House of Commons

Public Accounts Committee

Oral evidence: Whole of Government Accounts 2021-22, HC 656

Wednesday 15 May 2024

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Olivia Blake; Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Peter Grant; Ben Lake; Matt Warman.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, and Helen Jackson, Director, National Audit Office, were in attendance.

Questions 1 - 94

Witnesses

I: James Bowler CB, Permanent Secretary, HM Treasury; Andrew Cartner, Director, Public Spending, HM Treasury; Conrad Smewing, Director General, Public Spending, HM Treasury.

Examination of witnesses

Witnesses: James Bowler, Andrew Cartner and Conrad Smewing.

Chair: Welcome to the Public Accounts Committee on Wednesday 15 May 2024. Today, the Committee is examining the latest set of whole of Government accounts, which consolidates the accounts of over 10,000 public organisations and is the most comprehensive view available of how the Government use taxpayers' money. It really is the balance sheet of the nation.

In its last report on the 2020-21 whole of Government accounts, which was only earlier this year, the Committee found that the delays—those dates tell you how long the delay has been—and the data gaps mean that the accounts are less useful for what they are intended to be, which is partly as a useful document for policymakers as well as the Treasury in making decisions about how Government spend our money. That transparency and usefulness is really important to Parliament as well.

Last time, earlier this year, the Treasury made commitments about how it was going to get the accounts back on track. There are also huge risks that are outlined, which we know about—for instance, about the local government sector—that are having a really big impact on whether the accounts can be filed on those deadlines. We are keen to see things get back on track so we want to get into that today and highlight why this document is useful.

I am delighted to welcome as one of our witnesses James Bowler, who is the Permanent Secretary at the Treasury. He is joined by Conrad Smewing, who is the director general for public spending, and Andrew Cartner, who is the director of public spending who is responsible for the whole of Government accounts, so it is his baby. Vicky Rock, of course, used to do that job for many years, as many of us on this Committee will know.

I also should say that we invited the Exchequer Secretary, who is an ex officio member of this Committee, to attend, because of the importance of the whole of Government accounts. Unfortunately, his diary was busy, as we imagined it might be, with the notice we were able to give him, but he has written to us firmly backing the whole of Government accounts and the process that goes behind it. I am sure that the Permanent Secretary is aware of that, but it is worth putting on the record. I should say that Gareth Davies is the Exchequer Secretary. There is also Gareth Davies, the Comptroller and Auditor General, who is here today, and he is very welcome, along with his colleague, Helen Jackson.

Without further ado, I am going to ask Sir Geoffrey Clifton-Brown, deputy Chair, to kick off.

Q1 **Sir Geoffrey Clifton-Brown:** Good afternoon to our witnesses. Permanent Secretary, in annex A, you very kindly gave us a recovery plan timetable. Last year's WGA were 27 months behind. These ones are 23 months. Next year, you are predicting 19. This is in your annex A to us. The following year, they are on track to the 15 months. Indeed, the 2024-25 will be 14 months, if your timetable is correct. Can you convince this Committee that that timetable is realistic, given the number of local authorities that have not managed to submit their accounts at all, or not with audited data, and given the emerging problem of health commissioners and so on not submitting their accounts on time? It seems that the whole thing is getting more difficult, rather than less. How realistic is that timetable?

James Bowler: We are committed to, and are delivering, the recovery timetable we gave you. We have published two whole of Government accounts since July last year—one in July and one in March. We are coming up to publishing another two, so that will be four in two years. We are on track to deliver one in November and then, I think, July 2025. That will be four accounts. After that, we will be at a pre-covid level of publishing in the summer after the year-end before, so we think we are on track.

You rightly named the biggest challenge to the WGA at the moment, which is missing data and, in particular, the issue of local authorities. There is a significant problem with local authority accounts at the moment. There are 178 missing entities in the accounts we published in March. That will rise before it falls. The WGA will continue to be published. The issue will be—and I am sure we will come to this—the audit assurance that we can give to some of that. We can come to the extent to which that might lead to even a disclaimer of opinion on those accounts.

On the health side, all central Government accounts were published by the end of January. We want to get more and more accounts published before recess. That should not, in and of itself, affect the timeliness of the whole of Government accounts. The issue in health is as much one of qualification as it is of timeliness.

We think, and we will go through it with you today, that there is a challenge to come on, in particular, local government missing data. There is a really rather aggressive set of plans to address that, which we can take you through, but that should not affect our recovery plan. It will potentially affect the audit opinion of it going forward in the next couple of years, which we want to be transparent with you about.

Q2 **Sir Geoffrey Clifton-Brown:** Thank you for that answer. Could we delve into the local authority issue that I asked you about and you quite rightly focused on? Last year, your colleague sitting beside you, Andrew Cartner, said that the number of authorities not submitting their accounts on time had risen from 29 to 120, but that has now gone up to 211, as you have just said. Even more so, the non-submission of data has gone up from 55 to 178, of which 157 are English local authorities. There is a real problem here. I know you are setting out a recovery timetable, which is going to be legislated for later this year. Do you really expect that to be able to do the job of recovering this timetable that you have just set out?

James Bowler: Some 178 entities in the whole of Government accounts that we published in March are missing, of which 157 are English local authorities. We expect 211 entities to be missing from the accounts we will publish in November. We know that because we have the data in front of us. I guess a point of principle is that this is really not good for transparency and openness in the local authority and local government sector. It is really poor and that is before you get to the whole of Government accounts, so there is a big challenge here.

The recovery plan I took you through will continue, but there will be more missing data in the November publication before it goes down. The main reason we are confident that we will address this—I might bring Andrew in to set it out in more detail—is the local authority recovery plan that DLUHC and others are leading on, which has as its centrepiece this backstop. It has consulted on this, but the plan is to go ahead with a backstop, the first one being at September this year, requiring local authorities by law to publish what they have by that September. That would be a law that it would pass ahead of that time.

Q3 **Chair:** That would be in the summer.

James Bowler: Yes, exactly. The reality of that is that the data will flow. It will flow with probably a heightened level of opinion, either a qualification or even a disclaimer on that information, but it will flow. That is the right thing to do. It is right to get timely data and it is right for things such as the whole of Government accounts to have the data in, rather than not in. Andrew, do you want to give any more details on that?

Andrew Cartner: Yes, no problem. I will approach this from two aspects. To go back to your question around the timeline and how we can give you assurance that that is on track, the latest WGA that we published in March took eight months to produce since the previous version, getting that down to two years. That is the second step in that plan. That proves that we have made good progress and we continue to have that ambition for eight months. That is down to a number of factors, which, very briefly, include better project management, some additional resource on that, some changes that we have made to the OSCAR II system, raising the priority of WGA, and getting that data in across Government. There are a number of factors why we believe that the recovery timetable is deliverable.

In terms of the missing data situation, which James outlined, that is worsening, as we know. If we think about that in terms of the impact on the WGA, we have a number of entities that are not included. That is one aspect of that. We have a lot of information in the document about the consequences of that. We have used their previous submissions, going back a number of years, to try to approximate what the level of that missing data is. We estimate that that is around a £52 billion impact on net liabilities and a £29 billion impact on net expenditure. We are also doing a number of pieces of assurance work where we have brought in unaudited data from local authorities to try to get some extra assurance around that.

That is the current situation and what we are doing to try to make the best of the current situation that we can in current WGA publications. Moving forward, as I say, we knew this issue was coming and was going to get worse. Within Treasury we take this very seriously. We want to resolve this. We have been working very closely with the broader system that is involved in this work, so DLUHC, CIPFA, NAO and the Financial Reporting Council.

We have contributed to the plans and suggestions for how this could be recovered. We are really supportive of the proposal that has been tabled, which is to reset the situation with local authority audits by introducing a backstop date for accounts up to 2022-23 and previously; to recover the situation by a series of ongoing recovery dates; and to reform the situation by thinking about how we can simplify some of the financial reporting consequences. Those proposals have gone out for consultation. We have been fully involved in them within Treasury and we remain supportive.

Chair: We now know that we will get that legislation through before the summer recess, because there has been some question about that. You can be clear about that.

Q4 **Sir Geoffrey Clifton-Brown:** I am going to go to the C&AG and ask him, in the light of your answers, what his view on this is. Just before I do, Mr Cartner, you may remember last year when we had this similar session and I asked you whether some further carrots and sticks are needed for local authorities in terms of, presumably, financial incentives and maybe penalties. In addition to the recovery plan that the Permanent Secretary has so comprehensively outlined, do we need to back this up with some real actual financials that are going to affect local authorities unless they bring this back into line?

Andrew Cartner: The issue here is in terms of having the accounts audited by local authorities. The solution to this problem is very much in how we can support the audit sector and local authorities to produce draft accounts and get them audited. We are very much wanting to correct this sort of problem.

James Bowler: The carrot is £45 million to address the issues around what had been declining local authority audit fees. That means that fees are due to go up by 150%, I think, in the last year. There is the carrot and that is linking the private sector auditors with the very complex local authority things. The stick is the legislation.

Q5 **Sir Geoffrey Clifton-Brown:** You have said already that, combined together, you think that will bring them in so that you are able to meet this timetable.

James Bowler: Yes. The C&AG will be very interesting on this. It is a chain reaction. You cannot start next year's accounts until you have finished the year before's, so you have to break that chain. That is not great for audit opinion, but it is great to reset this. You have to break that chain so they focus on the latest accounts. That is the information we want flowing into WGA, rather than information that is years old. You have to tell them that it actually matters. It matters for WGA, but it matters for local people who want to know what their local authority's situation is.

Q6 **Chair:** Could the C&AG touch on the situation in local government, but also, particularly, how it feeds into the WGA from the National Audit Office's perspective?

