HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Whole of Government Accounts, HC 655

Thursday 19 November 2020

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Watch the meeting

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Dame Cheryl Gillan; Mr Richard Holden; Craig Mackinlay.

Gareth Davies, Comptroller and Auditor General, Nicholas Todd, Director, National Audit Office, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-118

Witnesses

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

Examination of witnesses

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

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 19 November 2020. We are here today to look at the Whole of Government Accounts, which is a fascinating and useful document to help understand the whole of Government finances. It brings together the accounts of most—thousands of—public bodies into one place to help Government plan their expenditure. It highlights all the liabilities, risks and debt, so that we can see in one place where our taxes go and what the challenges are for the future.

Today is a momentous day in public accounts and Treasury terms, because it is the 10th anniversary of the Whole of Government Accounts. In our world, that is very exciting, but I commend this document to anyone with any interest in how your money is spent.

It is of course a challenging year, because the Whole of Government Accounts will be knocked sideways by the covid-19 pandemic. That is one of the things that we will talk about today, as well as about how—we hope—this document is increasingly influencing ministerial decision making, although perhaps that makes me an optimist.

Nevertheless, we will be talking to the officials concerned: Sir Tom Scholar, who is with us in the room today, the Permanent Secretary at the Treasury, on his regular Thursday outing with us—getting a season ticket these days—Cat Little, Director General Public Spending at the Treasury and Head of the Government Finance Function, which means watching finance function across all Whitehall Departments; and Vicky Rock, Director Public Spending at the Treasury and Deputy Head of the Government Finance Function. Is that a new position, Ms Rock?

Vicky Rock: Yes.

Q2 **Chair:** Congratulations on that—very well deserved. Ms Rock is a star of the international stage—not screen perhaps—in that the Whole of Government Accounts, which is very much her work to bring together, is something that other people are seeking to emulate. In a last positive word for the Treasury before we kick off, it is leading the world, so it is a good thing, but with many challenges.

Before the main session, I want to ask how things are going with delivering accounts, Ms Little and Sir Tom. Most accounts are now agreed—of the last four, Justice is coming out today, I think, and that leaves three Departments. Which Departments are left?

Cat Little: The Department for Environment, Food and Rural Affairs, the Department of Health and Social Care and the Department for Digital, Culture, Media and Sport are the final three.

Q3 **Chair:** When are you expecting those accounts to be laid?

Cat Little: We have got planned laying dates for all three—

Vicky Rock: 10 December.

Q4 **Chair:** 10 December, before Christmas, for all three. That is quite an achievement this year. Certainly this Committee's view is that all accounts should be published this year, even though we recognise that they will be late. So that's a good thing. We have been a bit concerned that the single departmental plans have not been updated regularly. Where are we at with those? Are you laying down the law, Ms Little, as the head of the Government finance function?

Cat Little: We are. Alex Chisholm and I wrote to you over the summer to set out our intentions for reviewing the framework. As you are aware, and the Committee, I hope, is aware, we have been working on the public value framework for a couple of years. We said last year in SR19 that we would want to implement it as part of the spending review. That is our intention, and next week we will announce the results of that work, so watch this space. Alex and I will then write to you again, formally, to set out our intentions for an outcomes-based performance regime for Government.

Q5 **Chair:** Sometimes we have been a bit critical of the single departmental plan that we see on the public website as one that is often a bit out of date, but, even when it is up to date, it doesn't tell us and the public enough about what is going on. Can you give us a hint about what will be public, compared with the more detailed private document that the Department has used for planning?

Cat Little: That journey will start next week. Our intention is to set out—this is the really important difference between what we have done in the past and what we will do in the future—how money is driving policy and service outcomes for citizens. We will start that process next week.

Q6 **Chair:** In the current climate with the recent publicity around the National Audit Office's own work on procurement, for example, for the public to see how their money is expected to be spent laid out clearly is a very important way of keeping all Governments honest on taxpayer spending, so we look forward to seeing that, and the Committee will engage very closely with it.

Although you cannot give us details of the spending review, Sir Tom, are Government Departments working together on this? In the past we have been keen to see joint bids for the spending review. Are we seeing any of those this year?

Sir Tom Scholar: Absolutely. It has been an extremely collaborative exercise. We are in the final stages of it now, with the announcement next Wednesday, as you know. I should say that Cat has led this work both for the Treasury and with the rest of Whitehall. If you ask any of the other accounting officers, they would say the same and that it has been a really collaborative exercise in quite difficult circumstances.

Q7 **Chair:** It is obviously difficult for you to talk about the spending review, because the Chancellor will make announcements next week. I am sure we will back in touch with you about many of the issues. I want to touch on Project Birch and what drawdowns and requests you are getting. How many companies have requested support from you under Project Birch? I should explain to people that this is the last resort business intervention scheme that has been helping, for example, the steel industry. Can you give us an idea of what the demands are on Project Birch?

Sir Tom Scholar: It is rather difficult to give details because the information is commercially confidential and relates to potential support for companies. There was one announcement of support agreed back in, I think, August.

Chair: For Celsa Steel.

Sir Tom Scholar: Exactly. For the rest, there are a number of companies that we have been talking to. Quite often companies want to talk about the potential difficulties that they might face down the track, so the work is really to get a sense of that. Again, I should say that it is a joint exercise between the Treasury, the Department for Business, Energy and Industrial Strategy and UKGI.

Q8 **Chair:** Are you seeing an uplift in demand because of Brexit and covid? Are you seeing any particular trend?

Sir Tom Scholar: It is very much a covid-related exercise. The world knows that there are a number of businesses in particular sectors that have been very badly hit by the restrictions that have been introduced in this country and across the world. We are encouraging and trying to find wherever possible commercial solutions that do not involve public money or put the public sector and the Government balance sheet at risk. I think we have been pretty successful in a number of cases in helping companies talk through issues to find market-based commercial solutions.

Q9 **Chair:** Talking to the Treasury is great, but commercial businesses can surely come up with ideas themselves? Do you mean that you are finding other ways to facilitate and support them, short of actually giving them a loan?

Sir Tom Scholar: I think it is fair to say that the last thing that some companies want to do is talk to the Government; they explore every other avenue first. Some companies, at some stage, are quite keen to explore whether there is the possibility of support. We take a very firm line there: we regard public support as an absolute last resort and so, wherever possible, we encourage companies to explore the other options open to them.

Q10 **Chair:** Can you just reassure us? However important these industries are, if you are making loans, how are you safeguarding the taxpayer's long-term interest? What due diligence are you doing to make sure that you are not throwing good money after bad?

Sir Tom Scholar: We have a huge team of people, including expert advisers from UKGI, doing absolutely that. It is an absolutely top objective to protect the taxpayer's interests and to keep any support to an absolute minimum—only what is strictly necessary.

Chair: We could have a whole session on that; I am sure my colleagues with steel in their constituencies would be particularly keen to do that.

Q11 **Sir Geoffrey Clifton-Brown:** Good morning, Sir Tom. We have raised the issue of quantitative easing in the Committee before. My first question is this. Is the £150 billion recently announced a straight addition to Government borrowing?

Sir Tom Scholar: Yes—well, first of all, it takes place over time; it's not a one-off operation. I think the Bank said it will take place gradually between now and the end of next year; I think that was the timeframe they put on it. That will add to public sector net debt as and when those transactions take place, partly for that reason and because there is now quite a large accumulated stock of QE. When the OBR present all the fiscal aggregates, they present the debt numbers both including and excluding the effect of QE, so that people can see not just what the actual number is but the underlying trend over time on a comparable basis.

Q12 **Sir Geoffrey Clifton-Brown:** On that explanation, when does this get accounted for in the Whole of Government Accounts? Is it accounted for when it has actually happened, or on the provision for it to actually happen?

Sir Tom Scholar: I will in a moment turn to my accountant friends, who are expert on this. My understanding as to how this scores in the Whole of Government Accounts is that it's through the Treasury's own account. Public sector net debt will not be scored as a national accounts concept; the Whole of Government Accounts are all done on an IFRS basis, which accounts for these things differently. My understanding is that the way this will eventually appear in the Whole of Government Accounts 20-21 in a couple of years' time will be through the Treasury's departmental account, where this is accounted for as a derivative, because the Treasury guarantees ultimately the Bank of England special purpose vehicle that owns the gilts bought through QE.

Vicky Rock: As Sir Tom says, the first place you will see it is in the Treasury's own accounts and also in the accounts of the special purpose vehicle—the Bank of England asset protection fund itself as well. And that will all happen at the point where those transactions take place, as opposed to on a commitment basis; it will be when they actually occur. By the time you go to Whole of Government Accounts, those intra-Government transactions will be eliminated. The Bank of England is consolidated within Whole of Government Accounts, so these transactions cancel each other out and you don't then see that derivative in Whole of Government Accounts; you just see that end picture of the Government to the market. So that's how you can see it—in, first of all, the departmental accounts and then at Whole of Government level, which also gives you the reconciliation to the national accounts and gives you the most comparable figure to the PSND, excluding the quantitative easing measure in this case.

Sir Tom Scholar: If I may, I will just add to that. If the intention is to see the impact of QE on the fiscal aggregates, on debt and, ultimately, on fiscal sustainability, the best place to look for that is the OBR forecast that will be published next week. The OBR forecast next week will include in their projections all of that £150 billion, introduced over time, and that will then score in all their fiscal numbers. So that's both the first place and, really, the best place to see the fiscal impact.

Q13 **Sir Geoffrey Clifton-Brown:** Those were really helpful answers from both of you. May I have a little bit of latitude from you, Chair, on this subject? Given that that quantitative easing is mainly going into the financial sector, mainly into the banks, which will decide where they loan money to individual businesses, presumably, is there any Government guidance as to how that money ought to be channelled—because after all, it is public money—or is that entirely at the discretion of the financial institutions?

Sir Tom Scholar: I should say it is a monetary policy tool, so it is the responsibility of the Bank of England. The way quantitative easing works is by influencing the interest rate—the price of credit. The purpose of it, in a low interest rate environment, is to bring interests rates down for end users, including all borrowers and all corporates. It is not that it is a stock of £150 billion that then needs to be allocated. The intention is that by purchasing Government bonds it pushes down the risk-free interest rate—Government debt is usually thought of as a risk-free interest rate—and that should both bring down interest rates throughout the economy and also encourage investors looking for higher returns to invest in more risky assets, which should encourage the flow of credit through the economy and hence stimulate activity. That is the Bank of England's business, not the Treasury's, but I think that is how they would explain it to you.

Sir Geoffrey Clifton-Brown: That is very helpful, thank you.

Chair: Thank you, Sir Geoffrey.

Q14 **Mr Holden:** I want to briefly ask a question that I have asked of you, Sir Tom, and Mr Harra from HMRC in recent weeks on the policy relating to grants for businesses. Some businesses ended up getting their grants in the last financial year, even though they were to support them in this one. Some are in a very difficult situation regarding tax, as are, in some cases, low earners regarding their benefits, particularly working tax credits. That affects some of my constituents. Have you managed to resolve this issue yet?

