House of Commons

Public Accounts Committee

Oral evidence: Whole of Government Accounts 2022-23, HC 367

Thursday 23 January 2025

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Watch the meeting

Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Anna Dixon; Rachel Gilmour; Sarah Green; Chris Kane; Rebecca Paul.

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

Questions 1-82

Witnesses

I: James Bowler CB, Permanent Secretary, HM Treasury; Conrad Smewing, Director General, Public Spending, HM Treasury; Andrew Cartner, Director, Public Spending, HM Treasury; Will Garton, Director General for Local Growth, Communities and Devolution, Ministry of Housing, Communities and Local Government; and Rosie Seymour, Deputy Director for Local Government Audit, Ministry of Housing, Communities and Local Government.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Whole of Government Accounts 2022-23 (HC 289)

Examination of witnesses

Witnesses: James Bowler, Conrad Smewing, Andrew Cartner, Will Garton and Rosie Seymour.

Chair: Welcome to the Public Accounts Committee on Thursday 23 January 2025. The Whole of Government Accounts provides a picture of the nation's public finances. It combines the accounts of more than 10,000 public bodies. WGA '22-23 is the 14th to be published since the WGA was first launched. For the first time in its history, the Comptroller and Auditor General did not express an opinion on the financial statements of the '22-23 WGA. That disclaimed opinion was due to missing and unaudited data given by severe backlogs in the local authority audits. We are eager to hear from the witnesses what steps they are taking to address such issues in local authority audits, and how they are managing the large financial liabilities and the action to improve the usability and timeliness of WGA.

A warm welcome to everyone. I will introduce our witnesses: ahead of me is James Bowler CB, permanent secretary at His Majesty's Treasury, who was appointed in October '22. James, you are welcome, and thank you for spending the time with us. Conrad Smewing is director general of public spending at HMT, and he has been the designated accounting officer of WGA. Next to him, to my right, is Andrew Cartner, director of public spending at HMT, and deputy head of the Government Finance Function—Andrew, I thank you and your team very much. We had a briefing on this last week, and your team were very helpful. Thank you for attending that meeting. Will Garton is on my left. Will is director general for local growth, communities and devolution in the Ministry of Housing, Communities and Local Government. We will be calling on you, so you are very welcome here. Finally, but by no means least, Rosie Seymour, who is the director general for local government audit at the Ministry of Housing, Communities and Local Government. We will be calling on you as well. Rosie, it is your first time, and I always like to give a special welcome to those attending for the first time. We are quite friendly, really.

Publicly, I also extend a warm welcome to those sitting behind us, who are guests from the Netherlands supreme audit institution. We are pleased to have their president, Pieter Duisenberg, and board members with us today. You are very welcome.

Without any further ado, I call Rachel Gilmour to ask the first question.

Q1 **Rachel Gilmour:** Good morning. This is a question to Andrew Cartner. Given the circumstances that we are in, what actions are you taking to improve the quality of reporting in the WGA?

Andrew Cartner: As the Chair has said, this version of WGA is the first in history to receive a disclaimed opinion. That is very disappointing, but not surprising. We have talked about that in previous Committees. What we have seen is a trend in missing data increasing over the years. In this WGA we have 211 entities that have missing data. We also had 227 entities that have draft data included, mainly within local government because of the audit issues. Obviously, there are a couple of points there.

On the missing data, because we do not have that, we cannot include it in the actual accounts in WGA in the back of the product. To improve the usage and reporting of that, we have a large section in the performance report trying to bring to light what impact that missing data is having on the accounts. Page 18 onwards in the WGA sets that out clearly. What we can see is the impact of that missing data in the accounts at a high level. Net liabilities in the public sector are overstated by £31.7 billion and net income is overstated by £34.4 billion. We set that out quite clearly in the WGA.

Drilling down a little bit further, if we look at page 27 in the WGA, we can see some of the key categories that are missing. For example, on some of the really high-level ones on assets, for property, plant and equipment, missing data is estimated at £133 billion. Investment properties is at £11 billion. On the liabilities side, the public sector pension liability is about £105 billion. We are very clearly trying to set out the effect of this missing data in the WGA so that in the document you can clearly see that.

The other aspect is draft data, which still has value for us in WGA. It has been prepared under IFRS accounting standards and we consolidate that into the accounts. We are doing a programme of work to encourage local authorities to still submit their draft data while all these audit issues are going on, because, it does have some use there. On the missing and draft data, it is really about showcasing the impact of that in the performance report.