Gareth Davies: As you have heard, it is a really serious situation in local government audit and this Committee has had sessions on the problems that have been emerging there for some time, so I will not repeat all of that. The solution lies in having the concentration of mind caused by the backstop date, which means that the auditor has to give a view at that point, however much work they have been able to do. It will lead to a significant number of qualified and disclaimed audit opinions for local authorities.

It will need to be very carefully explained to the members of those authorities, but, crucially, to local taxpayers as well, that this does not necessarily indicate a problem with the finances of that authority. It is an artefact of the need to catch up with a robust and timely set of audited accounts. That is quite a difficult thing to explain, so I do not think that we should underestimate the communications challenge there for councils up and down the country. I know that the Department is planning to support them in that.

Correcting this situation is not going to be instant. It is one thing to draw a line and say, "We have a lot of qualified opinions because the auditor has not been able to do all the work required." It is another thing to recover that assurance in subsequent years. That will take two or three years with a lot of hard work to do that, both for auditors and for the councils. I do not think that anybody is underestimating the scale of the effort required to reach clean opinions again within two or three years. It is very important that it does not drag on any longer than that, so everybody will have to focus to deliver that.

On the implications for the whole of Government accounts, as the Permanent Secretary said at the start, because we know to expect a significant number of qualified and disclaimed opinions on councils, that means that we will not have the assurance normally provided by audited local authority accounts for the WGA. Because of the way the WGA are constructed, that will affect every line, pretty much, in the accounts. It is not possible to isolate a bit of the WGA and say, "Except for that part, the rest is properly stated."

It is very likely that we will have to disclaim our opinion on the WGA as a whole because of the problems in local government. You only have to say that to realise what a shocking failure we are dealing with here. To be able to say that we cannot give Parliament assurance on the whole of Government expenditure because of one sector not being able to provide the normal level of audit is, as I say, a shocking state of affairs.

Chair: It is really helpful, Mr Davies, as Comptroller and Auditor General, to have it on the record that it actually will not be Mr Cartner's direct responsibility that the whole of Government accounts may well have these disclaimers on them because of what has happened. This Committee, with our sister Committee, the Levelling Up, Housing and Communities Committee, has been very concerned about the impact of local government. It is a shocking situation that we are in; it is important to get that out there in this Committee.

Q7 **Sir Geoffrey Clifton-Brown:** C&AG, you have heard the Permanent Secretary say that, in the next set of WGA in November, the number of draft local authority accounts is going to jump yet again to 211. Will that get worse again for the next lot after that before it gets better?

Gareth Davies: It was that next set that I was talking about that we expect to require a disclaimer from us on WGA. The year after that, I would hope that you would already see an improvement because of the operation of this backstop date. These backstop dates have been timed to give the auditor sufficient time to start recovering the assurance necessary. It certainly will not be repaired in one year, but we should be able to see signs of progress towards it.

Q8 **Sir Geoffrey Clifton-Brown:** Permanent Secretary, one other bit of this section is health authorities. I do not have the figures in front of me, but there are about 25% of them that are either late or without data. That is quite a significant number. We have talked in these hearings about local authorities, but we have not talked much about health authorities. Maybe you want to pass this over to Mr Cartner or Mr Smewing; I do not know. What action are you taking with the DHSC to try to recover that situation?

Conrad Smewing: The situation in health is concerning, but nowhere near on the scale of the local authority situation as far as we are concerned. There have been a number of bodies that got their audits late and that delayed the production of the DHSC accounts, but they were audited and their data is in the WGA. That is in stark contrast to those local authorities we were talking about.

In terms of what is driving that delay, partly it is linked to elements of the local authority audit. Some of those bodies have, I think, local government pension scheme liabilities on their balance sheet, so that was slowed up by the underlying local authority audit. The backstop plan that we have been talking about should take care of that element of it. My understanding is that there are also issues with one particular audit firm that NHS England and DHSC are engaging with.

With the combination of those two things, it is a concerning thing but not on the scale of the local authority issue. We are not expecting it to get worse before it gets better in the same way the local authorities one will. We think that it should be okay.

Q9 **Sir Geoffrey Clifton-Brown:** I have one final question for you, Permanent Secretary, because you set the financial auditing standards, if you like. It seems to me slightly incongruous that you are changing the auditing standards from IAS 17 to IFRS 16 valuation, which is making the job even more complicated for local authorities. After all, their auditors have to get a valuer, then the Government auditors have to get valuers to check those values, and there is an argument about what basis the value should be on, which seems to me fairly daft. A road is a road is a road—it is not likely to go anywhere or be sold. Why are we wanting to change these standards at this very difficult time for local authorities?

James Bowler: We are alive to trying to make local authorities' lives as easy as realistically possible to get to a good outcome on this. That is a big part of what DLUHC, CIPFA and the FRC are thinking about. On the standards, I really should defer.

Andrew Cartner: Your question gets to the heart of how we value specialist assets and infrastructure assets within Government. Within Treasury, we set the financial reporting framework for central Government. For local government, CIPFA sets the financial reporting framework, but we work really closely together. Within central Government, the guidance is to value assets on a depreciated replacement cost basis, because it is the best valuation. It gives you a more accurate representation of the value of the asset within the whole of Government accounts, so it is more useful and helps with asset management.

Within local authorities, they apply that to some of their assets. Where they do not and where we have a qualification in the WGA is for, for example, their road network. In local authorities, those are valued at the historical cost. CIPFA is currently considering options around whether it wants to move that to a different model, such as the depreciated replacement cost basis. We have done a whole review of that within Treasury, in which CIPFA and our Financial Reporting Advisory Board have been fully engaged. CIPFA is considering the outcome of that.

Q10 **Chair:** To be clear though, who makes the final decision? It is not the Treasury, is it, on this?

Andrew Cartner: No. In the Treasury, we set the standards for central Government. CIPFA sets the standards for local government.

Q11 **Chair:** Can you give us a bit more of a clue about where you think it is going to be heading? We have had quite a lot of representation about things such as valuing roads, which seems like a lot of effort for the benefit. They are usually a liability for local government, not an asset—they cost money.

Andrew Cartner: My view is that, if you can, you would always want to use the best valuation method. We have to balance that with the practical issues, the work and the cost of doing that to ensure that it is value for money.

Q12 **Sir Geoffrey Clifton-Brown:** Is it not a case of the best being the enemy of the good? Actually, what is happening in local authorities at the moment is perfectly satisfactory. Historical cost basis provides a single figure and you do not get mixed up with the deterioration or betterment of the accounts on a different valuation basis.

Conrad Smewing: I would draw a distinction between infrastructure assets in local authorities, such as roads, and other non-property assets, such as buildings for libraries and things such as that. For the roads, at the moment, they are at historical cost. There is a question about whether you want to change that in future. As you say, that is up to CIPFA. CIPFA is obviously very much involved in all the discussions on the broader position of local authorities' audits, so it would very much take into account the trade-offs that you are talking about.

For the non-infrastructure assets, so not roads but buildings for libraries, they are done on a depreciated replacement cost basis rather than historical cost in local authorities. We think that that is the right thing to do because, although it is extremely rare for anyone to sell a road, it is not unknown for local authorities to do something with those kinds of assets. That is the current position. There was a question about whether you should revert that historical cost but we did not think that that was the right thing to do, so there is a slight nuance there.

Chair: There are additional pressures, as Sir Geoffrey has highlighted, on local government and auditors as well.

Q13 **Sir Geoffrey Clifton-Brown:** A simple, practical thing, Permanent Secretary—whatever basis it is decreed to be—is if there is a professional who has valued it on that basis, why do you need to have a local authority valuer doing it and then a Government valuer doing it as well to challenge whether the valuation is right in the first place? Surely one value should be accepted by all auditors.

James Bowler: This is about whether you change the methodology of the value, whoever does it. Your point is well taken about whether now is the time to be doing that when local authorities are struggling to deliver.

Andrew Cartner: There are two points here. In terms of the valuation of the type of assets that Conrad was talking about in terms of the road network, they do not have a professional valuation. They have a historical cost original valuation, which is probably quite out of date, so there is a need to get a better, more accurate valuation.

On the timing point, there is no proposal. There is no need for local authorities to do this now. As I say, CIPFA is considering the consultation and part of that would be thinking about when it implements this. It is not like it needs to be done this year or next year. That is part of the thinking that CIPFA will do and I am sure it will take into account the current issues within local government.

Gareth Davies: This is really to respond to Sir Geoffrey's point about the cost of valuations. Certainly some of the debate at the moment is not actually about the basis for the valuation. If you take the ones that are already on this depreciated replacement cost, the debate is about the necessary frequency of revaluations. The tougher regulation of auditors in the private sector has led to very different practice there nowadays, with, essentially, annual revaluations of these kinds of assets and then the auditor commissioning their own valuations to challenge the ones produced by management. The question in the public sector has been whether that is a good use of public resource, given that it is taxpayers' money paying for all those valuations. That is where the consultation is looking at the intensity of the revaluation efforts and costs, rather than the basis itself.

Chair: Thank you very much. It may seem dry to some people tuning into this, but it is so critical and very important, because it is all taxpayers' money that is being spent to audit taxpayers' money being spent. It is a circular loop of taxpayers' money, at great expense to the taxpayer.

James Bowler: Yes, as ever.

Q14 **Peter Grant:** Good afternoon, witnesses. I think I have just heard a chartered surveyor arguing that we are spending far too much money on getting surveyors to do valuations.

Chair: Perhaps Sir Geoffrey should declare for the record.

Sir Geoffrey Clifton-Brown: Sorry, Chair. I declare for the record that I am a chartered surveyor and I am rapidly doing my profession out of a job.

Chair: You are not practising these days.

Sir Geoffrey Clifton-Brown: I do practise.

Q15 **Peter Grant:** I am sure that they will still give him an invite to the annual Christmas dinner. They will not fall out with him.