Sir Tom Scholar: In our discussion of this a week ago, if I remember correctly, Mr Harra agreed to—since this is a matter to do with the operation of the tax system—look into this and write to the Committee. I am sure he will be doing that, but I am happy to check with him.

Mr Holden: If you would, because clearly this is something seriously affecting people in the run up to Christmas. I have constituents who have lost thousands of pounds and are trying to get it clawed back from HMRC at the moment. It seems to me a failure of policy that this was not sorted out when it was put through. Especially, with more grants coming through for businesses, people are now worried to take them out to support them. If you could write to the Committee and chase up Mr Harra, we would really appreciate it.

Q15 **Chair:** I think you will find that Mr Holden is like a dog with a bone on this one, Sir Tom. There is no danger that you will forget it, but if we could facilitate that discussion that would be helpful. As he says, there are thousands of people worrying about what is going to happen.

We move onto Whole of Government Accounts. It is an extraordinary year and, given the scale of the covid-19 spending, how do you see that impacting on Government finances generally? We will then move into more detail with Ms Rock on how this will be recorded in the Whole of Government Accounts. We have huge amounts of money going out the door. We have heard from HMRC that they cannot predict yet the impact on tax over the next few years. There are a lot of uncertainties. How are you managing that? Could you talk us through what the thinking in the Treasury is at the moment?

Sir Tom Scholar: First, I should say on the overall numbers, the latest forecasts will be published next week by the OBR on Wednesday, alongside the spending review. They are still finalising that. On the information already available, we all have a fairly good idea of what that is going to show. First of all, it is likely to show a serious impact on the economy. The Bank of England forecast a week ago said they expect the economy in 2020 to have contacted by 11% compared to the previous year, which is the biggest annual contraction.

Chair: For 300 years.

Sir Tom Scholar: For 300 years.

Chair: We have both been reading the FT today.

Sir Tom Scholar: It is extremely serious. I cannot predict where the OBR will come out but that was the Bank of England. That is in line with most independent forecasters, and it is partly a consequence of the lower economic activity, and partly all the support provided through either additional spending or tax cuts and deferrals—a significant impact on the fiscal position. Back in March, the OBR was expecting public sector net borrowing this year to be about 2.5% and the debt level at the end of the year to be about 75%. We will know the precise figures next week, but in the monthly estimate in, I think, August, the OBR was projecting a borrowing figure this year of around £370 billion, or 19% of GDP. That is an increase from 2.5% of GDP to the high teens. The OBR was also projecting a debt level not of 75%, but more like around 100% or maybe 105%. It is a very significant hit to the fiscal position. That, obviously, has been the case in every country in the world as well.

As we and Government Ministers look at that, we have to try and balance off the need to support the economy against the need to look at long-term fiscal sustainability. The approach of this Government, and of nearly every developed country's Government, has been to provide extensive and generous short-term support to minimise the long-term consequences of the short-term disruption. Economists refer to that as "scarring". In everyday language, it means avoiding a situation in which otherwise viable businesses and jobs are lost because of short-term measures to tackle the pandemic and then either do not come back or only come back slowly, meaning that it takes longer for the economy to recover than would otherwise be the case. The Government have made the judgement that the big deterioration in public finances over a longer timeframe—looking over the medium term—is in fact the best way to help get the country back to fiscal sustainability. That is also very much the judgement of the IMF. They were very supportive of the UK Government's approach in their recent report on the UK economy. My final point is that Governments across the world are helped in this situation by very low interest rates, which—in part—reflects financial markets looking at the same problem and thinking, "Well, the debt sustainability and creditworthiness of a country is, in the end, determined by whether it has a well-functioning economy. That is the most important thing so, looking at it in that way, short-term support is both inevitable and justified."

Q16 **Chair:** Thank you, Sir Tom; that really sets the tone. They are eye-watering figures. If that was set a year ago as a test to economics students on how the economy might go, nobody would believe that it could be possible. The 105% debt figure makes us realise the challenge ahead and does rather highlight the situation. You have talked about the fiscal side of it; do you have a projection? That topic was discussed last week with Jim Harra from HMRC. What are you looking at in terms of tax receipts in the short and medium term? That will be critical for public spending, whatever else happens with the economy. Do you have projections for those? Have you done some number-crunching with HMRC?

Sir Tom Scholar: Projection is the job of the OBR and that will be published next week.

Q17 **Meg Hillier:** How are you planning in the scenarios you must be looking at? If unemployment goes up, that has an impact. There is no need to talk through all the variables, but do you have scenarios that you are planning? That will affect the public spending side. You will obviously need to be talking to Departments about now; you cannot wait to find out.

Sir Tom Scholar: Absolutely, we have. Obviously, over the last months we have been in touch with the OBR all the time, and the Bank of England, to get their sense of their economy.

I should say, to be completely straightforward about this, that in the current circumstances it is extremely difficult to make any kind of reliable estimate. For that reason, the Government decided not to have a Budget this autumn. The original plan, as you know, was for a Budget with a full set of fiscal projections and a fiscal framework, a medium-term spending envelope, a full three-year spending review and plans on tax over that timeframe. Given the huge uncertainty, the decision was to postpone that until the first quarter of next year, by which time we hope that there will be more stability in the economic forecast and it will be easier to make a more reliable estimate of the medium-term prospects.

Of course, Departments, local authorities and devolved Administrations need budgets for next year, so, as you know, we have been conducting that exercise, which is primarily a one-year exercise although with some exceptions. That is to be announced next week.

Q18 **Chair:** There has been a heavily trailed exception for the Ministry of Defence of £16.5 billion over four years.

Sir Tom Scholar: Yes, and I think the Prime Minister is making a statement about that in the House this morning.

Q19 **Chair:** Yes. Are you able to give us any more information about that?

Sir Tom Scholar: Not ahead of the Prime Minister's statement.

Chair: It is in the *Financial Times*. It is an extraordinary world we live in where the head of the Treasury can't answer questions, but we can read it in the newspaper. Maybe we should take that up with the Government, in conjunction with my excellent deputy Chair.

Sir Geoffrey Clifton-Brown: The Speaker might have something to say.

Q20 **Chair:** Yes, I think the Speaker might have something to say about it. I will let you off the hook on that one because we have plenty to get through. Of course, the Treasury's balance sheet review was supposedly improving the sustainability of the public finances. I don't know whether Ms Little or Sir Tom want to take this. You are now presumably rethinking how that works completely. How are you going to adapt that process to this, as you outlined, very uncertain climate?

Sir Tom Scholar: We are continuing with the balance sheet review, and the conclusions of that will be included in the spending review next week.

Q21 **Chair:** But is it really meaningful? How do you make it a meaningful exercise?

Sir Tom Scholar: That is a very interesting question, which, if I may say so, gets to the heart of fiscal planning and what the information that goes into it is. The balance sheet review is all about the balance sheet, identified assets, improvising the management of those, getting more value for the assets and minimising the potential cost of the liabilities. If you try to think of the Government as a business—usually that's not a very helpful analogy because it is too different—looking to the long-term future of the Government, their greatest asset is their ability to tax and their greatest liability is the requirement to provide public services.

Chair: That's depressing, in your job.

Sir Tom Scholar: Huge numbers on either side are, as you say, being blown around all the time at the moment. Sadly, you won't find either of those numbers in the Whole of Government Accounts, because it is an IFRS-based exercise. It is answering a very important question, but a different one.

The best place you will find the information on the medium-term or long-term fiscal position and the sustainability of public finances is, for the medium term, the OBR forecast next week, and for the long term—by long term, I mean over a 50-year time horizon—the fiscal sustainability report that they published in July. That report very much looks at long-term trends. For example, on the spending side there is the ageing population and the impact of that. On the tax side there is the shrinking tax base as, to take a topical example, cars move to electric; we get a lot of tax out of petrol and diesel for cars and have done for many years, so the tax base is changing there, and it is changing in lots of other areas too.

In terms of the big, long-term fiscal decisions, it is the national accounts and the national accounts-based forecast that you need to look at. The Whole of Government Accounts, apart from being a very important exercise in accountability and accounting, has also given us a great wealth of information on the balance sheet, which we use in our everyday spending control. We also use it in this specific exercise—the balance sheet review. It feeds into some of the publications that I have mentioned—it plays an important role there—but it is not a policy tool in setting fiscal policy. For that, you need more timely information and national accounts information.

Q22 **Chair:** I wanted to ask about the biggest risks. You mentioned interest rates and, of course, they have been at a historical low. You seem to indicate that you are confident. Maybe that is over-egging your position; I know you are putting on a calm veneer in front of us. Presumably, they are one of the biggest risks. Are you modelling for increases in interest rates, despite your seeming confidence that there will be a general pressure to keep them down?

Sir Tom Scholar: Yes, we do. As always, the OBR is the prime place that we look to for that. They have done a lot of work on that in their fiscal risk report, which specifically identifies rising interest as one of the big risks for the public finances, rising over time. That is very much on the radar.

Q23 **Chair:** The figures you have given us are £370 billion expenditure, 19% GDP and 105% debt. An increase in interest rates would be catastrophic, wouldn't it? Even half a per cent or a per cent would be pretty difficult. If it went up to historic highs, can you explain to us what would actually happen?

Sir Tom Scholar: They are published already. I do not have the number in my head immediately.

Q24 **Chair:** Just explain what that impact would be on the decisions that the Government would have to make.

Sir Tom Scholar: A sustained rise in interest rates would add to the debt interest burden. The bigger the debt, obviously the bigger the effect of a given change in interest rates on debt interest. Debt interest scores in the national accounts as public spending, so within a given target for public spending, the more you spend on debt interest the less you have to spend on other things. I am sure the Chancellor will be talking about that and the medium-term fiscal position when he makes his statement next week.

Chair: I hope so, and I hope that you get a chance to properly get into the statement, although that is perhaps not a matter for you but for the House.

Q25 **Sir Geoffrey Clifton-Brown:** Clearly, we are in a difficult position because we have got the statement next week. Can you tell us what will be published? Will there be a Red Book-type publication following the Chancellor's statement?

Sir Tom Scholar: From the OBR, there will be their usual publication of their forecast with all the supporting tables and information that goes with that. The Treasury will publish a document on the plans set out in the spending review, in order to explain in greater detail what the settlement is and what it funds. I am looking to Cat, in case there is anything she would like to add to that.

Cat Little: It will look very similar to the spending review 2019 document and it will go through, area by area, why we have allocated the money, to what ends and what the outcomes are intended to be, alongside the detailed annexes that actually show you where the numbers are.

Q26 **Sir Geoffrey Clifton-Brown:** Fantastic, thank you. Sir Tom, may I follow a similar line of questioning about covid? You may wish to defer this to Ms Rock. The timing—obviously, what will be set out in the expenditure review on Wednesday are estimates or forecasts, but presumably actual hard numbers, on a piece of paper or in an account, will feature in the departmental accounts sometime next year. That will then feed through into the Whole of Government Accounts. Will there be a delay in obtaining these numbers? Can you talk us through the effects of covid on departmental accounts and then the Whole of Government Accounts?