There is also a broader piece of work across the financial accounting system in the public sector to address the local government issues. The first part of that is the backstop plan.

Chair: Andrew, can I stop you there? We are going to get into that in a minute. Rachel, are you finished?

Q2 **Rachel Gilmour:** I was looking for improvement, rather than a dissection of what is missing and what is not missing. The question was about improving.

Andrew Cartner: I can answer that. The missing data section that I talked about is a recent addition in the last few, so we have done that. We have added spotlights in the performance report. The accounting spotlight on IFRS 16 is a new implementation in this WGA. We have added a spotlight on the discount rate, because we know that has a large impact on liabilities and provisions. That is an improvement that we have introduced in this WGA to showcase a bit more on that.

We have introduced the year at a glance, with sone key figures and findings in WGA across the public sector relating to this financial year. We have looked to introduce improvements where we can. Because we are still recovering the timetable, we have prioritised the timeliness of WGA. We are prioritising that and prioritising producing the accounts, getting them audited and getting them out of the door. We are introducing improvements where we can, but our focus has definitely been on timeliness. Once we have recovered, we want to do another phase of the WGA project, which very much focuses on further improvements to the product accessibility and usability.

Rachel Gilmour: Better.

Q3 **Chris Kane:** I remember my postgraduate business course at the University of Stirling, where we did an accountancy module. I always recall my lecturer saying, "I've got you for 10 weeks. I can't teach you how to do accounts, but I can teach you how to ask your accountant questions." That has always stuck with me, because this is an incredibly complicated thing for non-practitioners to try to get their heads around—including MPs, and we are tasked with scrutinising, as part of our job. Andrew, how are you making this more accessible to MPs?

Andrew Cartner: There are the things that I have talked about already, such as making the performance report simpler to understand. As the Chair said, we had a teach-in last week with the Public Accounts Committee to talk through what the WGA is and help their understanding of it. We are happy to offer further sessions on that with any parliamentarians who would like to do that. In the past, we have offered WGA sessions for new MPs as part of the new MP induction programme, and we are obviously happy to continue to do that, so there are a number of things that we have done.

To go back to my earlier answer, once we have recovered the timeline, what are some of the things that we can do to improve the performance report? One thing that we will do on the next version of WGA, which we are aiming to publish in July—it will be the 15th version of WGA—is to introduce a 15-year trend analysis. That will include key assets, key liabilities, income and expenditure, so we can see the trend over 15 years in the UK public sector. That will make a lot of the information in here more accessible to MPs and the public.

Q4 **Chair:** Andrew, it is always dangerous to ask a question that you have not consulted on, but here is an idea. One of the big accounting firms used to produce a little pocket handbook, which I found incredibly helpful to carry around with me, because I could quickly look up how much the Government was spending, how much it was getting in income and what it was spending it on. I understand that it would need to be audited and everything else, but how about considering producing a mini pocket handbook for the Whole of Government Accounts, so that when we go into questions or do a debate, we can take a little pocket handbook, not the full accounts, with us?

Andrew Cartner: Yes, we can definitely take that away to consider—100%.

The final point that I would make on accessibility and usability is that, as part of the phase 2 programme, in the medium and longer term, we want to think about the opportunities to digitise some of this information. That may be more beneficial for wider members of the public. We are really proud of what is in this document, and we want to continue to push the use of it. A number of other countries, including the Netherlands, have digital content around their accounts, and we want to explore that in the future.

Chair: That is really useful.

James Bowler: Traditionally, the focus in Parliament has been on supply estimates and spending, which MPs obviously have an important role in delivering. The advent of Whole of Government Accounts, and indeed departmental accounts, has meant that Parliament can look at the balance sheet, not just expenditure. The focus has been so much on expenditure in the past, but this opens up the balance sheet. In particular, that means assets, but it also means liabilities, provisions, contingent liabilities and future fiscal risks. If I were to sell to anyone what Whole of Government Accounts means and how it can help MPs, I would say that it enables them to move away from just supply estimates and look at those bigger balance sheet-type issues. It also makes the accounts more accessible. Your idea of a pocket handbook, and digital access to it, would be very helpful.

Chair: Thank you very much.