Mr Bowler, can I get clarity as to what we think is going to be meant by the backstop date? From your description earlier, you pointed out that, if a body has three or four years of accounts that have not been fully audited, they cannot start to do this year's accounts, because they do not have audited opening balances, and that then goes back several years. Are we saying that we think DLUHC are going to say to local authorities in England that, rather than carrying on spending time trying to complete the audit of four or five years ago, they should just do what they have then, submit that, even though we know that it is not going to be fully audited and might not be entirely reliable, and try to increase the reliability of what they are doing year on year? Is that what you are saying?

James Bowler: Let me open and my colleagues might fill in the detail. The plans that DLUHC has consulted on and it needs to take a final decision on would be that you would have backstops. The first backstop—it would not be the last—would be September 2024. That would require people by that point to submit their 2022-23 accounts. They would submit them either fully audited and everything is fine, or they would submit them in the state that they are in. There are lots of requirements on the finance operators in the councils to make sure that they are true, fair and what have you.

Then it would be a rolling situation thereafter. My understanding—colleagues might help me here—is that, yes, that does mean the focus is on 2022-23 for that first side of things, so that you are not always starting at the furthest away point and coming to the things. Is that right, Andrew?

Andrew Cartner: Yes, that is right. Also, that first backstop date would pick up the backlog going back a number of years, like you talked about and as the C&AG mentioned earlier. Whatever audit work has been done up to that point, that is it and a relevant opinion would be given. Then we move forward and focus on the latest year's audit and set of accounts, with future backstop dates to make sure that they are hit and we do not slip back into the situation that we have now.

Q16 **Peter Grant:** Although in terms of technical materiality it is not a big percentage of the numbers in the whole of Government accounts, we are still looking at somewhere over £64 billion of expenditure that is missing from the whole of Government accounts because it has not been audited. The Comptroller and Auditor General points out that that does not mean in relation to a particular council that residents in that area should be worried that there is a major problem with the finances of the council, but it means that they cannot get the positive assurance that they should have. Although in most councils it is simply that they have not been able to get an auditor to do the job, how concerned are you that, with that amount of expenditure across the UK not being audited, there might be something buried within that that, if it had been properly audited, would have flagged up a serious problem somewhere?

James Bowler: It is a concern. To give you the figures on the missing data—my colleague gave them in billions—1.3% of the net liabilities in the whole of Government accounts are missing data and 8% of net expenditure. It is probably worth saying that we are trying to be very transparent about what is missing in the whole of Government accounts. There is a whole section in it about missing data, including estimates of what that missing data amounts to and, in particular, its use, so that looking backwards from an estimate, if you want to do a time series, you can. We are trying to be very clear about that and be as helpful as possible to users, which we will come to, I am sure.

The answer is that it must be the case that, without a full audit, you cannot have full assurance. That said, I think I am right in saying that council members still have to go through all the things that they are required to do as council officials to make sure that they are giving a true and fair representation of what it is the council is doing. On the key areas, I think that that is the case, but of course the whole point of audit is to make sure that you can have a level of assurance based on that. I do not know whether anyone wants to add to that.

Conrad Smewing: I would only say that the Department for Levelling Up, Housing and Communities also has lots of other ways to investigate the financial risks and the financial state of councils. The point the C&AG was making before—that we need to separate out disclaimers of opinions on these things from the actual financial health of the councils—is an important one. As the Committee will know, there is a great deal of contact and oversight between the Department for Levelling Up, Housing and Communities, the new Office for Local Government and those councils on the actual financial risks and strains in local government.

Gareth Davies: To add to the answers to Mr Grant's question, the role that we have in the local audit regime is setting the code of audit practice and the guidance to auditors that goes with it. As part of this whole process, we have consulted on an update to the guidance, which reflects the fact that auditors have responsibilities beyond just auditing the accounts of local authorities. They are required to give a view on value for money each year and, as part of that, we expect them to comment on the financial sustainability of the local authority, its governance arrangements and so on. Where there are problems to bring to the attention of local people in those areas, including financial stability and so on, the code of guidance is very clear that auditors are expected to report on that, regardless of their opinion on the accounts themselves.

Andrew Cartner: This is just a really quick extra point. I totally agree in terms of missing audit being something that we would worry about. In addition though, you will have your normal good financial management operating within local authorities, so production of management accounts and internal audit functions, to complement the activity that others have talked about.

Q17 **Peter Grant:** I want to come back, Mr Bowler, to the figure you quoted that the missing data is just under 1.5% of total net liabilities, but that is netted off, is it not? If you look at the actual numbers, we are talking about £96 billion of liabilities and £148 billion of assets that are not included in the whole of Government accounts. My point is that we can look at it as a percentage of a number that most people could not imagine, but, if that amount of money within the public sector is not getting the degree of positive assurance that we want, it is something of a problem. However small a proportion it might be within the final accounts of UK plc, it is still a lot of public money that, for whatever reason, is not being audited to the extent that it should be.

James Bowler: The easiest answer is to agree with you.

Q18 **Peter Grant:** I know that English local authorities make up by far the bulk of the organisations that we are talking about here. There are some others that have not been included. We know that the issue with the audit of English local authorities is a systemic problem that has been going on for a number of years now. Are there any other systemic problems with other bodies that are excluded, in terms of individual isolated cases that for whatever reason have not been able to fully comply this year?

James Bowler: There is a table that breaks down the 178 missing entities for 2020-21. Some 157 of them are local government and the biggest bulk of other things is in Scotland. There are 10 Scottish local government entities and 14 Scottish central Government entities. Andrew can explain why, but there is not an absolute requirement for Scottish bodies to submit to the whole of Government accounts. It is not something they have to do; it is something that we strongly encourage them to do. That has been ongoing for a period and indeed we have had some successes in these recent accounts with some Scottish pension things. For completeness, there is also a Welsh local government authority and seven public corporations.

Andrew Cartner: To build on that, if you look at the underlying trends, excluding local government, we see a gradual decrease in the number of missing entities. I think in the last set we had 37 missing bodies across central Government and public corporations. In this set of accounts, it is down to 32. In the next set of accounts that we will publish in November, that is down to 25, so that is a gradually reducing trend.

The one that needs the most focus from us and that we are focusing on is Scotland, as James says. Again, we have seen a sort of gradual improvement in that in each of the data collections. The issue with getting Scotland's data in is not a systemic issue. It is more of an issue of engagement with the Scottish bodies and prioritisation of the submissions.

There are two big steps that we have done so far. In this set of accounts, we have two big pension schemes in with £1.5 billion of liabilities that we have captured. In the next set of accounts, we have captured Forestry and Land Scotland, which has £5 billion of PPE. We have had a number of discussions with the Scottish Government as well. They have agreed to act as a system leader for us in terms of engagement and encouraging the remaining outstanding bodies to submit. A lot of that is around them understanding how important this is and the benefit that it brings to the United Kingdom. We have seen that system leader model work well in Wales and Northern Ireland, which hardly have any missing entities, so that is the approach that we are going to take.

Q19 **Peter Grant:** To be clear, although the bodies in Scotland that you mentioned have not submitted the information for the whole of Government accounts UK, all of these bodies have had their accounts audited and submitted to the relevant authorities in Scotland.

Andrew Cartner: That is right. It is very much engagement and prioritisation. We need to make sure we get them in for future WGAs.

Q20 **Peter Grant:** Mr Smewing, we know what steps are being taken to try to address the serious issue we have with English local authorities. Let us say that in a few years' time we get it fixed. We accept a few years of a lack of assurance and get to a position where everything is fixed. What are we doing to make sure that, five years after that, we are not back in the same position?

Conrad Smewing: There is a broader plan on recovering the local authority sector. The backstop is the central part now, but there are a number of other steps that are part of the plan to try to make sure that something like this does not happen again. I would pick out a few.

The Permanent Secretary already mentioned resourcing. One of the root causes of this was falling audit fees in real terms for a long period of time. In the 2021 spending review we took steps to address that.

The second is workforce and making this an attractive area for people to work in, so that the audit firms have people who can do the audits. There was quite a lot of work as part of that plan to set that out as a career path and get people into it.

There is also the point around simplifying the standards in the longer run, which is something, as Andrew Cartner was saying, that is in CIPFA's hands. That involves thinking through how local authority accounts are considerably more complex than, for instance, the health accounts that we were talking about a minute ago, often because of the necessity to reconcile back to council tax and deal with housing revenue account issues. Thinking through how that could be simplified might help ward this off in the future. All those cross-system things are a necessary part of the plan, so that we do not just have the backstop and then have the problems start building up again.

Q21 **Peter Grant:** Has any consideration been given to changing the way that local authorities procure their auditors? I know that in Scotland, for example, councils do not get to pick their own auditors. They are appointed for them. Because it is done at a national level, you can then have the option of packaging together a very attractive audit to the firms, as long as you take on a couple of the ones that are maybe going to struggle to find auditors for themselves. Is that kind of change of process something that would help to address the problem?

Conrad Smewing: The honest answer is that I am not sure.

Gareth Davies: There is a collective procurement system in operation in England. It is voluntary, so councils have to opt into it, but most do, and it is run by a body called Public Sector Audit Appointments Ltd, which is a part of the Local Government Association. It operates on the kind of collective procurement model that you have explained. By opting in, councils give up the right to pick their own auditor. They are allocated auditors on a portfolio of audits in the way you have described.

James Bowler: Generally, it is worth saying that we are trying to break the cycle of increased complexity and declining fees that makes audit hugely less attractive to private sector auditors, with the things that we are setting out there. That is the general approach to try to break the cycle.

Q22 **Peter Grant:** Are you confident that making more money available for fees is going to address the problem? For example, is there an adequate supply of auditors with the necessary expertise in the valuation of assets and, in some cases, in the valuation of quite complex financial instruments that local authorities are often getting into as a way to try to balance their budgets? Is there enough spare capacity in the audit industry to be able to free up people who possibly used their expertise in private sector audits in the past? A lot more of that specialism is going to be needed within the public sector.

