondly, the whole point of balance here—that people shouldn't pick and choose what they put.

Q40 Chair: The Institute for Government has also criticised—how do they put it?—the fact that the plans “did not clearly define, in measurable and reliable terms, what achieving intentions would look like”. That seems to be about target dates and financial out-turns. The more factual these SDPs are, surely the less contentious they are in terms of what they mean. It is where things are dressed up that they become more controversial. Fact in the public domain should not be controversial.

James Bowler: I completely agree, and I recognise the IfG's comments on this. My response is that what we publish needs to be a lot better and we need to make the things we publish more substantial, with more detailed financial and workforce information that people are asking for. We need much more to say: “We said you'd do that; how are you doing against that?”

That is the proposal: to make these published SDPs have much more content. The experience in SDPs—a common theme we've had today—is



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that some Departments do this much better than others. Some people pare it right back and others don't. We are pushing people to set out a lot more. I agree with you that transparency is important, and fact should be out there.

Q41 **Chair:** Then there is accessibility. Again, IfG would like some of the appropriate data in Excel format.

James Bowler: Vicky can correct me, but I think we have committed, in both the SDP and accounts, to do it in Excel format and the other format, which escapes me. Is it .csv? Is that right?

Vicky Rock: Yes, it is. I completely agree. I know the real value of having these documents in Excel, so we are giving a very significant push on that and setting it as a mandatory requirement as well.

Q42 **Chair:** Perhaps you can encourage the braver Departments to blaze the trail and have a step-by-step approach. Good practice is perhaps going to be rewarded by Committees with praise and welcome.

James Bowler: Let's name some good people now, so that it can be on the record. As I think your report says, HMRC set out their performance. I recognise the shortcomings of it, but they set out a RAG rating of how they are doing against that, which I think gets past the balance and spin point of view.

In the report we give a set of other examples of where we think Departments are doing a really good job and we would be happy to encourage those and prod them. The Ministry of Justice is a very good example of best practice. Mike, I don't know if you want to pick that up.

Q43 **Mr Jones:** In the "Accounting for Democracy" report, this Committee recommended that Departments in future published the full public sector unit costs on a consistent basis for key services. In its response, the Government said that unit cost data should be shared where it is used for decision making. How widespread is the practice of using unit cost data to influence decisions at the moment?

Vicky Rock: The answer is: quite widespread and increasing. We pulled out some good practice examples from HMRC and the unit cost information in their accounts. The Ministry of Justice, for about five years now, has had unit cost data in its own annual report and accounts, on the cost per prison place.

You also get a lot of publication of unit cost data that is not in the annual report and accounts. There is a limit to how much can be included in there. One thing we are trying to get is better navigation to where information is also available.

If I think of the example of the Home Office: the Home Office have a very substantial amount of unit cost data, which isn't in their annual report and accounts but is on gov.uk.



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So, the answer is: widespread. Now, the requirement that we set for Departments is that if they are using unit cost data either for decision making or for accountability—many Departments have to use it for accountability where they are charging fees for their services—that is required to be published in the annual report and accounts on a comply or explain basis. That is a much stronger requirement than we had previously.

Mike Driver: May I just build on that? There are two things I would highlight. Clearly, we have set out in the new framework when unit costs have to be published. You won't be surprised to hear that, as an accountant, I think unit costing and productivity measures are really important across Government.

Q44 **Mr Jones:** Just to interrupt you briefly, given its importance, why is unit cost data being shared only when used for decision making? Is it not in absolute terms a useful barometer for cost-effectiveness?

Mike Driver: I think it is a useful barometer, but that does not mean that everything has to be in the accounts. We don't want to clutter the accounts, for the reasons we have given about transparency, accessibility and all those things. We should bear in mind that lots of unit cost data is published in the background and is very accessible. For example, the full suite of unit cost data for all 100-plus prisons is available on gov.uk, so we compare the cost of each prison by year. You need to be slightly careful with unit cost data because you must be sure that you are comparing accurately between one year and another, and that you have realtime unit costs rather than nominal unit costs. Our ambition is to make, where relevant, unit costs much more transparent. Vicky has given an example of the MoJ, where we charge for some of our services. We are explicit in the accounts about the income raised and the unit cost associated with the service we are charging for, and that is properly audited by the NAO.

Q45 **Mr Jones:** Are all Departments aware of their unit costs, and do they make use of them?