Chair: We are coming to this in more detail later, so just a quick summary, please.

Sir Tom Scholar: Again, I would say the most timely information that will be available on the cost of covid will be not through the departmental accounts or the Whole of Government Accounts, but through other processes. The OBR next week will update the table they have already published. They published one in July showing their estimate then for the full year. I think it is actually a multi-year table, so 2021, 2022 and it goes five years ahead. That gives estimates for the cost of covid, looking at the spending side, extra money for public services, business support and so on, and also the tax side. They will be updating that next week and that will be available next Wednesday.

Departmental accounts are prepared after the end of the year. The Whole of Government Accounts are even later, because they have to consolidate them. Looking at my accountant friends, I don't think that you will find a separate, recognisable category of covid spending, because that is not something recognised under IFRS. The additional money spent on covid will appear under a number of different headings, depending on the category to which it would be allocated. The tax for gone or deferred will not appear at all, so, as you say, it is an estimate. I guess that after the event, the OBR will be looking at outturns; we also have an exercise under way with Departments after the event to try to get the best handle on estimates, but that will always be after the event.

Cat Little: In addition, one of the lessons that we covered in our EU transition hearing was that it is quite difficult because, as Sir Tom said, you do not have a general ledger code that says "covid" or "EU exit". One of the things we have done differently this year is to ask Departments to send us updated spending returns every month, which we are now consolidating. At the last hearing, I committed to send that to you, so that as we go through the supplementary estimate process, you can see how the in-year spending compares with the funding made available. Of course, we will provide an update next week on intended spending on covid and on EU exit, and then we will take every advantage we can when departmental accounts and Whole of Government Accounts are reported to provide that up-to-date information, as we have done in the 2018-19 accounts this time around.

Sir Geoffrey Clifton-Brown: That is very helpful. Thank you.

Q27 **Craig Mackinlay:** I have a number of questions for Ms Little. I can well imagine that when the 2020 accounts are being considered by yourselves—I suppose they are now—there will be a number of really lumpy potential liabilities. Whether they are contingent liabilities or proper provisions will be quite a subjective test that you will have to make, but to give you the main headings, I see the first as being the wealth of tax deferrals that have been implemented by the Chancellor—how many of those are likely to go bad? As you will be aware, we have done a significant session on bounce back loans, and I know there are estimates of what the going bad rate might be. There might be more going bad because of this further month of lockdown.

We also have the Pension Protection Fund for businesses that are teetering and may fail over this period, and then we have the recall back to DWP for any redundancy payments. These are all potentially lumpy provisions, and another issue that I expect we will be discussing later during this section is councils potentially seeking section 114 and effective bankruptcy, with liability falling back on the Government. These are real lumpy numbers, probably running into tens of billions if not hundreds of billions, and I wondered whether some of those aspects are being considered at the moment for the purposes of the 2020 accounts.

Cat Little: The simple answer is yes. Throughout the whole of covid, we have been making sure that we provide up-to-date accounting and interpretations guidance for Departments through our online One Finance portal, which is something that my colleague Ms Rock has dedicated a lot of time to, because we care deeply about the consistency of how accounting standards are applied to those large possible liabilities, as you describe. We are about to issue guidance to Departments for this financial period, so that they can start to prepare for the year end and for the inevitable balance sheet items that we are expecting this year.

You are quite right: by their very nature, provisions are always unpredictable and quite lumpy, and we need to be able to reasonably estimate them in order to score them as provisions within the year-end process. My colleague Ms Rock might want to add to that.

Vicky Rock: The examples you mentioned are all very significant items, both in their Departments' own underlying accounts and individually identifiable and explained in Whole of Government Accounts. Ms Little was right that we have worked with Departments on their expected credit losses, so that is very relevant to tax deferrals and other loans, and you will see those coming through in the 2019-20 accounts as estimates before you have to wait for them to eventually crystallise because the improved accounting standard, IFRS 9, is in place.

The examples you have given of the Pension Protection Fund and the DWP support schemes are both provisions, and both are subject to updated estimates. We have worked with Departments, not just on those schemes but across the board, around consistency of assumptions going into those valuations—for example, their use of up-to-date OBR forecasts or other available forecasts—so that they can be as consistent as possible, accepting that they are estimates.

Q28 **Craig Mackinlay:** I gave you my example of my big five. Are there any that I haven't considered as my top five that you are properly considering as other potential big numbers?

Cat Little: I suppose your list is quite comparable with our list.

Chair: There you go, Mr Mackinlay.

Cat Little: You are very welcome to come and work with us at the Treasury any time. The really interesting thing about this particular process is that things are coming out of the woodwork all the time. I think it is really testing the way in which some of our processes in Government are tested. We saw a bit of that in the early stage of the pandemic, when we had to issue clarifications and notices on how we expected Departments to deal with all sorts of issues. I would be very happy to report back on any other issues that we identify.

Chair: Thank you very much. Thank you, Mr Mackinlay—I will bring you back in later, if that is okay. Over to Dame Cheryl Gillan.

Q29 **Dame Cheryl Gillan:** Thank you, Chair. This question is probably to Cat Little and Vicky Rock. We wrote to the permanent secretary—to Sir Tom—in September 2019 saying we would like the whole of Government accounts to provide a better insight into how well the Government are managing the risks to financial sustainability. Have you got a clear idea of how you can improve the WGA to make sure that Parliament and other users can get a clear and complete view of the impact of covid-19 on public finances?

Chair: I would just stress there that Sir Tom said that there was no special report heading for covid. As Dame Cheryl says, it is really important that we understand this.

Dame Cheryl Gillan: That's right. There isn't that heading at the moment, but it is about what you do in the future. We want to encourage wider use of WGA, and better understanding and more applications of it. I appreciate you say it is just accountability and accounting. I wondered if you have some forward planning on trying to use the WGA.

Cat Little: I will start; I am sure colleagues will want to add points. The first thing to say—you hit the nail on the head at the end, Dame Cheryl—is that the WGA is a backward-looking, retrospective document. What we want to be able to do is to set out what risks we were facing across Government and how the control framework mitigated and managed those risks overall. There is plenty we can do to improve the statements that we put in on retrospective risk within the WGA, and that is certainly something you can expect to see next time round.

However, I am not entirely convinced that the WGA is the best place to set out how you are managing forward-looking risk. That is not really the purpose of the way in which annual reports and accounts and the WGA operate. The timeliness of the document itself means that you are always going to be out of step with how you are managing live risks.

We did cover this very briefly at the last hearing I did on capability with Alex Chisholm, because we jointly manage the overall risk management framework for Government. This year, we have established revisions to the orange book, which set out how Government should be managing risk in a much more professional and rigorous way. We have also established the risk management and performance board for Government, which is the place where we collect all of that information and look at what risks are being handled thematically; and periodically, that goes to the Civil Service Board.

The question about how much of that should be published in order to set out the overall Government risk framework is probably the question that you would like us to get to. As you can imagine, quite a lot of that is live and quite sensitive information. I think Alex committed to share with you some of that information offline, in a private session, so that you could get a sense of what we were handling there.

Q30 **Dame Cheryl Gillan:** The question that everybody is going to be asking, not surprisingly, is how successful the Government have been in responding to the impact of covid-19. There are going to be 101 investigations by Select Committees and others into the way in which the Government responded. Is there going to be a definitive document or a definitive report that we can point to, to look at the impact of covid-19 on the public finances? Have you got any forward planning for that?

Sir Tom Scholar: Going back to what I was saying earlier, over the medium term, the most significant factor determining the fiscal position and how the country gets back to fiscal sustainability after this very significant shock is likely to be the performance of the economy. That is never going to be captured in the whole of Government accounts or departmental accounts because they are a snapshot at a point in time. They do not cover a year's worth of business; they are a snapshot of a balance sheet at a point in time.

To reach an assessment of the Government performance in doing that, there will be lots of questions. For example, how well and how effective have the various Government support schemes—the furlough schemes, the business loan schemes that Mr Mackinlay was referring to—been in preventing scarring in the economy and helping the economy to recover quickly, and, with the benefit of hindsight, did the Government strike the right balance between the level of risk it took on and the degree of support? Those are all really difficult questions.

I am sure there will be huge interest at some point. Nothing has been decided yet on what will be published in order to inform that debate, but it will, I am sure, be a separate freestanding thing. It is not likely to come through the Departmental accounts, which are not really designed for that purpose.

Q31 **Dame Cheryl Gillan:** That will be co-ordinated in the Treasury and you have some idea of the outline of where you are going with that.

Sir Tom Scholar: As I said, that is not something we are thinking about right now. What we are planning in the Treasury now is the spending review next week and working on the Budget in the spring, which will also set out the medium-term fiscal position and medium-term fiscal plans. That will include an assessment—

Q32 **Dame Cheryl Gillan:** I understand the current events and also the events that you have in the Treasury calendar, but surely that is something that you should be looking at. You should have an area of the Treasury that is looking at that for the longer term planning.

Sir Tom Scholar: As I said, through the processes I have discussed we are absolutely looking at that. The OBR forecast we will get next week will be extremely helpful in guiding that, because until now the latest forecast was from March, pre-pandemic. That forecast will then give us a much clearer guide to look at planning for the Budget, for example.

Q33 **Dame Cheryl Gillan:** I just don't feel the confidence that it is definitely there in concrete terms, but if you say that that is the way you are moving, I am grateful.

Can I move on to the implications of Government borrowing and the fact that you are using Government borrowing to fund the response to covid-19? Is the current borrowing going to have an impact on the spending and the ability of the Government to raise revenue in the longer term?

Sir Tom Scholar: That is a question that people are asking all over the world, and no one yet knows the answer. I think the basic received wisdom is that Governments—and I am not just talking about the UK Government; I am talking about developed country Governments in general—are able to increase borrowing significantly in the short term, partly because the underlying debt position is sound, partly because interest rates are very low, and that that is the correct policy response in the short term. However, at some point, over time, there will be a need to correct course and bring the public finances back to something much more like what would be regarded as normal, albeit clearly at a higher level of debt.

Q34 **Dame Cheryl Gillan:** Clearly, you are regarding the present period we are in as the short term. What is your cut-off date? Have you modelled it so that you know how long we can go on borrowing at this rate?

Sir Tom Scholar: That would require forecasting what financial markets are going to do, which is not something that is possible to do, but the general belief—

Q35 **Dame Cheryl Gillan:** But you must be modelling for every eventuality, surely?

Sir Tom Scholar: Within the limits of what is possible, we are contingency planning, of course. I can only go back to what the IMF has said—it is the global body with overall expertise in this—which is that there will be a time for fiscal consolidation in every country, but that time is not yet. The priority for now is short-term support to the economy, and actually, short-term support to the economy is the best way to achieve medium-term, long-term fiscal sustainability. That is a very clear message from the IMF and very much what is guiding Governments across the world.