Conrad Smewing: That is definitely an important part of the puzzle. We thought that it was important to increase the audit fees from where they had been, but there is a real question. You do not want to keep pushing that up and paying more and more, because there are going to be capacity constraints on the other side. As I said a few moments ago, it is a necessary part of the plan to expand the workforce and the capacity on that side. You have to move on all aspects.

It is also the case that we do not want to be in a position where we are paying more and more for the same work or, even worse, for audit opinions that end up being disclaimed for the next few years. We need to be very careful about how we do that.

James Bowler: That is why it is Treasury, DLUHC, CIPFA, the local authority associations, the audit associations, the FRC and the NAO, so that we are hopefully doing this with our eyes open.

Q23 **Peter Grant:** Finally for now, Mr Bowler, are you able to give a date by which you would expect the qualifications on the whole of Government accounts arising out of these issues to become history?

James Bowler: We do not do the qualifications. From everything you have heard and everything we have heard—the C&AG has been open to the FRC—there is likely to be a disclaimed qualification for the November whole of Government accounts because of the missing data. We then hope things will improve. I am not sure that they will improve enough by the next one, which we will publish in July, to remove that. My hope and expectation would be that we would be in a better place after that. A lot of hard work is required to deliver on that.

Q24 **Peter Grant:** To be clear, what financial year's whole of Government accounts are we talking about?

James Bowler: Let me make sure I get this right. November's publication is 2022-23. In July 2025, we are expecting to do the 2023-24. I was talking about those two years being affected.

Q25 **Peter Grant:** Basically, you are telling me that, by the time it comes to producing the whole of Government accounts for the financial year that we are now starting into, these problems will have been worked through the system.

Chair: That will be the summer of 2026.

James Bowler: Yes, the summer of 2026 is the 2024-25 WGA. We will be back on pre-covid timelines if we have delivered on our recovery plan.

Q26 **Chair:** You talk about hope—we all hope. You are putting £45 million into audit fees. We have gone through in a lot of detail in previous hearings about how we got here in the first place so I will not, for time's sake, revisit all of that. You are putting £45 million in, so how are you making sure—I suppose this is really for Mr Smewing—that this is actually going to deliver? Hope is not enough; there are other pressures in local government. They cannot appoint the right finance officers and there is pressure, for good or ill, with the auditors. Even if they recruit people now, they will not all be up to the relevant skill level. Is it just hope? How can you tell us that you are actually going to get this result?

Conrad Smewing: I would split it into two things. It is not a hope. It is quite a strong expectation that passing the law that requires the publication of the accounts will solve the missing data problem, which is, in my view, the most serious thing. That really is a stick.

Q27 **Chair:** What is the consequence if they do not? If they break the law, what is the actual practical consequence for a local authority?

James Bowler: It will have to be set out in the law, I guess.

Q28 **Chair:** That is a very good Permanent Secretary. It is down to Parliament to get that. We will look closely at that.

Conrad Smewing: Everyone is expecting that to be effective on that. The question then becomes expanding the work in the audit industry and doing the work required to remove the disclaimers or the qualifications from the thing. That is harder for us to predict and means that there is more risk around when disclaimers and qualifications will come off the

WGA. We will need to keep working very closely with all the elements of the system that we talked about before.

Q29 **Chair:** To be clear, that is the Department for Levelling Up, Housing and Communities, FRC, the National Audit Office and CIPFA—the Chartered Institute of Public Finance and Accountancy.

Conrad Smewing: And the audit firms concerned, of course.

Q30 **Chair:** Where in the ecosystem would you say the Treasury sits? I know that you all think you sit in the centre. In reality, what do you see as the main lever that will actually deliver this? It is very complex and that is partly why it has got to the point that it has.

Conrad Smewing: It is very complicated. Everyone has quite a big part to play. If I was really pressed, the Department for Levelling Up, Housing and Communities holds the overall framework and is going to be the one passing the law. The FRC is the one that is the system leader. Given that so much of this is about how audit firms are delivering audit for those local authorities, those two are really crucial, but everybody else has to—

Q31 **Chair:** They are still in shadow—the bit of the system with the FRC is still in shadow form.

James Bowler: I do not think that we sit in the centre here. That is the truth.

Q32 **Chair:** That was a very quick dodge.

James Bowler: I know; it is outrageous. Of course, they are not doing this for the greater glory of the whole of Government accounts. We are pushing, not least, first, because local people have a right to a timely understanding of things and, secondly, because of the whole of Government accounts. We really are not the ringleaders here. That said, we have been highly engaged.

Chair: We have gone round this block a few times, particularly with Mr Smewing's predecessor.

Q33 **Sir Geoffrey Clifton-Brown:** Permanent Secretary, can I come in on your last answer? Is the real reason why it is so important to get these local authority accounts up to date that we want to try to avoid as many councils as possible getting into financial trouble and going into section 114? That is always expensive and always the last resort. If the public council officers are getting up-to-date information, assurance and value-for-money information, it is much more likely that you will avoid problems in the future.

James Bowler: Absolutely, and that is what I meant about local people having the information they need. As Conrad said earlier, I would not want to suggest that everyone who has missing data has acute financial issues. The section 114 issues tend to be around very specific issues for those accounts, be it commercial, lending or various lawsuits. Of course, yes, it must be the case that that is exactly why you need as much transparency as possible for the health of the overall accounts.

Q34 **Mr Djanogly:** Mr Bowler, given that the WGA's recovery timetable is likely to be ahead of that of some other Government Departments, how are you approaching the issue of other Departments still experiencing publication delays from covid and what support are you offering the affected Departments?

James Bowler: Pre covid, about 90% of central Government bodies published things before summer recess. It went to about 60%. That said, everyone laid their accounts by the end of January, which is a statutory deadline. It is worth saying that, for the whole of Government accounts, that end of January deadline is still in time for us to get all that data into the whole of Government accounts.

We are engaging a great deal, as is the Government Finance Function, in helping people understand the challenges of getting timely accounts post-covid. You will be only too aware that probably the biggest challenge is in DHSC, with the couple of qualifications that it has. We did a lessons-learned review on the annual report and accounts last year. It looked at early action.

Q35 **Chair:** When you say annual report and accounts, do you mean for all Departments?

James Bowler: For everyone, yes. In particular—I am sure NAO colleagues are aware of this—it looked at getting it right first time. That has been a big challenge to timely data. It is sharing best practice and upskilling through the Government Finance Function.

Q36 **Mr Djanogly:** When you say you get in touch with them, how actively do you do that?

James Bowler: Conrad is the joint head of the Government Finance Function, so we are in very regular conversation with finance colleagues across central Government in a number of set piece forms.

Q37 **Mr Djanogly:** Do you expect replies by a particular time?

James Bowler: We sit round the table with them.

Conrad Smewing: There is a great deal of contact between us in the centre in the Treasury and in the centre of the finance function and those Departments. The C&AG and I have a very regular meeting where we talk through the issues appearing in individual Department accounts, with a view to doing our best to hit these timetables and get them back closer to where we want to be. As part of the annual finance assessments that my co-head of the finance function and I do with Permanent Secretaries, this is one of the issues we talk about. It is a big part of our engagement with them. As James was saying, there are still issues, but it is an improving trend.

Q38 **Mr Djanogly:** If departmental accounts are not published in time for the November delivery of the 2022-23 WGA, will you delay it or publish the WGA without them?

Conrad Smewing: I think we have them all in for November, yes.

James Bowler: We have the information.

Q39 **Peter Grant:** I am reminded of the evidence submission we had from an eminent public finances expert, which said that we are focusing too much on the incompleteness and lack of audit detail within the whole of Government accounts and not enough on what the accounts are actually telling us. We can now start to look at what the accounts are telling us. I want to look at the increase in provisions, primarily on nuclear decommissioning costs and clinical negligence provision. Why have those two numbers increased by so much in a single year?

James Bowler: Page 66 of the whole of Government accounts, if memory serves, sets out the change in provisions since the last thing. Provisions for 2021-22 were £527 billion, which is an increase of £161 billion. Some £137 billion of that is due to changes in the discount rate. You might remember that, over the years, we have had this conversation that the change in the discount rate—in this case, it fell—can increase provisions really rather markedly. That is the right thing, but it is about what is, at a snap period of time, the discounted flow of these very long tail of issues. The vast majority of that change is change to the discount rate.

Underneath that, there are changes to the thing that is set out in that table in page 66. Clinical negligence is one issue that has increased. Indeed, the claims have been rising. If you flick over the page, it shows, "NHS Resolution total provision for clinical and non-clinical negligence claims", which shows that those have risen. I know that the Committee has had evidence this week on clinical negligence, so I will stop there. Mr Smewing is our expert on discount rates if you want to go into it.

Q40 **Peter Grant:** For the benefit of members of the Committee and people watching the proceedings who do not understand some of the terminology, can you explain in layperson's terms what the discount rate is for and why it can change so much?

Conrad Smewing: I will give it a go. Let us take nuclear decommissioning provision as an example. Over a very long period of time—the next 40 years, 50 years, 60 years or many more years—the Government are going to be incurring costs to deal with nuclear waste from active nuclear plants. In order to sum that up into a meaningful figure in today's terms, you have to discount those long-term future liabilities into a present value to take account of the fact that £1 in 100 years' time will not be worth the same as £1 today.

In order to do that calculation, the Treasury sets out a series of discount rates, which are basically percentage annual discounts to the values in future, so that you can sum them all up into one thing. In that calculation, the discount rate is crucial. In this set of accounts, the discount rate has fallen quite significantly for long-term liabilities from about 2% or 1.99% down to about 0.7%. That means that those costs in the far future are valued at more today than they were in the past, and hence the provision has gone up.

Q41 **Peter Grant:** Does that mean that we now think that inflation in the long term is going to be a bit less than we thought it was going to be last year? Is it as simple as that?