Mike Driver: I think all Departments would be aware of their unit costs and would use them. Some of the bigger operational Departments—we talked about the MoJ and HMRC—will probably be at a different stage to some of the more policy-based Departments.

Vicky Rock: Unit costs are a measure of operational efficiency, but some Departments will need as least as much emphasis, if not more, on quality measures. Unit costs track your input and how you translate that into outputs, but in a Department such as the Department for Education, for example, quality metrics—pupil attainment, retention of teachers—will also be important, rather than just the unit cost of a newly qualified teacher. There is a bit of nuance around those operational efficiency measures, and quality measures, and blending those in a Department in the right way.

Q46 **Kelvin Hopkins:** How will the Treasury ensure that the reporting of significant projects and programmes is improved?



James Bowler: I think we have covered this to a certain extent. That is done by marrying single departmental plans—"this is what we intend to do"—with the annual report and accounts of what actually happened. We now require people to set out their performance against the objectives in the single departmental plans, and we ask them to go one step further and report on progress at programme, project and policy level. We expect to do that, and a number of Departments do it already.

There is good best practice in the MoD on that front, and DCMS set out all its spending since 2007 on a consistent basis. DFID does that against each programme, and the DfT does it accessibly with an overview. There is good practice there, and the challenge is to level that up. As I have said, there are other forms of information. For the major projects where the key for annual reporting accounts is that they stem from more than just one year—universal credit, HS2, and so on—the Infrastructure and Projects Authority does a separate report on how those things are going, and it is looking to improve that reporting.

Q47 **Kelvin Hopkins:** You mentioned HS2, and I was coming to that. For years, the Department for Transport peddled a myth that HS2 would cost £50 billion or thereabouts, but the widely reported figure is now north of £150 billion—£100 billion more. The likelihood is that the cost would go higher than that over time. Clearly there has not been a grip on the projected costs for HS2, and other projects have similar problems.

James Bowler: I do not recognise those figures for HS2—that sounds very high. The way that you would assess and report on a major project as it goes through—these projects take a whole set of years—is that it goes through the various business case stages with a strategic outline business case, then an outline business case, and then a full business case.

At each stage, that project has to report in—including to the Treasury and to the Infrastructure and Projects Authority—on what the cost schedule is, and also, by the way, on what the benefit realisation is.

That is the key area in which Government need to do better, because we focus on cost but we are trying to deliver a set of benefits too. There is also the schedule. You are right: in a number of these major projects based in the UK and across the world, all those things change as the project develops. The schedule slips to the right and costs increase. Those will be set out in each stage. They are reported as part of the annual report and accounts, but also by the Infrastructure and Projects Authority.

Of course, there is the Public Accounts Committee process that will take a set of Committee meetings on those major projects, as well as the Transport Select Committee, which will set those things out. There can be a lag between the latest cost data and when those are set out, but that tends to crystallise at the next stage of the business case cycle. Certainly, the annual report and accounts should set out the latest state of those projects.



Q48 Kelvin Hopkins: You anticipated scrutiny on annual reports. The idea of requiring Departments to include a full report on each major project or programme—including effectiveness metrics, total cost and whether delivery was in line with plans—involves a much more detailed report every year.

James Bowler: I think that is a sensible proposal. The annual report and accounts give a report on a particular year. If you are looking at '18-'19 reports in the Department for Transport there will be some preparatory stuff on HS2, but obviously all the spend is mostly in the future. That is where the performance side of the report comes in, and it would be sensible of the Department for Transport to refrain from saying, "Let's not mention HS2 because it's the future, not the past." They should set it out there.

There is some key transparency already in the Infrastructure and Projects Authority's pronouncements on major projects, setting out schedule cost and a RAG rating of how that project is going. In response to the national infrastructure commission report—which we were planning to give at the time of the Budget, and which has been postponed because of the election—we were due to set out whether we could deliver more transparency against these major infrastructure projects because of some of the reasons there.

Yes, the annual report and accounts should do that, and so should other things which can be included in the annual report and accounts. We hope to make some progress there.

Q49 Kelvin Hopkins: A question relating to that: how much of these things is governed by the wilfulness of sometimes Government Departments and sometimes Ministers and Governments, where in a way the Treasury and the NAO have to bend the knee when that happens because that is politics and not just about money?