Q36 **Dame Cheryl Gillan:** If this went on for another 12 or 18 months, which is a possibility—despite some of the breakthroughs in vaccines, we know it will not be a straightforward walk in the park—are you already looking at what other significant investment commitments the Government would normally make will have to be set aside?

Sir Tom Scholar: It was precisely because of that huge uncertainty that the Government decided not to do a multi-year spending review this autumn, but instead to postpone it to next year, and not to do a Budget this autumn, but to postpone it to next year. Of course, we all hope that the circumstances at the beginning of next year, although clearly the pandemic will not be over, will be such that there is a clearer sense of what the path out of it will be, and that that will then give a greater degree of stability for planning in lots of areas, including economic and fiscal. Clearly, however, we do not know that with certainty now.

Your point is a good one, which is that there are some decisions for Governments, corporates, households—the whole world—that it is not sensible to make in these circumstances of great uncertainty. Where possible, we have postponed those to next year, while taking the decisions now that need to be taken now.

Q37 **Dame Cheryl Gillan:** Have you already developed a hierarchy of casualties?

Sir Tom Scholar: No, that will be for discussion next year.

Q38 **Chair:** Next year?

Sir Tom Scholar: As I said, the intention is to have a full spending review next year—a multi-year spending review—and that spending review will consider priorities for the rest of the Parliament.

Q39 **Chair:** Just to be clear on that, we have next week's, so does that mean that the next spending review will be 12 months from next week?

Cat Little: Not necessarily 12 months. It will be some time next year. We need to set budgets for '22-'23, and you can run a spending review any time between the start of that financial year and this time next year.

Chair: So it could be sooner than 12 months.

Q40 **Dame Cheryl Gillan:** But that means that we will not know for at least 12 months what potential interruptions there are in the Government's investment commitments.

Sir Tom Scholar: No, that is not quite right, because the spending review next week will include multi-year commitments in a number of areas, in particular on the capital budgets. Not the entirety of the capital or investment budget, but a number of significant projects will be allocated multi-year funding next week.

Q41 **Dame Cheryl Gillan:** You may not be able to answer this, but will we get any indication next week of the areas that are potential casualties?

Sir Tom Scholar: If I may, I will leave that to the Chancellor to answer next week.

Q42 **Dame Cheryl Gillan:** It was worth a try. My last question is how are you measuring whether the support schemes are having their desired effects? I am interested to know what underlying information there is to support the decisions that are being made about which schemes to bring in when and how, how they are targeted and who needs support. We visited this as a Committee. We all have large sections of our constituencies that have received no support. How do you know whether they are working and how do you make those judgments?

Sir Tom Scholar: We are monitoring month by month, for each of the support schemes, the cost and the take-up. To take the example of the furlough scheme, we get information from HMRC on how many claims are made and the value of those claims. That obviously gives you a sense of where the support is going. What it does not tell you is what would have happened without the support—the counter-factual, which is not something it is possible to know. You can only make a judgment.

As you know, the judgment that Ministers have made is that the impact of the public health measures on the economy is so significant, and the potential impact on jobs and business so serious, that a further period of support through to the end of March is needed to help the economy through. It is not a judgment that can in the end be based on a scientific or very precise evaluation of costs and benefits. You are comparing against a counter-factual, which is not known and not really possible to estimate, because we have no previous experience on which to base a model or a reliable estimate. In the end, it is a judgment that has to be made in a situation of significant uncertainty.

Chair: Well, that's politics, isn't it?

Q43 **Dame Cheryl Gillan:** You are collecting information all the time. Because so many of these schemes are being delivered through local government, and local government appears to be one of the weak links in collecting information for the WGA, how good are the communications, feedback and information coming back to you from local government on the delivery of these schemes?

Sir Tom Scholar: I should say that is primarily a matter for MHCLG, who are the people who have the direct relationships with local authorities.

Q44 **Dame Cheryl Gillan:** Maybe I should ask how good is the information coming to you from MHCLG?

Sir Tom Scholar: What we have done is allocated sums of money per head to be allocated to local authorities in respect of either business support or public health. That is an agreed formula. The money is then allocated to MHCLG, which pays it out to local authorities; then local authorities allocate it out.

You are correct in saying that the primary reason for delay in preparing the whole of the Government accounts 2018-19 was a delay in getting returns in from local authorities. That is a rather specialised thing that we can talk about. It is to do with the quality of financial reporting in local authorities and the local authority audit section. That is a different issue to their ability to provide services to their communities.

Dame Cheryl Gillan: Thank you very much.

Q45 **Mr Holden:** I wanted to follow up a little bit on what Dame Cheryl was asking about. In March this year, we saw forecasts showing a debt to GDP ratio in the high 70%s, according to the OBR. Now, we are looking at around 110%. Surely you have done some form of forecasting about what the country can actually take in terms of the Treasury?

Sir Tom Scholar: What we have done is look at the range of possible outcomes, depending on the different hits to GDP over time and so on. What it is not possible to do is say the country can afford x, but it cannot afford x plus 2. That is not something any Government or any economist could do.

Q46 **Mr Holden:** But you must have some ongoing work with some scenario planning at the moment. If you look at the OBR fiscal sustainability report from July, Britain has never seen debt to GDP ratios at these sorts of levels except in wartime or coming out of war. How much flex is there in the headroom at the moment for this?

Sir Tom Scholar: Again, it is not a question that can be answered in a precise way. In our day-to-day monitoring we are obviously looking at the fiscal position. We have a team of people responsible for doing that every day, and we have a monthly assessment looking at the published figures on the state of the public finances. We also keep a very close eye on the debt market through the Debt Management Office. As you would expect, that is something that we always look at very closely, but these relationships are not linear; they are heavily determined by investor sentiment and bond market sentiment. That, in turn, is largely—I would say, at the moment, overwhelmingly—determined by global market sentiment.

Very low interest rates are not a UK phenomenon; they are a global phenomenon. If you look at the way the gilt market, the UK bond market, the Government bond market moves, day to day, week to week, it very largely tracks the US bond market, the Euromarket and so on. Those are the big determinants. Obviously there is no guarantee that it will be that way forever, but that is where we are now and that is the context of our monitoring.

Q47 **Mr Holden:** Indeed, but have you done scenario planning that could see similar rises in the debt to GDP ratio that we have seen this year? We have seen a jump from the high 70s to about 110%. Do you have modelling that could show debt to GDP rising to, say, 150% next year if we have to have another lockdown, or that sort of thing? Are those factors being actively considered at the moment? I am sort of asking as well, in a roundabout way, whether that is why we are on one-year spending reviews.

Sir Tom Scholar: The reason we are on a one-year spending review is, as I said earlier, because the very great uncertainty over the economic outlook means that the Government—

Q48 **Mr Holden:** Exactly, and as part of that are you modelling some surges in the debt to GDP ratio, essentially?

Sir Tom Scholar: The OBR, in their forecasts next week, will publish a sensitivity analysis. They have said, I think, that they will look at different possible paths for the impact of the pandemic on the economy. They have done—

Q49 **Mr Holden:** Sure, but you have done that planning as well at the Treasury, surely.

Sir Tom Scholar: As I say, the OBR is the official forecaster.

Q50 **Mr Holden:** I know that they are forecasting for it, but you have done planning for those scenarios, haven't you?

Sir Tom Scholar: Well, we do our best to look at all scenarios.

Q51 **Mr Holden:** Is one of those scenarios a resurgence of coronavirus next year, perhaps a mutation, and us having to go into another lockdown and seeing debt to GDP surge?

Sir Tom Scholar: Whenever we are providing advice on the fiscal position we look at downside risks, downside scenarios and, without being precise, what the cause of them is. If debt were significantly higher, what would that mean for the sensitivity to, for example, changes to interest rates, further economic weakness or whatever? That is just a routine part of policy advice.

Q52 **Mr Holden:** As part of that advice, are you looking at the current debt to GDP ratio impacting our credit rating going forwards?

Sir Tom Scholar: We would not try to forecast credit rating. Indeed, credit rating is, if I may say so—

Q53 **Mr Holden:** I am not asking you to forecast. I am asking whether you have assessed what impact a rise in debt to GDP could have on our credit rating.

Sir Tom Scholar: I was just going to say that the credit rating is basically a backward-looking thing. It is not something that determines the cost of your borrowing; it is something, largely, that reflects changes that have already happened in the cost of your borrowing. It is an interesting thing for market participants, but from the point of view of planning fiscal policy it is not a decision variable.

Certainly, one of the things that we would look at would be the extent to which you can expect the UK bond market to continue to move in step with other bond markets—the kind of things that might change that over time.

Q54 **Mr Holden:** Sure, I know we do move closely with them, but one of the things the Chancellor has acknowledged recently is the fact that obviously we are a much more service-dependent economy, so there are parts of our economy that are going to move slightly differently. Obviously certain investments can only be held in certain forms of assets, so that is why this obviously has a future impact, as well as being backward-looking. Is that something that you are concerned by, if we don't get our debt to GDP ratio under more control?

Sir Tom Scholar: You really ask me a question that is for the Chancellor, which is, what is the medium-term fiscal policy on debt? That is not something I can answer today.

Q55 **Chair:** So we need to push the Chancellor next week, I think.

Sir Tom Scholar: To go back to my earlier answer, the UK's policy—as every other advanced economy, as recommended by the IMF—is to deal with the consequences of the pandemic today and look at fiscal consolidation tomorrow.

Q56 **Mr Holden:** Fair enough.

I just want to come on to the spending review itself, Ms Little. In terms of the one-year review, instead of the planned CSR, what impact are you seeing this having on the Government's longer-term objectives? I am thinking of constituencies like mine, but the country more generally, and the manifesto in terms of things like the levelling up agenda.

Cat Little: Just to be really clear about what is one year and what might be multi-year, we have been focusing on our one-year resource DEL budget-setting process. There are a couple of exceptions to that—first, the NHS and secondly schools, because they are subject to a separate, longer-term settlement that was agreed previously.

Q57 **Mr Holden:** I should declare an interest as a former special adviser at the Department for Education when that three-year settlement for schools was agreed.

Cat Little: So you will know why there were some sensible reasons why a multi-year settlement there was required. On the capital side, there will be some exceptions, mainly because either we think it is good value for money to be making decisions now and that the cost of delaying those decisions would be higher to the UK taxpayer overall, and therefore, for those reasons, we think it is right to set out some multi-year budgets—and then obviously the Government's priority is to build back better and to recover as best we can by investing in the economy and the country's infrastructure, so you would expect to see some other items. But the most important thing is that we want to preserve fiscal optionality and choice.

In terms of the impact, Government Departments always have to plan as best they can on a multi-year basis. The fact that we are only giving them funding for the year in advance is what Government Departments do pretty much every single year—to plan for the medium term but to fund, and be clear about how budgets are set, for the 12 months ahead. We hope that we have minimised impact and delivered the best package of value for money and fiscal optionality in the round, but of course more will be said next week.

Q58 **Mr Holden:** I think we get that the NHS, schools and some capital funding are in a slightly different category, but obviously a huge amount of effort has already gone into this three-year spending review. We were just wondering, can you just give us an outline of how much has gone into that already, seeing as we have shifted to a one-year settlement now?