Conrad Smewing: The main underlying economic cause of that reduction in the discount rate was the fall in interest rates in long-term gilt rates between the figure used for the last set of accounts and this set of accounts. It is slightly complicated by the fact that that is not just a fall from year to year because, in the last set of the WGA, we were using a figure from longer ago. I think it was from 2017, so there is a bit of a step change there. Fundamentally, it was lower interest rates into 2021-22. I should warn users of the accounts and the Committee that, in the next set of accounts that we publish, that discount rate has gone back up, because gilt rates went back up, so these provisions should fall back down again quite significantly.

Peter Grant: For somebody reading the accounts, if you look at nuclear decommissioning costs, it looks as if, in the last year—

Chair: Page 67 is useful.

Q42 **Peter Grant:** Yes, it is page 67, I think, of the full report. It looks as if, in the last year, the amount that we thought we had to provide in order to clean up all these dead nuclear installations has increased by over 70%. You are telling us that, at the end of the next set of whole of Government accounts, we are going to think it has come back down again. How is it possible to produce a robust business case for something like a new nuclear power station if the lifetime decommissioning costs are able to change so violently from year to year?

Conrad Smewing: There are two answers to that. First, in producing the accounts and setting out the changes, we split out the impact of the discount rates so you can also see the impact of changes in the underlying expected cash flow. That is point one.

Secondly, what time value of money you should be using is an important question in how to value costs in the long-term future. If interest rates do change as significantly as they are, that should change your view. To your question about how you should produce a business case that takes that into account, it is about indicating that large changes in interest rates can significantly change your view on whether a project is value for money or not.

James Bowler: To give an example as to why the whole of Government accounts are useful and to be used, the main point that you are getting across here is not to take decisions based on year one, two or three of the cost of these things. A spending review period, for example, is a three or five-year forecast. You must consider these huge liabilities when you do that.

Indeed, on nuclear decommissioning, when we now build a new nuclear power station, a full understanding of the decommissioning costs needs to be inside that plan and be worked fully through. That was not the case when we were building these in the 1960s and 1970s or what have you. We have the Nuclear Decommissioning Authority to deliver on just that.

To your point, it is sometimes a frustration. We will probably come to it with contingent liabilities and other things. It is the case that numbers with these very long tails can move quite a lot, but that is also telling you something. You cannot be certain about 100-year-long things in any one year.

Q43 **Matt Warman:** I wanted to talk about lease accounting regulations, just to set pulses racing. You are going to be moving by 2024-25 from IAS 17 to IFRS 16. I just wondered whether you could say a little bit on what the likely impact of this is going to be. I presume this is to Mr Cartner. You are going to have some local authorities that will be using it at different points between now and 2024-25. This is surely going to have quite a significant impact, to the point where you might be at risk of some sort of misstatement. Am I right about that?

Andrew Cartner: I am happy to talk about that one. You are right. IFRS 16 is the new accounting standard that was adopted by central Government in the 2022-23 financial year. It is already within Government Department accounts and it will come into the WGA in 2022-23. Local authorities are introducing it in this financial year, 2024-25. There is a timing difference there.

I would say two things on this. First, the impact of this new accounting treatment, based on what we have seen in the Government accounts, will be to increase assets within the WGA by about £30 billion and liabilities by about £23 billion.

The fact that this will not be in local government for a couple of years will mean that we are likely to get new criteria for the different accounting treatments qualification. We already have a qualification in there. For example, we talked earlier about how some local government assets are valued differently to central Government. We will get a new qualification about that within there.

Within this WGA we removed the DEFRA qualification for different accounting treatments. We have lost one, but we will gain a new one. I would expect the criteria against that qualification to stay for a few years until that is implemented within local government.

Q44 **Matt Warman:** That is essentially an adjustment that you will be able to make, which you think will mean you are comparing apples with apples.

Andrew Cartner: At the moment, before this was fully adopted in central Government, we had a few early adopters. Some Government Departments produced it on the old standards and a couple of Departments such as MoJ produced it on the new standards. We were able to do a reverse adjustment for those early adopters. We cannot do that the other way. We will have different accounting treatments within the WGA. Therefore, that will fall under the remit of the different accounting treatments qualification.

Q45 **Matt Warman:** How confident are you that that will be possible—that that will make it work and provide something that is not at risk of misstatement?

Andrew Cartner: We can use disclosures to talk about that. I know it is a different example, but on missing data we have lots of information in there about the impact of that. We can use disclosures in the accounts to talk about the consequences of this.

Q46 **Matt Warman:** On a similar note, you are also going to have the challenge of FE institutions being consolidated. They very often use a different time period. How prepared are you for that consolidation? Let us answer that first, and then I will come back.

Andrew Cartner: You are right. We do have an existing qualification on that. We are in discussions with the Department for Education about the approach to that. Conrad is also going to answer.

Conrad Smewing: The background to this is that the Office for National Statistics reclassified further education colleges into the public sector so we have a new issue and a new problem to deal with.

As with academies, they have a financial year that fits with the academic year rather than our own financial year. We have discussed it with the Department for Education. It is running a pilot this year to test an approach that will allow those further education colleges to produce data on our financial year. Depending on how that pilot goes, we are hoping for them to implement that approach to consolidate the sector fully in 2025-26.

It will take a couple of years to work through, but in the meantime we do not have further education colleges in this WGA. Instead, we have the transactions between the Department for Education and those colleges, which in this case gives you probably 95% of what you want. You have the grant from the Department for Education spending that is then passed on to the FE, which then spends it.

Q47 **Chair:** Is that 95% of FE transactions?

Conrad Smewing: I made that number up; I am sorry.

Q48 **Chair:** I appreciate your honesty, Mr Smewing. Some of the fees will be from other Departments to pay for things or colleges will raise money themselves.

Conrad Smewing: All the transactions with central Government or in fact with the public sector as a whole will be in there.

Q49 **Matt Warman:** I am not going to ask whether you have made up any other numbers. None the less, even consolidated, you are going to have different financial year dates for different bits of the WGA, are you not? Simultaneously, you are asking businesses to move to a much more consistent model. Have you considered doing that for this? If not, why not?

Conrad Smewing: For further education colleges, our hope is to be able to produce data on our financial year out of their existing systems. That is what the pilot is about. We should not have a problem there. With academies—

Q50 **Matt Warman:** Just to interrupt, that does sound like a faff. Would it not be easier if you were all on the same page in the first place rather than you manipulating their data?

Conrad Smewing: It would be a very big thing to move the further education sector as a whole from accounting on their academic year, which makes sense for them, to our financial year. It would be an equally big thing to move the whole of the rest of the public sector on to that. You do have an inescapable gap there. The way through is to use the underlying data that the further education authorities have in their accounting to produce data for us that is equivalent to the April to March financial year.

Q51 **Matt Warman:** Correct me if I am wrong, but what you have just described as a really big project, which you are therefore not going to ask people to do, is exactly the project that you are asking huge chunks of the private sector to do. It is probably quite inconvenient for some of them.

Conrad Smewing: We are looking at doing this in the further education sector. I recognise that, in the academy sector, which is much larger at the moment, we are accepting the qualification. On the broader point of what we are requiring of companies in the private sector, I can only say it is important that we have a framework that allows people to compare sensibly. That is what the regulations set out.

Q52 **Matt Warman:** It would be easier to compare sensibly if you were operating on the same set of dates, would it not? If you are going to accept special dispensations, lots of farmers would say, "It makes more sense for us to be on a different timeline to others," but you do not seem to be having much truck with that.

Conrad Smewing: There is a question about the different requirements of the users in these circumstances. It may be that, if you are comparing two private sector businesses, it would be better to have them all on one financial year. There is a path-dependency question. We are starting from a position in which further education colleges and academies have that financial year. The question is whether you want to do something that is a very major move for them for some improvement in comparability for the WGA. If the Department for Education was here, I suspect it would point out that the benefit for the individual college or school is quite small.

Chair: They can already compare against each other within their sector.

Q53 **Matt Warman:** Have you asked the DfE that question? They have presumably asked their sector.

Conrad Smewing: Yes, we have had quite a lot of interaction with DfE on both academies and further education colleges, in terms of how to treat this issue. It is the case that there is an additional administrative burden for them in producing accounts on our financial year, as we are asking further education colleges to do. That needs to be traded off with the benefit that we get.

If you are thinking about the usability of the whole of Government accounts as a whole, it would be better if everyone were on the same financial year, but, compared with the problems we have been talking about in local authority data, for instance, that is a less serious problem.

Q54 **Matt Warman:** You can imagine why businesses, which are being asked to make a really significant shift over a number of years, might find it quite galling that a really significant shift over a number of years is deemed too much for the public sector to bear.

Conrad Smewing: I understand the point, yes.

James Bowler: The whole of Government accounts is not the thing asking those businesses to make the change.

Q55 **Matt Warman:** Yes, that is a fair point. Maybe I am shooting the messenger in one sense. All of this comes back to the transparency of the WGA overall and how useful it can be more broadly.

One of the things that you talked about at the very beginning is why you prepare the WGA. You talked about how having a picture of long-term liabilities helps inform the management of fiscal risks and all that. It is about a lot more than that if it is done well, is it not? It is what allows Ministers to work out whether they have value for money in programmes. You talked about nuclear being a good example of something that goes over a long time period.

What more are you looking at doing to make what is a largely and perhaps too neglected document more accessible to the public and indeed to MPs and Ministers?

Conrad Smewing: In terms of how we are using the WGA and how we are making it have an impact with policymakers, I would point to a couple of things. First, producing this forces everyone to look at not just cash in, cash out, but the balance sheet. It highlights the issues that we want Departments to focus on, such as long-term provisions like nuclear decommissioning and clinical negligence, the management of assets and the approach to things like the student loan portfolio.