James Bowler: I would say that officials advise and Ministers decide, of course. But a whole set of things are included in the advice we would give on a major project. The project should go through a benefit-cost review in line with the Green Book on how a project at the Treasury is appraised. That sets out the cost and stresses the risk and the stress tests of those costs and benefits. It also shows the return on that, so that you are looking at the opportunity costs of using that money for this purpose rather than another purpose.

Ministers will want to decide something based on that evidence. When a project is under way, a major project review group is informed by the reviews that go to officials in the Treasury and Cabinet Office. Big projects need to go through that before the Treasury will release the money for the next tranche of spending. We need to assure ourselves about the project, and we can recommend to the Chief Secretary and then write to the Secretary of State about any changes we feel need to be made, for example, to the governance of that project or its timing or speed. We do that with all the major projects. I promise you that there is, particularly



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for major projects, a slew of best practice, stress-testing, appraisal and all the rest of it that we go through.

- Q50 **Kelvin Hopkins:** So if there was a degree of deep scepticism in the Treasury about the value of a project and the projected costs of a project, you would make sure that Ministers knew your strong view?

James Bowler: We certainly would, yes. At a spending review, for example, we would say to Ministers that we would like to compare the choice they have about capital spending between projects against their benefit-cost ratio.

We will say, "These are the projects, and these are what we think the benefit-cost ratios are," and then Ministers can decide. They may take other factors into account, such as things that they feel are not captured by that, or the geography—they would not want to do projects in only one area of the country and not in others—but the Treasury would advise our Ministers of our view of that on every single major project, and they would feed that into the decision making.

- Q51 **Mr Jones:** In the "Accounting for democracy" report, the Committee expressed a concern that every year, routinely, a number of large spending announcements are made, but it is very difficult to follow them up. In the follow-up report, we identified 209 spending announcements in a single year; in most cases, it was impossible to say whether the money had been spent or what the outcomes were. Have things now improved to the extent that it is possible for users to track the progress of such commitments and how much they actually cost?

James Bowler: I very much recognise that lots of spending commitments are being made. I would make a couple of points on this. The annual report and accounts can and should focus on the major commitments that Departments are making. I do not think they are the best vehicle for focusing on absolutely every commitment Departments are making, because of the point Mike made, that we also want to make this accessible and not cluttered; if you put everything in there, there would be a whole slew of things that would detract from that objective.

In terms of practicality, I have made the point that some of these commitments can go over a number of years and the annual report and accounts focus on a single year, but I do not think there is at the moment a vehicle that collects every single ministerial commitment and follows it right through. Sometimes, the Government of the day have such a vehicle, most obviously in their manifesto-tracking things, and sometimes they do not. Sometimes they are public and sometimes they are private. At the moment, on the political commitments and political announcements, that tends to reflect what the Government of the day want to do.

- Q52 **Mr Jones:** Frankly, that is very hit-and-miss. It seems to me that things have not improved since our last report. Do you anticipate that your review will result in the state of affairs that every spending commitment can be followed up by users so that you can see what progress, if any, has been made towards the outcome that was promised?



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James Bowler: I think in terms of the major ones, yes, but I don't think there are plans to follow every single commitment, if I am being frank.

- Q53 **Mr Jones:** Just interrupting you, with respect, most of these commitments, if not all of them, will be for many millions of pounds of public money. In layman's terms, it seems to me that every one of those commitments is a major commitment.

James Bowler: Potentially. I do not think they are all for multimillion pounds. Depending on the Department, some people are making several announcements a week of less than that, and at the centre we are not edicting how those are followed up, other than in the major areas that will link to performance.

The one area where there has been a change on this is the estimates and the estimates memoranda, where we have been working with the House of Commons Scrutiny Unit Committee. It is asking Departments, as they vote through departmental estimates, to set out ministerial commitments more clearly in the explanatory note and how they feature in those. There has been some progress there. For the annual report and accounts, there is not a commitment to include all ministerial proposals and follow them through. I am just being honest with you.

- Q54 **Mr Jones:** The Prime Minister has recently made a number of eye-catching and very welcome public spending commitments, including 20,000 new police officers, 10,000 new prison places and new hospitals. Where should we look to see the progress of those commitments over the year ahead?

Mike Driver: You mentioned 10,000 prison places, which comes under the Ministry of Justice. I would describe that as a major commitment, to use James's terminology. I think you should expect to see that within annual reports—our annual report—as you go forward. There will be in-year spend on those activities, and it would be wrong for that not to be included, both in the financial statements and in the reporting section on the report. Within that, using the new risk approach, we will say what the risks to the delivery of that would be. I think that approach, for the major sorts of commitments that you have just described, should become the norm.