Cat Little: We have been preparing for multi-year spending reviews for two years in practice, because we were preparing for a multi-year spending review in SR19 and the same has happened this year. My personal take on this is that all that thinking and all that effort and actually documenting and trying to best forecast our costs overall for Government on a medium-term basis is what we should be doing anyway, regardless of how much funding is actually allocated at the end. So I am fairly confident that a lot of that effort across Government will not be in vain, and it is really over to us to make sure that, as we go into a multi-year spending review next year, we do not go full circle back to the start and we use as much of the information that we have already gathered to deliver next year's process.

Q59 **Mr Holden:** So you are pretty sure that we are not going to see all that two years of effort into this three-year plan going down the pan?

Cat Little: I sincerely hope not.

Mr Holden: Just on the single-year review, obviously there have been some questions about timing—of when it was clear this was going to be the case. Do you think we could have moved a little earlier on switching to the single-year review and seeing the fact that that impact was going to be there earlier? Could we have stopped some of that wasted effort?

Cat Little: We always said at the very beginning, when the Chancellor launched the spending review, that, given where we were, the path of covid and the levels of uncertainty, we would keep it under review. Of course, we were always hopeful that we would be able to deliver a multi-year spending review, because we really believe that that is a good thing to do and that it is the right thing for financial management and planning in Whitehall. I think it was right that we kept the optionality and that we kept the work going, dependent on whether or not we were able to manage uncertainty and spending in the round. You can always look back and say, "Could we have made the decision any quicker?" But personally, I think we got the balance right in this case.

Q60 **Mr Holden:** Obviously we are in a pretty unique international situation. We are not just looking at covid in the UK; we are also looking at Brexit. There are perhaps more factors in the UK than in some other countries. Was that a factor in moving to one year as well?

Cat Little: Not specifically, no. The sorts of things we thought about were levels of economic uncertainty, where we were in response to the pandemic and what that meant, quite frankly, for the capacity of Government to deliver a multi-year spending review.

Q61 **Mr Holden:** But you would also accept that Brexit creates economic uncertainty, surely.

Cat Little: It is obviously one of the contributing factors, yes.

Q62 **Mr Holden:** In terms of short-term decisions, one of the greatest issues that we see consistently is short-term decisions being made and that having a long-term impact in a negative sense. Are you convinced that, actually, the short-term spending review will be as effective as the long-term one?

Cat Little: I go back: obviously, the very best answer is to run multi-year financial planning exercises and to fund everything you can to shore up, on the medium term, the best possible decision making. Anything less than that is bound to have some elements that are sub-optimal, but what we have tried to do is get the balance right, so that where it is very obviously something that is a decision that is unlikely to change and is good value for money, we have held course. To be frank, there is not much more I can say about that until next week, when you'll see the Chancellor's statement.

Q63 **Mr Holden:** Can you put a figure on the sub-optimality of the spending review?

Cat Little: No, I cannot, I'm afraid.

Q64 **Mr Holden:** Is it in the billions?

Cat Little: I really wouldn't even start to try to put a figure on it.

Q65 **Mr Holden:** But it clearly does exist.

Sir Tom, I want to go back to defence issues briefly. We are seeing reports in the press today. Obviously, we are waiting for the full integrated review and to hear what is going forward with that, but would you say they were putting the cart before the horse by increasing the defence budget by £4 billion a year, and £16.5 billion overall, without actually having decided what we are going to spend it on?

Sir Tom Scholar: I don't really think I can say anything ahead of the Prime Minister's statement this morning.

Q66 **Mr Holden:** It has been widely reported in the press, with quotes from Government Departments. The Defence Secretary has been across the media this morning.

Sir Tom Scholar: As I said, I cannot comment on what the Prime Minister is going to say. He will make a statement very shortly. As I said earlier, this spending review, which is primarily a one-year exercise, has also included multi-year settlements in a number of areas. That has been an attempt to balance all the different competing considerations that Cat was referring to just now.

Q67 **Mr Holden:** Fair enough, Sir Tom. That is a bit of a non-answer, but perhaps I should approach it in a different way. Is it best practice to announce the amount of money that you are going to give to a Department before you decide what that Department wants to do with it?

Sir Tom Scholar: We have a multi-year schools settlement. We have a multi-year health settlement. We will next week be announcing a multi-year capital settlement.

Q68 **Chair:** I am tempted to go to Ms Little, who only recently came from the Ministry of Defence to her super-job at the Treasury, where she is overseeing the Government finance function. You have been around this block a few times, Ms Little. We do not know yet what the money will be spent on. Is that what the Treasury likes to see, money given out the door before there is a detailed commitment from the Department about how it will manage its budget, a budget that you used to be responsible for?

Cat Little: Indeed. As Sir Tom said, there will be a statement from the Prime Minister today. I would go back to all the defence and security policy work that has been publicly shared over the course of the past couple of years, such as the modernising defence programme, and all the work that has already gone into the integrated review.

Q69 **Chair:** The modernising defence programme. Was that the pamphlet that had more pictures than words in it?

Cat Little: I cannot comment on the balance of pictures and words.

Q70 **Chair:** My point is that it was a flimsy document.

Cat Little: That is the current Government defence and security modernisation policy. Of course, there are frameworks—

Q71 **Chair:** I am pushing you because of your previous role here. We have been around this issue many times with the permanent secretary of Defence and the Treasury. There has been attempt after attempt to have hard decisions made about the Ministry of Defence budget. You were responsible for that budget. You know how hard it is to manage a budget that, to use an old-fashioned phrase, was trying to fit a quart into a pint pot—I should probably use the metric version of that. It was never going to balance. Tough decisions were going to have to be made. Yet the money has gone out the door. Does that mean that the Prime Minister will be about to announce tough decisions that have been made about how to manage that budget? Has there been discussion between the Treasury and the Ministry of Defence about what this will be spent on? If you could just say yes or no to that, then we will hear the detail from the Prime Minister.

Cat Little: There have, of course, been discussions about how money will be spent, as we have with every single part of the spending review settlement, but I cannot comment on the detail, despite my previous role and my intimate knowledge of the Defence budget.

Chair: I think we might have people back to talk about this. We will go to Mr Holden.

Q72 **Mr Holden:** Thank you for picking me up on that, Chair. It is always a bit difficult not being in the room. Ms Little, are we in danger of some form of Parkinson's law of bureaucracy, in terms of the budget? Essentially, the MOD knows what its budget will be, so it can instead fill the budgets according to the budget it will have, rather than justify every decision it will make.

Cat Little: For all spending review settlements announced next week, the spending control framework will continue to apply. We are setting out next week the policy direction and what we expect to be delivered for the money that we are allocating, but of course the public spending framework requires business cases for our spending controls to be applied to, and that does not change.

Sir Tom Scholar: Just to add to that, your question was whether we discussed this with the Ministry of Defence. Yes, of course we have. We have discussed it in enormous detail over many months. The Defence settlement, as with all settlements, will be formalised through a settlement letter, which will record the agreement between the two Departments as to what money is being allocated and what it is being allocated for. All of that will be announced and explained in the usual way. We are in a rather difficult position here, because you are asking about an announcement that has not been made yet and we cannot really talk about that.

Chair: I think the point that we will make to other parties, but that we might as well repeat to you, Sir Tom, is that it is wholly unsatisfactory that we can read in the mainstream media—in fact, the Defence Secretary is out explaining on the mainstream media—what this money is being spent on, yet you, as senior officials watching the money on behalf of the taxpayer and ensuring it is allocated properly, are unable, because of the conventions of Government, to answer questions. It is not a criticism of you as individuals, but I think we need to raise this as a real matter of concern, because it would have been a great opportunity to get into a bit more detail about a major and significant Department, which we have been concerned about for almost my entire time on the Committee, which is nearly a decade now.

Mr Holden, is there anything you wanted to add before I move on to Sir Geoffrey?

Q73 **Mr Holden:** I am sorry, Chair. I should have declared that I am a former special adviser in the MOD, as well as in Education. I want to finally ask Ms Little whether she thinks it would have been better practice for the integrated review to have come first and then the money.

Cat Little: I do not think it is my position to judge the sequencing of defence and security policy in my role at the Treasury.

Chair: We are talking about the financial budget.

Cat Little: All of our settlements are obviously in line with the policy direction of the Government of the day, regardless of how it is badged.

Q74 **Mr Holden:** Don't you agree it would be better to have the policy objectives of the Government of the day published before you announce them when you think you are going to spend?

Sir Tom Scholar: We have been working across Government on the integrated review for months. It's not as if the defence settlement has been decided separately, in a vacuum outside that context. It has been decided completely within that context. So I don't think that the premise of the question holds.

Chair: We have raised our concerns and I think we need to be raising those with Ministers and the Speaker, but thank you very much Mr Holden for that.

Q75 **Sir Geoffrey Clifton-Brown:** Can I get back to digging into some of the detail on the Whole of Government Accounts? I am going to ask you, Ms Rock, and I will take two particularly large individual sections.

The first is NHS claims. Can you tell us what progress is being made to try to control the level of increase—

Chair: I should just say for context that, although this would have been a big figure a few months ago, £85.3 billion is the clinical negligence provision, which is dwarfed by covid, yet still a big figure and one of the biggest parts of the liabilities.

Vicky Rock: I am happy to take that. Yes, it is a large figure, especially when you see it in the context of the Department of Health and Social Care's budget—I think it is about 1.7%. So it is a very significant figure even with covid and other figures coming through. This is an area that has been picked up through the balance sheet review, and this Committee asked earlier whether the balance sheet review was still relevant when we were dealing with covid. The answer is very much yes. This is one of the examples. The lead Department for this is the Department of Health and Social Care, so they will be able to answer more of the detail.

There is a cross-Government taskforce working on this, involving the Treasury and NHS Resolution, which oversees the claims of the Department of Health and Social Care and others. It looks at how to reduce incidences of harm and how to do that in areas that are driving the largest increases in the provision. So you have to be quite focused about where you can make the biggest difference to cases of harm and the cost that follows from that. The Department of Health and Social Care is the lead Department on that, but the Treasury is contributing very fully through the work on the balance sheet review.

Q76 **Sir Geoffrey Clifton-Brown:** I suppose the obvious question, which you may or may not be able to answer, is whether they are making any progress.

Vicky Rock: What you can see coming through Whole of Government Accounts already—and you can see it for a couple of years now—is a levelling off in the number of claims. The National Audit Office also did a report on this recently and reflected that the increase in the provision value, if you exclude the effects of discounting that has brought it down this year, did not reflect increases in patient harm. You can see a drop-off, a decrease and flattening in the increase in number of cases. So on the question of whether it is having an effect, you can certainly see the number of cases slowing, stopping to increase and then plateauing and having slightly decreases in the last couple of years. But much more work needs to be done on how that translates into the financial settlements.