We produce it and the data is then used in a number of other bits of analysis or publications that the public sector does, such as the OBR's fiscal risk report or the publications from the Treasury's own ongoing balance sheet review. That is the mechanism for having an impact on decision-makers.

In terms of its accessibility to the public and parliamentarians, there are a couple of things. As we have discussed, at the moment we are focusing on recovery, getting it out and timeliness. We are also trying to do as much as we can to include topical or important issues like covid, climate change, the impact of inflation and other aspects of what is going on at the time in the front section of the report to give a slightly broader view of what the accounts are telling you rather than the raw numbers. Andrew might want to talk a little bit about some of the engagement that we do with our different user groups to make sure the account is giving them what they want and that we are engaging Parliament and others.

James Bowler: We also talk to the parliamentary Scrutiny Unit in terms of training.

Andrew Cartner: Conrad is right. Our immediate focus has been on timing and recovery, but, as we said at the start of this hearing, we are very proud of the WGA. We want to make it as usable and as accessible as possible.

As James just mentioned, we are working with the Scrutiny Unit to get this into training for new MPs. We continue to speak and engage with a lot of international countries about the WGA. It is world leading, so they want to understand how we do things. The team was at the OECD in Paris earlier this year doing a presentation about the WGA. It continues to be held up as best practice. We also have a user and preparer group for the WGA, which we consult and get input from.

In the short to medium term, some of the things that we want to look at are around the look and feel of the document and how we can make it more engaging and attract the general public to want to use and engage with it. Longer term, in terms of the WGA and the direction in which we might go, we want to think around technology and digitalisation.

What we have learned from other countries is that, although it is not as complete or as thorough as this, a lot of countries digitalise it, put it online and make it available for people to interrogate. That would be a longer-term aim. We are definitely interested in that.

James Bowler: The other thing that has always been important with the WGA is pulling out of the numbers things that people might be interested in. We anticipate that; you often give us steers. In this particular one, covid and everything going on in covid is pulled out. There is a new and improved look at climate change and all the different numbers across Departments and entities around that. There are issues around inflation and issues around fraud. You can pull those areas out of the data and give an overview on them, if they are topical or changeable over that particular period of time.

Matt Warman: It is a mammoth project and, as you say, it is really highly regarded. It feels like it does not get the attention that it deserves. You would think that some of the digitisation that you have just talked about would get genuine interest from an awful lot of people who would probably unkindly be called nerds.

Chair: We speak here as a room full of nerds.

Q56 **Matt Warman:** Yes, exactly; it is home territory. Not to be doing that—not to have been doing it from the off and not to be there already—feels like, at best, a missed opportunity, does it not?

Andrew Cartner: Technology is advancing all the time. At the moment, as I said, we very much need to prioritise our resources on getting this back on track. There are stages to usefulness. Having a timely WGA that is produced as quickly as possible with up-to-date numbers is the priority. Once we have got to that point, we can think about the other options that are out there. That is definitely in our thought process.

James Bowler: I totally agree with you. I am very happy to trumpet it from the hilltops. Sometimes its influence is less apparent, but it definitely is the case that clinical negligence, nuclear decommissioning and all those cross-balance sheet issues are much more prevalent in the debate.

You might not want to look at the WGA on its own. You might want to look at it with the Department's accounts. You might want to look at it across regions and countries with the national accounts publications that we publish. It is a compendium to all of that. There is a vast amount of work going into consolidating 10,000 accounts into one. We are one of the only people who do it.

Q57 **Matt Warman:** In terms of accessibility, engagement and all that, whether you think of it as just digitisation, what differences will we be looking at between this set and the next set?

James Bowler: For the next set, it is about being more timely. You will not see a vast difference. We will pull out different issues. We will have gone from being in covid for this one to being on the other side of covid. You will see all the differences in the big liabilities coming out of the accounts there, for example.

Q58 **Chair:** As we highlighted right at the beginning, 240 missing accounts are predicted for the next one.

James Bowler: There will be more in the next one.

Q59 **Chair:** There will also be 222 disclaimed. It will be bad—

James Bowler: It will be worse on the missing data front.

Q60 **Matt Warman:** It is all the more important to make it easily accessible and intelligible to the public and the next Parliament.

Conrad Smewing: Absolutely, yes. On the more positive side in terms of forthcoming attractions, what we have at the moment on climate-related financial disclosures is at an early stage, but it sets out the phased approach that we are going to be undertaking to get public sector bodies to report on the impact of climate change on their finances and the risks that they face. That should allow a consolidation of that into the WGA over a period of years, which will be quite an interesting and new element of the accounts.

Matt Warman: It is a forthcoming attraction in a niche sense, perhaps.

Chair: It is coming to all good cinemas near you.

Matt Warman: Yes, exactly.

Chair: Do we get popcorn?

James Bowler: It is the tricky third album.

Q61 **Mr Djanogly:** First, I want to reiterate a point made by Mr Warman. There is a feeling that the WGA is not being used by the centre of Government as a tool for learning lessons and providing best practice. How would you respond to that?

Conrad Smewing: I do not think that is fair. The production of the WGA, as I was saying before, really focuses people on important policy issues that otherwise would not be so obvious. If I give you an example, it is impossible to look at the student loan section of the WGA without seeing the big difference between the face value of the loans and the carrying value of the loans, which is as a result of writing down the loans because they are quite significantly subsidised.

On its own, that data does not mean that policymakers change their views, but it definitely feeds into a discussion and a policy debate about what to do about that. Last year there were changes to the terms of those student loans, which extended the repayment period and significantly reduced the write-down on those loans. That is quite a big example of a big financial change. I am not saying it never would have happened without the WGA, but the WGA really does shine a light on that element of the public finances.

Q62 **Mr Djanogly:** Could you give me lots of examples like that, if you had the time?

Conrad Smewing: I could give you a couple more, certainly.

James Bowler: I gave you the nuclear decommissioning example earlier.

Conrad Smewing: There is the nuclear decommissioning example. Another example is on the management of contingent liabilities. In the distant past, contingent liabilities, although notified to Parliament, were not really collected together and not focused on. As part of the balance sheet review that the Treasury has undertaken, we set up the contingent liability central capability, which does a report on them, and we changed the framework of control so that Departments entering into those liabilities need to report on them, if they are large, alongside a fiscal event. It is part of the movement, in general, in the way that the Government think about the public finances in the direction of assets and liabilities.

James Bowler: The last example that I would give, which is far from one where we can say, "Therefore it is all fine", is clinical negligence. The WGA shines a very significant light on it as one of the major provisions and contingent liabilities. This Committee discussed that earlier this week.

Q63 **Mr Djanogly:** Let me take the covid funding schemes, if I may. The WGA provides the opportunity to present a consolidated position on all the covid funding schemes and the levels of fraud that occurred. Do you plan to take steps to disclose this information in a way that is transparent and ensures lessons can be learned for the future?

James Bowler: On the WGA and our wider commitments, covid and all of those things are major features of what we have written up in this year's WGA, not least because we were in the middle of covid when these accounts came out.

There are three things that I would talk about in terms of lessons learned. We have the covid cost tracker. This Committee pressed the NAO to do that. The NAO produced it and now we have produced it. It talks about and shows that the estimated lifetime cost of covid interventions is £373 billion. Everyone who wants to remember going through covid and what it cost has a figure there. We also track the live and completed costs on covid. Some £189 billion remains active in these accounts. There is a Department-by-Department look into all of that. This Committee is only too aware of all the loan schemes and what have you.

That has spurred many lessons-learned exercises. We have committed to this Committee to do a compendium of the evaluations and come back to you on what the covid lessons are overall. I would expect that to look at some of the key themes that we have had from covid. Fraud is one; targeting support is another; the lessons learned from supporting businesses is a third.

The last one that I wanted to mention, which is a rather interesting one, is a lesson learned about implicit liabilities. In these very extreme events, private sector liabilities quite quickly fall to the Government. It is very interesting. If you look at the rise in Government debt in the two years after the financial crisis and the two years after covid, that is 90% of the increase in Government debt over that period. That is Government having to step in to do some extreme things that they had not planned on doing, underwriting loans from banks being an obvious one. We want to look at that and identify some of these implicit liabilities, lest they happen again.

Q64 **Sir Geoffrey Clifton-Brown:** I am going to ask Mr Smewing a question. Before I do, I need to complete my Member's declaration, in that I am a partner in a farming business.

Farming is about the most weather-dependent business and therefore has some of the biggest fluctuations of any sector. Through HMRC, you are requiring all non-incorporated businesses to present their accounts, their tax returns, by next April, at the end of the financial year, with very little warning and with no cost compensation. In my case, we are going to have to have two sets of accounts. If you are going to require a vast section of the private sector to effectively produce accounts at the financial year-end, why cannot every single Government organisation produce their accounts at year-end?

James Bowler: The only thing I would say is that the use of those accounts from the farming sector is very different from the whole of Government accounts.

Sir Geoffrey Clifton-Brown: If everybody did it on the same basis—

James Bowler: It is probably worth pointing that out, lest other people think we are asking farmers to contribute—

Sir Geoffrey Clifton-Brown: It is all non-incorporated businesses. That is a very big section of the private sector.

Chair: We have covered a bit of this, but would you like to comment, Mr Smewing?

Conrad Smewing: I am not an expert on what we have required of the private sector. One point that I would make is that there are potentially differences in the benefits and costs of doing so. I imagine the costs are large for both the academy sector and the businesses concerned, for example.

Q65 **Sir Geoffrey Clifton-Brown:** They are for unincorporated businesses too.

Conrad Smewing: Yes, I am saying that there are large costs for both. The benefits of doing it in the private sector might well include improved comparability and other issues. For the academy sector, it is harder to point to benefits other than better comparability of data in the WGA.

There is a question about the different benefits and costs between the two examples, but I definitely do see your point.