- Q55 **Mr Jones:** Do you anticipate that the Home Office would give similar information?

Mike Driver: I cannot speak for the Home Office, but I would be surprised if the Home Office was not following the same protocols.

Mr Jones: And, similarly, the Department of Health and Social Care, with respect to the hospitals.

James Bowler: Absolutely, including in the annual report and accounts and in all the other things it does. I think the Home Office has already set out a profile that it expects to achieve for the hiring of those police officers. I think that is a good example and you would expect that to be reported on.



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Mike Driver: Importantly, you have drawn together the Home Office and the Ministry of Justice, which are both parts of the criminal justice system, and we want to see greater transparency in the performance, financial and otherwise, of the entirety of the system, not just the departmental sections of that.

Mr Jones: Because the 20,000 new police officers will presumably be helping to fill up the 10,000 new prison places.

Mike Driver: It will undoubtedly have an effect.

James Bowler: I think we had that in mind.

Vicky Rock: I just want to help a little bit. We have talked about a few different reporting mechanisms; perhaps I can explain how a couple of them link together. James talked about a single departmental plan and the outcome of metrics. It is worth being clear that the Prime Minister's priority commitments are being incorporated into single departmental plans. They are in those outcomes and those metrics. That is the mechanism for reporting.

We can have that high degree of confidence that the Home Office will report on the police officers, because we have already published that metric as part of SR19, telling the Home Office that that is what we expect it to report on. It is a single way of doing things through single departmental plans, setting the outcomes and the metrics, and reporting on them, which captures those major commitments.

Q56 **Mr Jones:** If a commitment is not fulfilled—if it is quietly dropped—where can someone discover that?

James Bowler: There are a couple of ways to answer that. You would expect the Department to announce that it is no longer proceeding with a particular thing. For example, the MOJ just announced that it was ending its approach to probation early and is going for a different approach. You would expect that to be announced. You would expect annual report and accounts to set out what it is doing.

We have had the whole discussion about balance, true and fair, and the fact that you should set out what is met as well as what is not met. We have also talked about the relationship with reporting and Parliament, which is the primary user, and which we are very focused on here. I would expect Parliament, even at the parliamentary question level, to be able to set those things out.

Q57 **Chair:** I have almost given up writing down parliamentary questions. They are a very easy way, very often, for Ministers to evade giving the information that you really want. We are all grown-ups here, so we know what happens. The suspicion is, anyway, that when a new announcement is made it is also announced that this will be funded from the Department's own resources. Where do the "own resources" come from? Well, they come from some programme that has usually been stopped or has not progressed—some previous announcement that everybody has



forgotten about.

I think we are anxious just to close the accountability loop—or the void of accountability in this. I can envisage quite a useful annexe to every report and accounts: here are the announcements that were made during the last 12 months and this is the way they are progressing; and then perhaps following up previous years as well, so that we can see the ones that have been dropped.

We were actually told, as a Committee, we could put down freedom of information requests to find out what had happened to programmes that disappeared off the radar. I don't think that is a particularly useful contribution. I think it displays the Government's anxiety about exposing what programmes are quietly dropped. Could we give some more thought to this?

James Bowler: Certainly, yes. A couple of reflections: in the Treasury's accounts, I thought it had a really best-practice thing of what happened during the year, with a list of the year and what announcements were made during that year, which I thought was quite an interesting new way of setting things out.

Q58 **Chair:** That is just for the Treasury announcements?

James Bowler: It is at the moment, yes. So that might be some best practice we can apply. It is probably worth making the link between—with the Prime Minister's recent commitments, they were the major focus of September's spending round, where we absolutely set out how we were going to make sure that those commitments were funded.

Q59 **Chair:** We haven't had a spending round, remember.

James Bowler: So we had a spending round which set spending for 2020-21 in September.

Q60 **Chair:** Oh, in September. We didn't have the November—

James Bowler: It wasn't a multi-year review. We have got a multi-year, five-year, NHS plan and a three-year schools funding plan. The schools funding plan was explicitly to show very clearly to everyone that the Prime Minister's commitment that schools spending would increase by £4.6 billion in real terms was happening.