Q77 **Sir Geoffrey Clifton-Brown:** Another area where there is a very big generic figure is the cost of nuclear decommissioning. This Committee has done a lot of work of the cost of nuclear decommissioning. The latest set of Whole of Government Accounts shows a reduction, but that is largely due to the discount rate applied. How do we get a handle on where this is all going? We have done a lot of work in the Committee. If I can put it to you succinctly before I am cut off by the Chair, it seems to me when we investigate these things, that the attitude is that it is a big, dangerous job, and we have to do it, come what may, without any real thought of how much it is going to cost and whether we can do it in a more cost-effective way. What control is the Treasury exercising over the whole of this project?

Vicky Rock: The answer, to start with, is that the Treasury is very closely involved in the management of this liability and in the operation of the Nuclear Decommissioning Authority, and working alongside the lead Department—the Department for Business, Enterprise and Industrial Strategy—as well. A lot of improvements have been made and some of them are summarised in this year's Whole of Government Accounts, which look at how the management structure is, and how the controls and the incentives are set up.

I want to be really clear that just because this is a balance sheet driven approach, it doesn't mean that the Treasury cares about it any less. This is something that we work very actively on. It has got a lot of expenditure on research and development, to try and bring down those long-term costs. So despite the fact that this is on the balance sheet, and we haven't written it off in any way, we very much still look to bring the costs down and look at the most efficient ways of decommissioning. There are efforts in place as well to change some of the regulations, so that the work can be decommissioned equally safely and at lower cost.

So the work that we do is very active and certainly doesn't treat anything on the liability side as a foregone conclusion—that it must be incurred, to that extent.

Q78 **Sir Geoffrey Clifton-Brown:** Before I come back to Sir Tom about the controls on this huge figure, it seems slightly difficult for anybody looking at the accounts to get a true picture, when all you have done is reduce the costs by reducing the discount figure, because it is over such a long period—a hundred years-plus. I know it is an accepted way of accounting, but it is very difficult to see, from one year to another, whether any progress has been made simply by altering the discount figure. I wonder whether there is any better way of presenting this.

Vicky Rock: First, I have to say that I agree, and I think that if you want to know whether something is really changing, you want to know if there is going to be a change in the cash out the door. So it is something that we have brought into the performance report.

When we discuss movements in provisions, we always strip out and separately identify what it is that's a discount rate, because it would be misleading us to claim credit when something has moved in our favour, but equally it is not necessarily a cause for alarm when the provision goes up because of the change in the discount rate. So at every point in the performance report and in the document where we have a provisions movement, we are always very careful to separate out which element of it is due to the discount rate.

We have also brought in content from the Nuclear Decommissioning Authority's own accounts, which gives you the discounted and undiscounted cash flows over the whole hundred years-plus, and I have to say that to me is the most useful figure. It is actually, "When is it coming?", and you can see which years it is arising in, and that is why we have brought that into the performance report.

Q79 **Sir Geoffrey Clifton-Brown:** That is really helpful. Sir Tom, can I come back to you to ask what controls the Treasury are putting on basically the NDA, to try and see whether there are more cost-effective options of doing this?

Sir Tom Scholar: The NDA is of course the body with the expertise in managing nuclear decommissioning and BEIS is the parent Department that oversees it. Our spending team works in the first instance with BEIS, to try to satisfy ourselves that they are doing as good a job as they can. But we don't have technical expertise in nuclear decommissioning, so to that extent we are not able to second-guess them. However, we recognise this is a very important contingent liability, and it is one that we try to manage through the—

Q80 **Sir Geoffrey Clifton-Brown:** It is probably the biggest single contingent liability you've got, isn't it?

Sir Tom Scholar: Is it the biggest single one? I don't know off—it's a very big one. But it is a liability that the Government has; it is a liability that the Government acquired at the time that it decided to build the nuclear power stations. And we look to the Nuclear Decommissioning Authority as the body where the expertise is to manage it as well as possible.

Q81 **Sir Geoffrey Clifton-Brown:** Sorry—I am going to try again on my rather trite analogy, because I think this needs to be addressed. Having done a lot of work and having spent a lot of time with this Committee, it does seem to me that the NDA, as you say, have the expertise, but their attitude seems to be, and I hope I am not traducing them, that this is a job that has got to be done, irrespective of the cost, and not foremost in their mind is the question: "How can this job be done in the most cost-effective way?" And I think that both the Treasury and BEIS need to have a different mindset of how to manage this whole very difficult problem. I would ask if you would perhaps think about that and look into it.

Sir Tom Scholar: Certainly very happy to do that.

Sir Geoffrey Clifton-Brown: Thank you very much.

Q82 **Chair:** It is certainly something this Committee has been championing—thanks particularly to Sir Geoffrey, who has been particularly championing this issue that we need to be long term. Politicians may think short term, but not Sir Geoffrey: he is thinking about the next 100 years, and this is a liability that will be around our necks for a very long time to come, so thank you for that, Ms Rock.

I want to move back to the WGA more generally. Sir Tom, you have talked a lot about other people being involved in modelling, but not so much the Treasury. You also said that the WGA is not the right document to discuss policy, but the shocks to the WGA—particularly over the next iterations as a result of covid—will be a direct outcome of Government policy decisions, so where do you think that should be captured if it is not in the WGA? Surely, you will have to reflect that as a result of this huge shock to the system.

Sir Tom Scholar: Lots of the shock will be captured, first through Departmental reports and secondly through the WGA, although that will happen with a lag after the end of the year—the need to prepare the reports that you are very familiar with. Some of the shock will not be captured, particularly the underlying performance of the economy. That is not an accounting concept; it is a—

Q83 **Chair:** Is it in the narrative? We have encouraged you over the years to improve that narrative, that description. Surely, you will want to include something like that.

Sir Tom Scholar: We will do. In fact, this year we have included a long performance report that looks particularly at two very important post-balance-sheet events—I am thinking of the closing of the balance sheet at the end of March 2019—which are, the financial settlement with the EU and the impact of covid. However, those are covered in the commentary; they are not actually in the accounts themselves, because the accounts themselves obviously get prepared to the standard accounting conventions, which, as I said, will capture some of these effects, but not all of them.

Q84 **Chair:** I am not sure whether it will be Ms Little or Ms Rock who answers this, but I think it might have been you, Ms Little—maybe it was you, Sir Tom—who said that you do not capture covid spending directly in this. When I have talked to other public bodies that are worried about whether they will get the money back from the Treasury, I have said to them that in my personal opinion, they need to have a budget heading for what changes they made directly as a result of covid, and evidence it as far as they can so that they are keeping track of their spending, so they can then go—ultimately, I suppose, to the Treasury, but through whichever body they work through, whichever Department—and prove that this is an additional cost, and they are not wrapping up other things into that figure.

Surely, the Whole of Government Accounts are going to have to have some way of recording the cost of covid, so what are Departments being required to do to measure this, so that you are satisfied that you can record the actual expenditure as well as roughly work out where the bleed is into other areas? Some other areas will go up in spending, but will not be directly covid spend, so how are you going to do that?

Cat Little: Just to build on what I said earlier, we are asking Departments to do exactly that: track and record how they are using ring-fenced money for either covid or the EU. The tricky bit—I think we will always have some estimations—is that this is quite a manual exercise. We are basically saying, particularly because a lot of this relates to workforce, it is very possible that some Departments have people who are moved from one job to work on covid for a brief period of time, and then go back to their day job, so actually ascertaining the percentage and a really accurate cost—how workforce pay bill costs have been used—is always going to have an element of judgment and an element of manual intervention. Normally, when we are trying to track costs, we like to have everything within nice, neat, recorded general ledger codes that we can extract and automate.

Q85 **Chair:** But are you not producing a code for that, when you move a member of staff over to covid work?

Cat Little: One of the things—Ms Rock might want to add to this, and this might be a neat segue—is that we are looking at how we use OSCAR II to capture information for both the EU and—

Q86 **Chair:** For those people who might be tuning in and do not know, do you want to explain what OSCAR II is, in simple terms? I could try, but you are probably better at explaining it.

Cat Little: OSCAR II is the online central accounting and reporting tool that we use to basically gather financial information and performance data from a Department. It is, very simply, a data collection tool that is online.

Q87 **Chair:** But it does not yet do the consolidation bit, does it, Ms Rock?

Vicky Rock: For the Government accounts? Yes, that is the improvement that we are bringing in.

Q88 **Chair:** You are bringing it in, but it is not yet doing it, is it?

Vicky Rock: It did not produce the 2018-19 account, but it will produce this 2019-20 account.

Q89 **Chair:** So it will be in time for that? That is good to hear. How easy it is to introduce as a budget heading, so if you move a member of staff over to something that is very directly covid related, you can tick a box somewhere and that month's salary is allocated to it? Is that an impossibility?

Cat Little: Like all appropriations of cost, you have got to have either a formula or a manual intervention that allows the data to be collected. We are trying to run some tests to see if we can start to do that for EU and for covid, but we are right in the very early ways of thinking about it. It is not until we get the consolidation tool up and running. I think I sent you the dates at which different modules are coming online, so you are not going to see beautiful, automated consolidation of this data for a while yet.

Q90 **Chair:** Is there anything you can say about this, Ms Rock, about the practical technical side of doing this? This is such a useful document for future planning.

Vicky Rock: Certainly. I would say that OSCAR and Whole of Government Accounts can only collect what the Department has produced. So the limitation here is not really the IT system; the limitation is that, just as Ms

Little has explained, it is a very manual exercise. If you are running an organisation in order to capture everything, it is a bit of an 80:20 rule, in that a large amount of your incremental spend you can identify very rapidly: it’s those contracts, those account codes—there it is. It is much more as we aim to push towards 100% capture that we start to find more of those difficulties and it takes more effort, more judgment in order to do it.

Q91 **Chair:** That is an interesting way of looking at it, because within that 20%, there may be some very significant things that are not recorded that are worth spending time on. Especially, I am thinking about covid spending, because if you are thinking about future planning for pandemics, seeing what happened this time around is potentially very helpful for future planning.

Vicky Rock: What is really in that 20% is those areas where you have redeployed resources. Any time you enter into a new contract, you know exactly what it is and what it is for. You can capture that and record that very simply. It is much more those grey areas where, if Ms Little or myself or Sir Tom spends some time on the covid response, do you record any of that under the Treasury’s costs, because we were employed anyway?

Q92 **Chair:** It is interesting. In the private sector you would have time recording, you would have codes you put against your time, your hours. I can imagine that not being very popular with some of the Permanent Secretaries who have come in front of us, but is that something that you have thought about?

Vicky Rock: It is not a solution that we are actively looking at. Some Departments might put in place local processes, but what we are doing is giving guidance for how to make those judgments in those grey areas as consistently as possible. As I say, there will be clear areas of spend that are very readily identifiable and reportable, and the areas where you see us being slightly more hesitant, it is really as we try and track down to get that all the way to 100%.

Q93 **Chair:** So what, in your view, are the big gaps that you would like to be able to find a way of Departments recording more accurately?