Q66 **Sir Geoffrey Clifton-Brown:** It seems to me the reason you are doing it is to get a one-off tax acceleration. That is the reason why you are doing it for the private sector. Anyway, I will move on.

James Bowler: The people here have not required that of—

Chair: Yes; maybe Ministers could be lobbied.

James Bowler: I have a feeling that accrual accounting should pick that up.

Q67 **Sir Geoffrey Clifton-Brown:** Can I move back to these large discounted liabilities? Permanent Secretary, you pointed to page 66. Page 66 tells us what those discounted liabilities are, but much more interesting is in note 22 on page 200, which tells us what the total of those liabilities is. They are mostly in five sectors. Within one year, they account for £29.7 billion. You can see that in the table on that page.

Some of those are more manageable than others, but certainly clinical negligence, where there are 15,000 new clinical negligence claims in this one year's accounts alone, would seem less manageable than others. What are you doing with the individual Departments, where these quite big figures are occurring, to persuade them to manage these long-term claims?

James Bowler: I totally recognise that. As I said earlier, there are discount rate changes, but the number of claims is going up. We have that in the accounts.

To answer your question, we are doing three things on clinical negligence. I know my health colleagues were in front of the Committee earlier this week. From a Treasury point of view, there is a resource-based issue here. There is clearly a spend-to-save element to the issues.

The two issues—this revolves around maternity, which is an area of particular focus this week too—are £185 million in the last spending review and £35 million in the last Budget over three years for maternity safety. That is about having more midwives, better training and a clear understanding, as we have discussed, of the fact that you might need to have more resources up front to have fewer liabilities thereafter.

The second thing, which has just finished its consultation response, is a potential move to a fixed recoverable legal cost. The fixed recoverable legal cost talks about the reality that quite a lot of the money that is being spent is on legal fees. There is a clear opportunity here, in claims under £25,000, to deliver a faster resolution for people at a lower and more proportionate cost. This is quite a major prize. People get the money that they would have got more quickly and the cost is lower. It could even save up to half a billion pounds over a decade. DHSC is working through it all. It has published its final consultation response this month. We would be very supportive of that change.

The last thing is shining a light on safety and learning. The patient safety strategy and the Patient Safety Commissioner are part of that. I am sure you heard that in more detail from colleagues earlier this week. This is exactly what the whole of Government accounts are really useful for. Clinical negligence cost provisions are rising, regardless of the discount rate. In our decision-making, we should be taking decisions now to see how we can affect that.

The reasons for them rising are complex and unclear, but it is a very good—

Q68 **Chair:** When we first looked at the whole of Government accounts back in 2011-12, this was the thing that really stood out. Here we are in 2024 and it is still the thing that really stands out. It is not getting any better. I do not doubt the sincerity of your words, and we now have a few more mechanisms in place, but it has taken a long time.

Surely the Treasury sat back a bit and let Departments say, "It is all very difficult," and all the other things. We know why these liabilities are challenging. Civil nuclear is another example. How are you really going to get it better? Are you watching it in monetary terms?

James Bowler: I promise you that we are engaging heavily and regularly with the DHSC on this issue, as they are with us. The UK is not on its own in facing rising clinical negligence.

Q69 **Chair:** Do you have a trajectory? From 2011 to now, you would expect to see a bit of a step change. It takes time. It does not happen overnight. Can you give us a projection of where you want it to go?

James Bowler: I was looking at wider society and clinical negligence has quadrupled since the mid-2000s to around now. To be totally transparent, that is the reality.

Q70 **Chair:** We are not going to get it down to zero. You might get it to increase more slowly.

James Bowler: The first issue is that it is on a steep rising curve. I am afraid I am no expert, but I know the US experience is very similar. A whole slew of steps have been taken. There are issues around GPs as well as the NHS. I do not have a future trajectory for it today.

I agree that this is exactly what the whole of Government accounts show you. The payouts in an individual year are over £2 billion. That is around 1.5% of the NHS's resource spend. The higher this goes, there is a clear opportunity cost. It is finding the incentives for good here. The report this week showed just some of the challenges that are there.

Q71 **Sir Geoffrey Clifton-Brown:** Chair, can I follow your excellent questions? The table in note 22 shows that the liabilities within one year are £3.4 billion, which is quite a big figure.

Can I ask you about one specific aspect of that? Every time there is one of these very big clinical negligence claims, the liability for it is taken away from the individual trust that has incurred it. Some of these trusts are much better at avoiding these big clinical negligence claims than others. Are you looking at that? What are you doing with the ones that are incurring a disproportionate amount of these claims?

James Bowler: I am no expert in this. I know NHS Resolution is the body that looks to provide clarity and best practice. That is the body above those trusts that does it. It is there to spread best practice and common understanding.

The point I made, which is an important one, about this potential move to the fixed recoverable legal cost is an example of something becoming faster and more proportionate. At the moment, left to individuals, that can be longer and more expensive as costs build up. That would be a centralising thing.

I am no expert on the best practice being shared and whether some trusts are better at doing this than others. I would have to find that information.

Q72 **Chair:** Is the Treasury interrogating them? That is the point—that it is not just leaving it to the Department of Health—because of the money involved.

James Bowler: Yes, absolutely. Conrad is our head of spending. The rising cost of clinical negligence is a very live topic in health spending. How we can contain that and what the future holds is a very live topic, hence the Department is consulting on a whole set of things, which we hope to bring in. Of course, you are seeing everything from the reality of providing an excellent service to patients and how we are interacting with the legal sector. You do not want to see a situation where you end up paying larger and larger fees the longer you take, when it would be better value for money to do something simpler more quickly, as the C&AG was talking about earlier.

Q73 **Matt Warman:** You are right to say that in some countries this figure is going up at a similar rate. It is also true that other countries, such as some of the Nordic countries, have gone much further on a tariff-based system, which means that doctors do not worry that it is going to cost their trust a fortune and are more up front about their mistakes, so the overall exposure of the state is massively less.

You would think that the whole point of the WGA is to provide a huge lever with which you can beat individual Departments and say, "There is a better way. Why are you not doing it?" First, is that happening? Secondly, with clinical negligence, are we really at a point where you cannot afford to buy out all those claims in one year? It is almost too big to fail.

James Bowler: We are not at that point. Is it happening? Yes. The fixed recoverable legal costs come directly out of, first, the WGA and the Department of Health's own accounts that show this rising cost and, secondly, international learning about the fact that a tariff-esque system ends up being better for those affected, which is the most important thing, and cheaper than individually prosecuting things over a long period of time.

I do not want to pretend we are at the end of the road here, and I do not want to pretend that I am not in total agreement with you that what jumps out of the WGA provisions and contingent liabilities is the challenge of clinical negligence. Yes, the Treasury is constantly in discussion with the Department of Health, which I hope showed you this week that this is taking up its own resources too. The incentives are all there. I hope we can move towards some of the international best practice, as I hope we can make progress on this fixed recoverable legal cost.

Q74 **Matt Warman:** It is just that Departments always blame the Treasury for not letting them do things. This could be an opportunity for you to force them to do something.

James Bowler: We like nothing more than forcing Departments to do things.

Chair: I am sure they will be listening in.

Q75 **Sir Geoffrey Clifton-Brown:** I do not think I am being unkind—this has all been in the public domain anyway—but my own trust had some quite big claims in the neonatal unit. The regulator stepped in and gave them some advice. I am assured that the situation has improved hugely. I am wondering whether that is a mechanism that could be used. The regulator could be asked to look at individual trusts where there is a particular problem.

James Bowler: Yes. These points about variations in trusts—who does it very well and who does it less well—are very well made. My understanding is that NHS Resolution exists to do that, but I do not know whether that is happening. I take your point about the regulator and international best practice. I am thoroughly seized of the issue and very happy to continue to press hard for that. I will take those points away.

Q76 **Sir Geoffrey Clifton-Brown:** Just on these long-term liabilities, the biggest one is nuclear decommissioning.

James Bowler: It is, yes.

Q77 **Sir Geoffrey Clifton-Brown:** This Committee has taken a great deal of interest in this. We visited Sellafield twice in recent years. From having been there, the impression is, "This is very big; it is very difficult. There is not much we can do to reduce costs," and so on. I did not get the impression—the Chair may correct me on this—that there was anybody looking to see whether there was any method of saving costs in the nuclear industry. What are you, as Treasury, doing to look at this, given that this is the biggest single liability that we have?

James Bowler: It is £273 billion in provision. We have the entire Nuclear Decommissioning Authority to try to manage these things. I would say two things. First, as with all provisions and contingent liabilities, what you want is people to understand and recognise the provision and liability before they go ahead with an action. You want them to understand the lifetime costs, value them and understand how they are going to manage them. In the new nuclear commissioning—there is a fair bit of that in this country—that is now well understood, whereas it was not beforehand, which has led to the size of these things. That is a major change.

The integrated waste management programme by the NDA sets out ways that it wants to deliver more sustainable and efficient ways of managing that waste. It is the Treasury's job, as it is on clinical negligence, to tease away at whether that is being effective, to listen to best practice internationally and in the country, and to push the NDA all the way to do just that. We will undertake that role. The number, as you say, is really rather vast indeed. Even marginal improvements can make a big change.

Q78 **Sir Geoffrey Clifton-Brown:** I just have one final question on student loans. As I understand it, the student loan liability has increased by £20 billion in one year. What are you doing to ensure that system is working as efficiently as possible? You referred earlier to it subsidising students quite a lot. Mr Smewing is nodding. How can we make that whole system work a little better?

Conrad Smewing: The changes that were made in 2022 were really quite significant changes to the structure of the loans to reduce the level of subsidy that is inherent in them. It went from around 40% to around 25% per loan. The main driver of that was the extension of the repayment period on the loans. Previously, the loans had been written off after 30 years. That was extended, which was a big change. It also means students are repaying more.