Q61 **Chair:** It seems we have reached an agreement that the large programmes should certainly be treated in this way. What is the threshold, and how much should the spending commitment be before we have to fish for what has happened rather than it is just automatically reported? Is it £5 million, £10 million, £20 million—£25 million? What do you think is a reasonable figure?

James Bowler: I think it is probably material to the Department itself, because a material figure for the NHS and the MoD is a lot higher than for the Department for Digital, Culture, Media and Sport.

Q62 **Chair:** That is a very interesting answer.



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James Bowler: No offence to the Department for Digital, Culture, Media and Sport, but the NHS spends £140 billion a year and DCMS spends a lot less.

Chair: Yes, I understand that.

Q63 **Mr Jones:** Nevertheless, it is still public money, isn't it? If you are expected to report, say, £10 million in DCMS, why should you not be expected to report £10 million in every Department?

Vicky Rock: One of the things that we have done is set that expectation of reporting by programme and project, where appropriate, and that prompt to talk to Select Committees as well. What we are trying to say is it takes some knowledge of the Department and its personal circumstances to think about—there is a balance between being exhaustive and having annual reports and accounts that are impenetrable, and trying to get to the most salient details. We want Departments to try to do that, and we give them guidance to do that, but they also need to talk to their Select Committees to actually make sure that it is hitting the mark.

Q64 **Chair:** I suppose at the lower end it is more what should be available online, rather than published in annual reports; but it would be nice to think "I can go online, look up an announcement and find out what has happened."

Vicky Rock: *indicated assent.*

Q65 **Chair:** That would seem to be absolutely intrinsic to the whole point about accountability.

James Bowler: Yes. I very much take the point. You are asking us to go away and think again about that, so we will do so. However, what we are probably saying is that the annual report and accounts are doing a particular thing, and the reason why we have had the iteration on this issue with you is the extent to which that will be the sole vehicle for also reporting on ministerial announcements. I think we are saying that it should do for the major ones.

Q66 **Chair:** I think one of the themes that is emerging, both from our revisited report—the subsequent report—and from this discussion, is actually deciding what goes in this rather stultified institution of annual reports, and what other accountability can be implemented through a much more ongoing live process, which is again a reference to the Canadian system.

James Bowler: Yes.

Q67 **Chair:** Finally, we will move to what risk reporting looks like, because risk management has become a much more live skill in Whitehall and risk registers have become commonplace. So, what do you think good risk reporting looks like, and what we should have in annual reports and accounts about reporting of risk?

Mike Driver: I think this question is probably for me. I have held this up before—it is the new *Orange Book: Management of Risk – Principles and*



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Concepts. It is a document that we have been revising, and it is available to the whole of the public sector; it is used in particular by civil servants.

I would answer your question by first of all going to this book, which sets out what we see as the key parts of risk management. "Risk management shall be an essential part of governance and leadership". So, it is not something done on the third Thursday of the month, when you suddenly need to think about risk.

"Risk management shall be an integral part of all organisational activities" and "Risk management shall be collaborative and informed" process across those organisations, and not one that is just done by a few specialists at the centre. The processes should be really "structured", so that they identify risk and assess it. They should look at "risk treatment", "risk monitoring" and "risk reporting". And, properly, they "continually improve" and involve.

What we are trying to do is to make sure that at all levels of Government we are applying those consistent standards, so that it is not just about the risk logs that people have, or the colours of the risks. It is about the conversation that says, "Why is this a strategic risk for us as an organisation? What could go wrong? What are we doing to mitigate those circumstances? How confident are we in the approach that we're taking?" And to use the term about risk appetite: "How much appetite do we have within a particular area to spend more money to mitigate that further?"

Regarding the annual report and accounts, and building on that, we have changed the Government Financial Reporting Manual, or FReM, so that risk reporting is absolutely as consistent in the FReM as it is within our broader guidance on risk, so that it is a requirement for Departments to set out in their annual reports the key risks that they are managing and mitigating through the year.

- Q68 **Chair:** I am pleased to hear you use the word "collaborative". However, to what extent does that collaboration extend beyond Whitehall to Whitehall's contractors and subcontractors? I ask that because what we found in our acquisition and procurement report was that there was a rather binary approach that officials tended to adopt. We like to blame the Treasury for this, of course. "Get rid of the risk. Make the private sector take the risk. Done and dusted. It's not our problem any more." That was a very unrealistic approach, for example, to outsourcing prison management.