Vicky Rock: You call them gaps, but certainly I think the opportunities are around the common chart of accounts that you use to capture at source. We have got a chart of accounts that is used for Government. It is used to produce Whole of Government Accounts, it is used to produce regular public sector finance statistics. To see that embedded in every Department would remove a lot of manual work in Departments. It would give you the opportunities for more granular—

Q94 **Chair:** Any resistance to having that embedded?

Vicky Rock: It is our current plan to do that. It is what Cat and I are working on through the Government finance function and we have a plan in place to put that out. It is quite time-intensive and costly to do. You need to time it with changes to systems, you need to think about interaction with shared services.

Q95 **Chair:** So when do you think it will be put in place?

Vicky Rock: We have got a programme of convergence that we are finalising at the moment. We have already done a lot of work in the finance function around converging processes so that there are not 101 ways to pay an expense claim or, rather, there should not be. There should be a common way of doing things, common technology and common data capture. So we look at that as the whole package, where we do the process, the technology and the data together across all of the finance processes. We already have those processes published. We are now going into more detail and looking to support roll-out. Our current plan for finishing—it feels strange to talk about finishing the work as there will always be the maintenance element. We looked at that initial wave in little more than 12 months from now, concluding in 2022, but what we do not yet have is a reliable timeline for full departmental roll-out and adoption and that is something that we are looking at.

Q96 **Chair:** We might be able to help you with that by holding accounting officers' feet to the fire on it a bit, because it is important for this document for planning. That brings me to the issue of how this document is being used by Departments. They have to provide you with the data and information, obviously, but are they using it to make long-term decisions yet?

Cat Little: Vicky and I have shared the WGA and gone through thematically some of the common areas, the lessons learned. Around provisions, qualifications, there are some really interesting things that spark quite a lot of debate. The big benefit that we see Departments and spending teams in the Treasury using is all the underlying data that goes into producing the WGA, which is where we use a lot more of our live analysis to hold Departments to account. I don't think it was ever really designed for Departments to use it for day-to-day activity, especially because they would argue that their own annual reports and accounts are probably more relevant. However, wherever we can make comparisons, we would obviously try to do so.

Chair: I am now going to go to Craig Mackinlay.

Q97 **Craig Mackinlay:** First, a brief one to Sir Tom. After this, you will be able to sit back in your chair and I will have questions for Ms Little and Ms Rock.

Sir Tom, do you think that, through the way that the Government consider liabilities and the operation that Departments operate under, we have embedded moral hazard in all that we do—"Oh well, never mind, the liabilities aren't mine; we're not really commercial, we needn't worry about it; it'll just sit in contingencies or liabilities in the national finances or the finances of the Department"? Do you think that exists because of the way we are structured? I know it's a broadly philosophical question, and I have bounced you into it, but do you have any thoughts on that statement?

Sir Tom Scholar: Certainly. One of the valuable things we have got out of the Whole of Government Accounts over the last few years has been a much better handle on the extent of liabilities, including contingent liabilities, across the Government balance sheets. The process of pulling together and aggregating that information has shown us the extent of the liabilities and their distribution across Departments, and has gotten us to focus on that in a way that we hadn't before. That was one of the great motivations behind the balance sheet review, which has looked at assets, but liabilities too.

One of the first things we decided in that review—I think this was decided in 2017—was a much more active process with Departments of challenge from the Treasury, not just on the management of existing liabilities but on incurring of new liabilities, and bringing the management of liabilities much more into the general spending control process than it had been previously. I don't know whether that would have been a fair characterisation before, but it is something we have certainly put a lot more effort into in the last few years, and that has been partly from the WGA.

Q98 **Craig Mackinlay:** Probably the big liability that we look at on the PAC is the liability for the potential for NHS mistakes and accidents. Do you think that has been embedded sufficiently in the liability risk within the managers, health trusts and all the rest of the components of the NHS, and is that being considered adequately? Are people judged on their rate of liability adequately? Do you think the system allows for that?

Sir Tom Scholar: That is a system-wide question that I am not the best person to answer, but Cat or Vicky might want to add something. However, it is something—I think Vicky was talking about this earlier—where there has been a great deal of focus and challenge from the Treasury to the Department of Health and Social Care, and from the Department of Health and Social Care to the NHS and through the system. The number is still very big, of course. There are lots of reasons for that. Can we all do better? I am sure we can, but it is something that gets a lot of attention.

Q99 **Craig Mackinlay:** Thank you; you can rest back in your chair now, Sir Tom.

Now, a question to Ms Little. I appreciate the complexity of pulling all of these different organisations together, but the '19 accounts were not fully disclosed until 21 July 2020, which is a significant period. I could not even compare a Government operation to a big multinational such as Amazon, but Amazon is the size of some small countries now. It operates globally, it has assets all over the place, it has inventories and it has properties. It would not consider a delay of 15 months from the end of an accounting period to a consolidated set of international accounts to be acceptable, I would not have thought. What are your thoughts on that?

Cat Little: First, timely and high-quality financial reporting is an important principle for the whole of Government and the public sector. You could argue that it matters even more than in the private sector, given the use of taxpayers' funds. We always intended to publish the 2018-19 WGA in June this year. We were a little delayed from where we would have liked to be because of covid, but how we start to shorten that timescale is a really important question for us.

There are a couple of things that we would like to do, but we should be realistic about the fact that we know that there are two big things that will give us an immediate trail into next year in the production of the 2019-20 accounts. First is covid itself, where, having moved back the administrative deadline for the component bodies that come into the WGA, that will inevitably have an impact on our ability to consolidate at pace. The other area is the local government audit. We are currently working through the Redmond review and when we expect consolidation there. There will be, I anticipate, a real challenge going into 2019-20, but our hope, going back to some of Ms Rock's comments, is that we can use OSCAR II to help us to consolidate much more quickly. That is the painstaking, very difficult process at the back end, but ultimately, we are reliant on component bodies and, dare I say, their auditors to work with us on a timetable for 9,000 consolidated bodies.

I would not necessarily draw comparisons with any other consolidation exercise in the private or the public sector. We are the only country in the world to do this, and the private sector does not have that many subsidiaries, and an organisation such as Amazon has modern cloud-based technology and does not have a legacy of historic of machinery of government changes for lots of legacy bodies that we incorporate. It is almost a unique exercise.

Q100 **Craig Mackinlay:** Thanks for that. I discussed earlier on in one of my interventions to you about the potential for liabilities that are emerging because of the covid situation. I looked through the WGA and they are a nice read—lots of good tables and everything else—and not dissimilar to the experience I had on local government accounts, where they are really in two parts. There is the first part, which I think most people understand. That is almost the income and expenditure part, almost a cash basis. Then you have the really geeky and wacky part of provisions and discount rates and all the rest of it. I said earlier, I think the cash side of it, those lumpy five that I mentioned earlier on, are going to be very important. They are real cash; they are real money and they are real liabilities that will have to be paid out or assets not recovered. However, in the backing section, which nobody really reads, are the things such as the intangible assets, the valuation of proper assets and how we are going to account for those. They will possibly be subject to significant impairment during this period. I wonder how you are going to recognise those. The one that almost made me laugh when I was involved in local government was trying to value historic assets, such as the castle and things like that. There will be significant amounts of assets that are out for rental. There will be the commercial deals that local governments enter into, either wisely or unwisely. How are you going to assess those critically over the year ahead?

Cat Little: My personal view is that I do not think covid has a massive impact on the challenge of intangible or tangible asset valuations, if I am frank. There might be some things around raw materials, consumables, stock items and inventory when we get through to PPE and some of those items. However, in the whole scale of the Government balance sheet, there is always the challenge of how you value our assets, in particular intangible assets. Again, going back to the balance sheet review, one of the real focused workstreams of that was making sure that we were not just valuing but also exploiting the value that those intangible assets have for the wider good of the country. Valuation is always challenging, and we work closely with the FRAB and NEA to make sure that we learn how valuations are undertaken. It is different in every single sector. As you say, local government have some interesting heritage asset valuations and we are keen that we keep the valuation policies up to date and in line with international accounting standards best practice.

Q101 **Craig Mackinlay:** I serve on the FRAB, so I am familiar with the problems that we have. Can you give me an example of what a typical intangible asset would be within these accounts? I could not find an obvious example for those who may be watching.

Cat Little: Software licences would classify as an intangible asset and intellectual property, for example.

Q102 **Craig Mackinlay:** So self-generated by some institution. Would we be capitalising self-generated intangible assets in terms of intellectual property?

Cat Little: Yes. We recognise both self-generated and jointly produced intangible assets, which are common in a number of our research and science-focused organisations.

Q103 **Craig Mackinlay:** You mentioned the Redmond review. There are now a number of councils; Croydon has fallen into difficulties and there is talk of others as well. There have been problems in local government audit for some years, not least because the private sector has struggled to provide the level of service within the time. Where do you think we can move with this to recognise problems in local councils earlier?

Cat Little: If I start, I am sure Ms Rock would like to add to this. I speak with a bit of personal experience because my first job out of university was auditing local government and I spent many years doing it. First, we are working very closely with the MHCLG team on the Redmond review and discussing the recommendations with other stakeholders such as the National Audit Office and with CIPFA. We care deeply about making sure that both the quality and the timeliness of local government financial reporting and, indeed, the performance aspects of local government reporting are improved. We think the Redmond review has a range of recommendations that we would strongly support. We are looking to have a co-ordinated Government response to Redmond by the end of this calendar year.

There is one recommendation that we need to consider in the context of our previous conversation on the timeliness of the WGA production, where there is a suggestion that we might move back the administrative deadline for local authority reporting. That is something we want to work with

MHCLG and the Redmond review team on because we will want to balance out the considerations for our desire to speed up the WGA. Overall, there has been a period where, unfortunately, both the quality and the timeliness of local authority audits has seen some deterioration. We need to work together to get it back on track.

Q104 **Chair:** On the Redmond review, it came to you in September, so when are you proposing to act upon it?

Cat Little: The current deadline is by the end of this calendar year, by December, but we are still working that through with MHCLG.

Q105 **Chair:** Ms Rock, did you want to add anything? If you have got nothing to add, do not worry.

Vicky Rock: No.

Q106 **Craig Mackinlay:** Ms Rock, on some, I'm afraid, more nerdy minutiae of accounting, we have a variety of methods, particularly on recording certain assets. We have the depreciated replacement cost, which I think is the preferred one within central Government, we have historic cost in many local governments, but we are all trying—I know the work on FRAB is to be more in line with commercial norms on accounting policies. We are trying to put our finger on fair value. What do you think these differences have caused on the WGA? I know there is some dispute about road assets, with road and infrastructure being based on different methods of carrying cost. Substantial figures. Anything we can do to improve that?

Vicky Rock: In the private sector, they predominantly use depreciated historical cost. The accounting standards allow you to have a revaluation model. Very few private sector entities take that up, because it is costly and time consuming to do. In the public sector, we have taken the view that, for financial management reasons, the end user—Parliament, the Treasury, everybody—values knowing what the actual value of those assets is, not what the value was when it was originally purchased however many years ago and depreciated since then. Having that higher, slightly more challenging bar then creates difficulties. You are quite right to point out that there is that difference on infrastructure assets for which, realistically, we do not have a short-term plan to resolve, because the cost and time involved for relatively little financial management gain is not within our reach to change right now. It is much more for us to tolerate, and to provide the most useful disclosures that we can in that context.