There is a trade-off and a judgment for the Government to make about what level of implicit subsidy in the loans is the right one to encourage people to go to university, which is a good thing, creating human capital in the economy and encouraging growth. Things like that around the design of the loans have been the major thing. We want to see that system bed in for a few years now.

Q79 **Chair:** There are a few quick questions from me, starting with perhaps a not so quick one. When we look at the Departments with qualifications or issues within their accounts, we have had the DWP recently and the Department of Health and Social Care. When DEFRA has had challenges, it has resolved a lot of the issues. When is it the Treasury making a difference in getting those accounts back on track and when is it the accounting officer in the Department doing it? How can you prove what value you are adding to get these accounts on track?

James Bowler: It probably depends on the extent to which the issue is very specific to that Department or a cross-departmental issue. At the moment, the local authority issue is a cross-departmental issue. As I said, we did a lessons-learned exercise on the annual report and accounts last year precisely to try to do that and share best practice. The NAO also facilitates all of this and has done quite a bit to work with us on plans for peak activity and engaging with the private sector. It is about working together.

In our lessons learned we are trying to do things like spread best practice on early action and getting it right first time. With issues like the local government one—the local authority audit issue—people look to us to help DLUHC grasp the nettle and try to do it.

Conrad has a role in the Government Finance Function. This is quite a shared community. It will often be the case that we are working together. Issues around accounting standards changes, for example, are looked at in a shared group and there are subgroups of the GFF that consider those.

Q80 **Chair:** This is all lovely and collaborative: the Treasury has a meeting and everyone comes and listens because you are the Treasury and they have to. Is there a stick to beat them with when they do not do it well?

We had the UK Health Security Agency in front of us. We were very concerned that, while they were dealing with a lot of challenges, there were really weak financial controls going on. The excuse was, "We are very busy." That is not really going to work for us; we think that financial controls, notwithstanding covid and all those things, have to continue. You control the purse strings.

James Bowler: We do.

Q81 **Chair:** What sanctions are there?

James Bowler: The sanctions can become quite personal because we will also give a view on how each Department is managing its finances. That will include the accounts and it will include spending. That goes towards the Permanent Secretary's appraisal and it goes towards our financial colleagues' appraisal. It is not the happiest bit of our relationship with Departments, but it is important.

Q82 **Chair:** For those who are not in the civil service, how frightening is it for somebody to have it raised in their appraisal that they are not managing the finances of the Department?

James Bowler: They get very frustrated if we are critical of what they do.

Q83 **Chair:** What is the actual consequence of that? There is an uncomfortable moment in a meeting with you, Mr Smewing. What happens beyond that?

Conrad Smewing: It is not just with me. The Permanent Secretary appraisals are with the Cabinet Secretary. The other point here is that these things are showing problems in the real world.

Q84 **Chair:** I recognise it is not always down to the Department management, but someone in the Department might not have managed it well or not flagged it earlier. While the local government sector has many moving parts to it, it took a while before everyone was saying, "We have to do something." It has taken two or three years to get to the point of this new bit of law being passed and the September backstop. That is a sort of solution, but there were problems well before then that were not being picked up.

It is hard to pin it down on an individual, but there were problems. There are systemic issues and then there are issues where the Department is not managing it very well. What are the sticks for that?

Conrad Smewing: To take the UK Health Security Agency as an example, that highlights an issue which the spending team is now regularly talking to the Department about, requiring plans for improvement and checking progress against that. That feeds into discussions that the Chief Secretary would have with the Secretary of State on how the Department is managing its finances and how to deal with emerging issues as they happen.

It very much forms a big part of the relationship between the Treasury and the Department and the things that the Treasury is asking the Department to fix as part of improving its overall financial management.

Q85 **Chair:** Let us take the UK Health Security Agency. There will be a big bill for Porton Down and they will have to deal with the next health crisis. They will have to do stuff. Are you going to deny them the money? What is the stick, if they do not get their act together on this?

Conrad Smewing: It is not so much a question of sticks but of planning sensibly for future pressure. We are talking about preparations for the spending review that is coming up. What are the resilience plans for Porton Down? How is the Department working through its prioritisation of what it wants to do to ensure that the issues that are highlighted by these problems are being dealt with?

It is not so much that you need stick and carrot but that you have a shared agenda of what you are doing about the problems and ensuring that the Department is properly prioritising.

James Bowler: We will change our requirements on business cases depending on our confidence in the ability to deliver them based on those issues and past performance. We will give delegated authority to Departments based on their last performance. That is a very big prize. Delegated authority is, "You do not need to come to the Treasury to sign off your individual project spend below a certain level." That will go right up for some Departments and down for others.

Q86 **Chair:** The carrot is less interference from the Treasury, if you do it right.

James Bowler: That is correct. They would assert—we would assert this slightly less—that it means they can get on with things quicker. The interference will require proof that they are going to be able to manage public money effectively, which, if they are not in a position to do that, can be pretty onerous.

Q87 **Chair:** We could go into this more, but I am sure we will do that with individual Departments. I have a couple of quickfire questions. How is the sale of NatWest going? What is the timetable? Are you not allowed to tell us? Tell us what you can tell us; I know there are some commercial sensitivities.

James Bowler: There is a lot of work under way. We will take a decision based on market conditions and an assessment of value for money on that. We have not done that yet. We will write to you when we do it.

Q88 **Chair:** Do you have a rough timeframe or a window of time after which you think the UK Government will no longer own a bank?

James Bowler: We have talked about this year and this summer. It is one of the qualifications in the whole of Government accounts that we have not fully brought NatWest into it. There is an extra incentive to reduce the—

Q89 **Chair:** Indeed, yes. That was part of the reason I asked that question. The big thing that came out when we were looking at all of this is that, without the right data and with all these missing and disclaimed accounts, there is an existential issue here for the whole of Government accounts. As others have highlighted, it is supposed to be a document that is useful to the public, to Parliament and for planning in Government, so you have that trajectory over time of data and spend on clinical negligence, nuclear decommissioning and all the other issues that it covers.

It is going to be less useful because you have this big gap in the middle, effectively, where that data is not consistently going through. Is it still going to be done? Is it still going to be useful? I just really think it is important for the record to get your view.

James Bowler: It is really helpful to ask that question. The answer is that we remain totally committed to it. I hope the XST's letter shows Government as well as—

Chair: I was going to quote that in a minute to see whether you were aligned.

James Bowler: There is Government as well as official commitment. It is a big undertaking, but it is not vast. We are not talking about thousands and thousands of people here. We remain committed. It is totally in our future plans. There is one really important takeaway. We have been really open and transparent about the challenges of missing data. That does not make this document, as it is now, not useful.

Q90 **Chair:** It is not as useful as it could be is what you are saying.

James Bowler: Yes, we are open about where the issues are. Clinical negligence and all the issues we have discussed are there for all to see. It is not the case that that missing data takes that away.

Q91 **Chair:** We do not usually have a Minister in the room, but, because the Exchequer Secretary is an ex officio member of the Committee, we did write, as I said at the beginning, asking him whether he was able to attend. He wrote in his letter that he looks forward to the upcoming publication of the balance sheet report, which uses the WGA data. He echoed the Permanent Secretary, and it is heartening that Ministers and the Permanent Secretary are aligned.

James Bowler: It is almost like we might have drafted it.

Chair: Yes, I wondered where these words came from. On the record, the Minister said, "We are also committed to ensuring that the wealth of data contained within the whole of Government accounts is used across Government". That is the prize.

Q92 **Sir Geoffrey Clifton-Brown:** What we have not covered at all today, Permanent Secretary, is fraud. One of the benefits of the WGA, it seems to me, is where there is a systemic issue across Government that is not necessarily particular to one Department.

Can you tell us—I was looking at it very quickly, and I cannot really find it in the whole of Government accounts—where you are separating out issues of fraud and error? How are you using these accounts to bear down on that issue? I thought somebody cleverer than me would produce the right page. In particular, with the knowledge of hindsight, how are you designing out fraud when you are designing new schemes?

James Bowler: It is on page 97 onwards in the accounts.

Chair: We were just testing you there.

James Bowler: It is a good example of a systemic and cross-Government issue. I talked earlier about the evaluations and lessons learned from covid. Clearly, fraud is one of them. There is a whole set of lessons learned that we have already learned and are already applying. We have the Public Sector Fraud Authority and the reports and targets for each Department.

The most important one—I was most taken by it when we moved from covid support to some of the energy support schemes—is to try to design out fraud from the outset and stress test that in the business cases that come out. For example, if you compare the way we did energy support with how we did support for businesses, we designed out the ability to defraud.

The whole point of the apparatus that we put in place is that you would not let Departments just have a go at that on their own. In the future, all that learning would come to bear through the Public Sector Fraud Authority.

Q93 **Chair:** The DWP talked about fraud going up because it is going up in society, which is something our reports have—

James Bowler: DWP published a strategy on fraud on Monday. It did talk about fraud going up in society. Worryingly, it also talked about how people's views on defrauding the public sector were becoming worse.

Q94 **Chair:** We think that might be letting themselves off the hook a bit because there is still positive action that they could take.

James Bowler: There are some national statistics that I have not seen that are coming out tomorrow on DWP fraud.

Chair: We keep a very close eye on this, with the NAO, because every penny stolen from the Government and the taxpayer is a penny that could be spent on other things.

James Bowler: Yes, £8 billion of overpayments.

Chair: Thank you very much indeed to our witnesses, James Bowler, the Permanent Secretary, Conrad Smewing, the director general of public spending and co-head of the Government Finance Function—it used to be one person, but she seems to have been split into many parts since she left—and Andrew Cartner, who is the director for public spending. Thank you very much indeed.

The transcript of the session will be available on the website uncorrected in the next couple of days. Many thanks to our colleagues at *Hansard* for that. We will be producing a report at some point after the Whitsun recess. Thank you very much indeed.