Mike Driver: Just a few points on that. First of all, the *Orange Book* recognises that the management of risks, and the operation and oversight of the control arrangements, should be considered across the entire enterprise.

I talked before about the criminal justice system. We want to be looking at system risk, not just isolated risk. I think that is important when we think about where outsourcing has taken place, because where decisions have been made to share risk—I would argue it is not transferred—through a



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commercial contract, the framework needs to identify, assess and treat the report on a range of those commercial factors. We have incorporated all of that thinking into what we are doing.

It is worth highlighting that this is not only a finance function issue, but a commercial function issue. Colleagues who work very closely and collaboratively with us on commercial have produced the outsourcing playbook, which looks at how risk needs to be looked at and mitigated in that outsourcing situation. I would argue that it should also be used for insourcing situations in some cases.

Q69 Chair: Actually, the report I was referring to was about the collapse of Carillion.

James Bowler: But the outsourcing playbook came out of the Treasury, commercial experiences, understanding of that and your particular point. It is worth stressing on outsourcing that Philip Hammond has announced that the Treasury will no longer proceed with private finance on a number of bases, including that the complexity and length of risk transfer did not warrant its continuation. I hope that you are seeing that there is some learning.

Chair: We are waiting to see what it will be called when we use private capital to fund public projects, if it is not to be called a private finance initiative. It is obviously going to be something else.

James Bowler: Well, private capital will still do a large amount of our infrastructure, not least in the utilities and other areas like that, but there is also public sector capital.

Q70 Kelvin Hopkins: Briefly, on PFI, you talk about the Chancellor being concerned about risk transfer not being genuine, but surely there must have been concerns in the Treasury about the cost to the public purse as well. It is an enormous cost compared with public sector projects.

James Bowler: Are you talking about private finance in general?

Kelvin Hopkins: PFI, and the burden of debt.

James Bowler: The private finance point says that you pay each year, rather than pay the entire capital funding up front. The Treasury has been very aware of that. It allows you to bring forward some consumption, if you like. If capital was constrained, you might not be able to afford that cost up front. The Treasury has always been aware of that. Obviously, the thing that has changed the most in recent years is a desire to increase public sector investment, which is going to a 40-year high. That is allowing the public sector to do a lot more directly, particularly in infrastructure.

Mike Driver: If I may demonstrate a further collaboration, we are talking about PFI going forward. Finance, with commercial and the IPA, is also thinking about the ends of PFI contracts. We have had recent conversations about the fact that in Health, Justice and the Ministry of Defence, some of our PFI contracts are in their last few years. We need to



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think about how we reintegrate those assets back into public ownership. There are some big issues there, too.

Q71 **Chair:** Thank you for that. You talked about new guidance on risk management.

Mike Driver: We have produced a set of new guidance, which we are road-testing at the moment. At the beginning of next year, we will be publishing that formally, but it is already available on gov.uk. I can leave you a copy today, if you would like one.

Q72 **Chair:** Thank you very much. We look forward to how that develops. I thank you very much for joining us today. This Committee has become preoccupied with accountability that enables us to look forward and hold people to account for what they are going to do, rather than just punishing people for what they have or have not done. To that extent, the whole objective of this conversation is to enable Committees to think forward.

There were one or two things that I would just ask as supplementaries. Is there any reason why there should not be a page in report and accounts about employee engagement, staff turnover, churn, vacancy rates in posts and how much of a Department's work is being done in-house and how much is being contracted out to consultants? What would you say about that?

Vicky Rock: Yes, actually having a staff report is really important, because it sets out how you, as an organisation, will structure yourself to deliver your objectives.

Q73 **Chair:** But it should be in an established format. I know that Departments are all very different.

Vicky Rock: We are increasing the standardisation. For example, we are incorporating standard guidance on reporting turnover, which is an area the Committee particularly requested. We can look to make sure that the information coming through is most relevant to you. We have certainly already taken the point on staff turnover and adding that to the existing staff report—and engagements as well.

Q74 **Chair:** There are some key highlights from the annual staff survey, which should be comparable across Departments, with comparable data.

Vicky Rock: Yes, they should be.

Chair: It should be very difficult to game that data.

Vicky Rock: Yes, and if I take staff turnover as an example, we are introducing a standardised definition across all of central Government, so that you can look from Department to Department and have that comparability.

Q75 **Chair:** Will you look at, for example, the average length of tenure in office of all the senior management grades in the Department?