Q107 **Craig Mackinlay:** I can understand your dilemma, and it is not a criticism in any way. To take an asset such as a carrier, an old carrier or naval ship, what has been the experience of the accuracy of the current accounting methods when at the end of its life it gets sold off to Brazil or India? Has there been a write-off? Are we doing something right, or has that type of accounting method shown itself up to have major flaws?

Cat Little: I can give you a quick simple answer. The useful economic lives of major assets like that are reviewed regularly. We tend to find that the useful economic lives of very expensive, unique assets like a carrier or a frigate is probably longer in many instances than intended. To take the sale of HMS Ocean to Brazil last year, that generated a surplus. The fair value basis on which we carry assets once we know they are held for disposal is not always the best indicator of what the market will pay, but certainly the way in which we try to manage sales of very large assets is to optimise the sale point to drive a surplus rather than a loss.

Q108 **Craig Mackinlay:** The consolidation system seems to be at the core of this, so we will make improvements in time and accuracy. I cannot even get my head around what it must be like when you get these variety of reports through the current OSCAR II system and then you have to put that together with a decent consolidation. What are the technical barriers to, and the movement towards, that working more effectively? I can imagine it is a very complicated project.

Vicky Rock: Yes. The first element on the critical path is getting those audited returns in. That is the most significant item on the timeline right now—the point at which, this year in particular, central Government finish their accounts. We talked earlier about four still being outstanding. The point at which local government finishes its accounts as well—we talked about the delays in the audit cycle for Redmond. It is only once we have a critical mass of audited returns that we can really fire the gun to get started.

When it comes to the actual consolidation, we are using OSCAR II for this consolidation round—so all of those returns that we have been receiving in the year to date have come through on the new system. It has meant that we have a much better picture of where preparers are in the process. We can access their returns and we can help them with them on the live system. So we are already getting some benefits. We can monitor better as well.

One of the big advantages of the new system—the biggest challenge in WGA really—is eliminating all this into Government balances. So, you have 9,000 entities and you want to cancel everything out. The new system allows them to have real-time readings to check their counterparty information themselves. If you are in DEFRA saying, "I have this balance with this entity", those two entities can check it with each other and resolve the differences. Previously, an awful lot of that work had to be done within the team. That is one of the areas where we are really hoping to drive some improvements with the new system—less manual intervention in those eliminations and getting those balances right at source.

Craig Mackinlay: Thank you very much. I will leave it there. I wonder what the balances unresolved are at the end of the year.

Chair: Thank you, Mr Mackinlay. As you can tell, this Committee has great enthusiasts for this document and how it works. Another one is Sir Geoffrey Clifton-Brown.

Q109 **Sir Geoffrey Clifton-Brown:** We touched on local government finance. It seems to me that one of the biggest weaknesses in the whole of the Whole of Government Accounts is getting control over local government finance. I do not think that central Government have enough data on what local government is doing. We found that particularly—I will give you a good example—for commercial property investment. This week, we saw Croydon Council going into 114, and there will be other councils. What can you do to get a better handle on local government finance?

Cat Little: I would cite a couple of things. One is that we are working very closely with MHCLG to collect realtime data. A few months ago, as we started to inject increased local authority grant for covid, we said, "Look, we need to have better data, to understand what the money is being spent on, and it needs to be much more timely", so there have been regular data-collection exercises through MHCLG shared with the Treasury, so that we can best understand how money is being used. That is not for everything; that is very much live, for special ring-fenced funding allocations, but there is an interesting question about whether we should extend that and do something further.

Then of course there is the Redmond review. A critical question that we are working through is how much additional data is needed. That is not just about financial statements and reporting; it is about performance and the use of resources in the round. Therefore, we are very keen to have a conversation about what sort of data should or could be collected as part of a response to the Redmond review.

Q110 **Sir Geoffrey Clifton-Brown:** But this is not just something that has been happening over the past few years; it is happening right now. My own Cotswold District Council, on normal expenditure of £10 million, has produced a corporate plan in which it intends to borrow £57 million and run down on its reserves to spend on commercial property and social housing. Those are the finances of the madhouse.

Cat Little: I know you have got a Committee hearing with MHCLG and a colleague of mine from the Treasury in a couple of weeks' time. That is exactly the sort of question that we want to get into there, as to how the framework going forwards might change.

Q111 **Sir Geoffrey Clifton-Brown:** I am sure we want to get into it there, but it is really a matter for the Treasury as well, because every time a council goes into 114, it is the taxpayer, the Treasury, that has to pick up the bill. Therefore, it is surely important for the Treasury, through the Whole of Government Accounts and the departmental accounts, to get a handle on this. I suspect that you have not got a sufficient handle on it at the moment. I do not want to know a number, because MHCLG would not give us a number and I do not think it is right that you should, but do you have a number of those councils that are likely to go? I am not asking for it, but do you have the information that will tell you how many councils are likely to go into 114 in the near future?

Cat Little: MHCLG has shared with us its assessment. I do not have a number off the top of my head, but our local government spending team works closely with MHCLG for all the reasons that you have just described because, ultimately, we bear the financial risk. We are working closely on how we do due diligence and how we better understand the underlying financial characteristics of departments with MHCLG, and very happy to say more about that in a couple of weeks at the dedicated hearing.

Sir Geoffrey Clifton-Brown: Yes—

Cat Little: If I may, the WGA is not at a granular enough level of detail, but the underlying data that is used to consolidate into the WGA has some benefits.

Q112 **Sir Geoffrey Clifton-Brown:** As you said yourself, the provision of the local government figures has been one of the key factors in delaying WGA publication. The whole trend is to accelerate it, rather than to delay it. How will you get better control over the standardisation? The sorts of things that Mr Mackinlay was talking about—how you value assets—should be a relatively straightforward thing, so how will you get control of that so that in the future we can streamline the whole system relating to local government?

Cat Little: Partly through the Redmond review. We also work closely with CIPFA, which sets the local authority accounting framework. Both Vicky and I work closely with and meet CIPFA on a regular basis. What we do not want to do is to force consistency without cause, and there are some good reasons why local government and other sectors have accounting practices that are not consistent with those of central Government. We want to make sure that we do not do something that has an unintended consequence. But that debate is live.

Q113 **Sir Geoffrey Clifton-Brown:** Does it make any sense to have different standards of accounting between local government and every other Government Department. Wouldn't it make life a lot easier if those standards were the same?

Cat Little: They operate in a different framework. The fact that local authorities can draw down money and borrow money themselves means that they are being held to different standards within their financial frameworks, so I think there are some circumstances where we might want to gather different information, but of course the accounting has to sit within the international body of IFRS. We would never diverge from the interpretations of that consistency across the whole of Government and the public sector.

Q114 **Chair:** That tees us up very nicely for the recall of MHCLG. It is something that this Committee is obviously very concerned about. Only today we read that Bexley Council is trying to turn its reserves into resource funding. This is a big challenge. Covid has exacerbated it, but it has been there for a while anyway. I note, as we were discussing it earlier, that the Prime Minister is on his feet to talk about the integrated review—but possibly not in time to get answers from the Treasury team on what he is saying—so we look forward to reading about that later.

We have talked a lot in the past, Ms Rock, about the stakeholder survey and what people know about it. Sir Tom wrote to me in November of last year to say that some of the feedback was useful. It was feedback about more data, being more accessible, improved presentation—things that are pretty obvious. Is there anything that you want to add to that about what your stakeholders are saying that they would like so that they can use this document more usefully?

Vicky Rock: It is worth acknowledging that actually one of the biggest stakeholders is this Committee and we have not had a chance to meet with you because of covid, the prorogation of Parliament—a number of things. So if there is still an opportunity for us to meet, that would be—

Q115 **Chair:** Absolutely. This Committee would be very happy to meet with you privately to discuss that; we have obviously given some of our views today. But what are you getting from other stakeholders? Are they finding useful the things that you have done to make the document more accessible? Is there anything in particular—are we going to see a dramatic change in anything in the next year?

Vicky Rock: Some of the feedback that we are getting is on the performance report, to try to make it quite forward looking and think about the Government's debt, the burden of paying for covid, the maturity of when the liabilities are coming and where things are stacking, so we will certainly take on that feedback. Some of the other feedback from stakeholders is about using the underlying datasets, and I have to say that that is where we do the most work in the Treasury. There are so many times and examples where we do not use the WGA as that live decision-making tool. When we have a policy problem and we are concerned about any of the balance sheets, our first port of call is the spreadsheets that sit behind the WGA: where are these balances; which are the entities we need to be worried about? And then we investigate those.

Q116 **Chair:** So this is the cherry on the cake; you have all of that underneath. It is really heartening that people are going to use that. Are politicians engaging at all? Do Ministers ever ask to see the WGA?

Vicky Rock: Yes, they do. The Chief Secretary is a good example of somebody who—

Chair: I would hope the Chief Secretary does, yes!

Vicky Rock: He really wants better data for decision making. As I say, so often the WGA is a jumping-off point. We see that a lot in the balance sheet review. You find that area and then you put in place more live frameworks, more live monitoring, as a result of first identifying the issue in the WGA; you then put those solutions in place. That is also an area where, as I say, more data for decision making and more realtime monitoring are both areas of priority for politicians.

Q117 **Chair:** So we will see some of those changes coming through. When are you expecting to publish next year?

Vicky Rock: In June.

Q118 **Sir Geoffrey Clifton-Brown:** It seems to me that one of the chief benefits of the Whole of Government Accounts, given that they are somewhat historical, is to be able to compare trends in one year with another. Will you make sure that when you publish next year's accounts you can be very clear on what the trends are, so that we can make an easy comparison between one year and another?

Vicky Rock: Yes. We aim to use five-year trend data, so we will stick with that. I think that all our stakeholder feedback describes the usefulness of that. If there is anything where you would like longer-term trend information, we would be happy to provide that as well.

Chair: Although it is a backward-looking document in some ways, those trends are the really useful thing. Certainly, as someone who has been in ministerial office and in a scrutiny role—and we all care about the taxpayers whom we represent—I can say that it is really helpful to see what those liabilities are. Although it is a long way off yet, sorting out things like the health or NHS liabilities, the clinical negligence liability, is really key. We have done a separate hearing on that and how this document was the first place that it was really raised. It recently got publicity as a new thing, but some of us in this room were aware of it beforehand.

It is really interesting to discuss this, and I know this has been a difficult time. May I pass on thanks to you for getting it out only seven weeks late, despite covid, when you must all have been very pressed, trying to get controls in place with regard to the money that was going out the door very quickly? We will be very interested to see how this is reflected in next year's Whole of Government Accounts, but also we want to make sure that there is maintenance on—I think we are probably in the same place on this—the underlying costs of Government, so that there can be, as Sir Geoffrey has highlighted, those year-on-year comparisons. Thank you very much indeed for your time.