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Vicky Rock: We haven't specified that, but we could look at that through the thematic reviews and the user preparer group to see what needs are being met in relation to understanding the actual organisation and seeing if—

Q76 **Chair:** A big concern of ours is that the churn of senior civil servants is much too high and affects some Departments—I have to say the Treasury—very badly.

James Bowler: We have the highest staff engagement score.

Q77 **Chair:** Well, there you are. That shows that every Department is a curious egg.

James Bowler: Yes. But you are right. It is worth saying that the Treasury Select Committee actually asked a lot of questions of our permanent secretary on these areas when it did its report on our annual report and accounts.

Q78 **Chair:** And they increasingly feature in permanent secretary performance reviews.

James Bowler: Yes.

Q79 **Chair:** So they are obviously important. Another thing really motivates us here. The Treasury's control of public expenditure totals has become legendary and admirable—

James Bowler: Thank you.

Chair: —over the years, but perhaps at the expense of financial management and planning. How much do you think these new reporting and transparency requirements will help to engage Departments in their own much longer-term financial planning? It is very noticeable that, in the private sector, well-run businesses do much better financial management and planning than we see in much of Whitehall.

James Bowler: I very much agree. Historically, we have been very good, internationally, at controlling budgets and meeting out-turns within budgets. I will stress two things on which we are going forward on a very wide front, in terms of substance. The balance sheet is now a much bigger part of financial management, as is the long-term nature of what we are trying to look at.

To give a couple of examples, contingent liabilities can be very large indeed, compared with budgets. If you only focus on budgets, you are missing out on some of those. If you take something like clinical negligence, it is huge compared with marginal changes in the Health budget, so the balance sheet, good use of assets and good management of liabilities is key.

The other side of things is about the professionalism of finance in government. That is very much what the finance function is about. We take very seriously that horizontal tier of improving finance. We are doing a whole host of things on that, but the strapline is that we want to be



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about not only keeping score but driving change. I could talk about all those things at length.

Chair: Probably not now.

James Bowler: I would probably add the long-term issues as well. An ageing population, climate change—none of these things are annual issues.

Q80 **Chair:** But it is about how the money is spent and the flexibility that exists within programmes to make sure that the money is well spent, and how programmes are stopped when there ceases to be value for money. All these things matter.

James Bowler: Yes, very much so.

Mike Driver: Some of that is down to the competence and professionalism of people within Departments to do that, not just a responsibility of the Treasury at the centre.

Q81 **Chair:** But also having more awareness that public expenditure control is a joint enterprise across Departments, so that when programmes are suddenly pushed forward two years, it does not result in a minimal in-year saving for a much greater expense two years down the line.

James Bowler: Yes, the Ministry of Defence type of—

Chair: It's funny you should mention them.

James Bowler: The other thing I signalled was that we are really keen to get more of an outcome focus, as well, on what we are actually trying to achieve with spending taxpayers' money. We worry about, "There is an issue, so we are spending £100 million on it." We do not think that is best practice.

Q82 **Chair:** How is the partnership with the Cabinet Office progressing on this question?

James Bowler: We work very closely with the Cabinet Office. I co-chair the major projects review group with John Manzoni. On the focus we have talked about, we are working with Oliver Dowden, the Chief Secretary, and the implementation unit to do just that. The key thing that Michael Barber stresses, though, is that it is important that these functions are not the victims of the cyclical nature of politics, so that you do not reinvent every delivery wheel with a new Government. Perhaps this is a good time to mention that.

Q83 **Chair:** One Cabinet Secretary said to me that if it can be put into procedure, it will be embedded in the culture of Whitehall.

James Bowler: Yes.

Chair: That seems to be the objective of everything we are discussing here.

Thank you very much. When I said to another Cabinet Secretary, "You



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have been very forthcoming”, he looked rather anxious about that, but I do not want to make you anxious by saying that you have certainly raised my expectations about what is going to be achieved in this area. We will hold the Government to account on this, whether it is me or a successor Committee, because we think this is such important work.

Although we criticised the Government for taking a year to respond to our first report, we took that as a good sign that there was indigestion and very serious consideration of the points we were making. It may be frustratingly slow, but progress is being made, and we are very grateful for that. Could you pass our thanks to all your teams for the work they are doing on this? It does improve the confidence that the public can have in the use of public money and the quality of our public services. Thank you very much.