Q5 **Chris Kane:** The Chair has just given you feedback, which leads me on to my next question. All MPs could probably give you feedback. You may want to write to us on this, rather than go into depth just now, but I am keen to understand how you are continuing to engage with MPs to get their feedback. Accountants tend to speak a very specific language, and non-practitioners don't, so that constant engagement to refine how you are teaching and making this available is important. I am keen to know what sort of feedback you have received and what sort of initiatives you have used to make it more accessible and listen to those you are trying to teach.

Perhaps you can comment on this next one. Given how useful these accounts are, as James said, what are you doing to help the Government, not just MPs, make better use of them? That is for Andrew again, or perhaps for James or Conrad.

Conrad Smewing: I will pick that one up, because it is definitely a key part of one of the aspects of my job as director general for public spending, covering all of the spending teams in the Treasury that speak to all the Departments. The Treasury has run an internal balance sheet review for a number of years using the data that the WGA provides on assets and liabilities—particularly those that are not necessarily front and centre of day-to-day spending control conversations—to work with the Departments to think, "How could we get better value from the way that we're managing these assets and liabilities?"

One example of an area where that way of thinking has been quite influential is the student loan portfolio, which is an enormous financial asset portfolio that the Government have. In I think 2022, there was quite a big reform of the repayment terms of those student loans, which was driven by the fact that previously we were writing down in the WGA about 40% of every loan that we made.

There were a series of changes to the repayment terms, the threshold and the repayment length, which were designed to recover more of the value of those loans. We reduced the subsidy implicit in those down from about 40% to about 25%. You would only get to that way of thinking from looking at a set of proper accounts such as the WGA, rather than thinking about cash in and cash out, because they are very long-term assets, so the recoveries that you are getting are far in the future. This way of thinking about the public finances draws you to that thing, and the Treasury and DFE work very closely on what should be done about that. That is one example, and there are others I could give. We use that and the ongoing balance sheet review as a way of picking out things that otherwise would not necessarily be front and centre of discussions.

Q6 **Chair:** Permanent secretary, can I just come back on the very important thing that you said on the balance sheet? All of us, as you say, tend to be concentrating a lot of our time on the expenditure but not the income. Can I suggest that the Treasury also needs to take that maxim into account? We had a hearing on carbon capture and storage, which the Treasury has just granted £22 billion over the next 25 years, and the witnesses we had did not seem to have thought at all how they might be able to get some income back for the taxpayer on that transaction. Can I suggest that the Treasury also changes its thinking on these matters?

James Bowler: Yes, and I hope we are. I am not an expert on the carbon capture point, but there is the advent of the national wealth fund, and the increased use of financial assets in that regard is very much about getting the best out of Government assets. Rather than just giving a grant to a company, for example, why not give a loan or take equity? Why doesn't the Government invest alongside the private sector to get a market rate return and get their money out? Then, of course, the Government money that you put in can go a lot further when you are getting it back. That is very much at the heart of what we are looking at—certainly with the national wealth fund, but it is applicable all over the place.

I will give you another example. When we first built nuclear power stations, we did not think as much about the costs of decommissioning. The costs of decommissioning are in the Whole of Government Accounts, and they are vast. We now have the Nuclear Decommissioning Authority, so when you are building a new nuclear power station you have to put the costs of all of the future things in the up-front management and tender for the whole organisation. That is quite a big change, whereas we are picking up the tab of the 1960s nuclear build without that. There are other examples I am sure we could get to, but your point about the Treasury looking for income opportunities more is very well made.

Chair: I will give a little plug for our Report next week. You might like to look at that when it comes out, because it will cover that.

James Bowler: On carbon capture? Certainly.

Q7 **Rachel Gilmour:** This is to Mr Bowler. How will you be using the WGA in future? At the moment, it contains audited information that may be pertinent to new fiscal rules announced in the 2024 autumn Budget.

James Bowler: On the fiscal rules, we have a rule to balance the current Budget, and we have a net financial debt rule. The net financial debt rule—also known as public sector net financial liabilities—is a wider look at the measure of debt. It includes some illiquid financial assets and loans—for example, a wider look at student loans—and it includes liabilities, including pension liabilities. If you like, it is the stock version of public sector borrowing requirement.

That opens up the prospect of a wider look at how you go about the things we were talking about—the use of financial assets and financial loans. We think that that is the right thing to do; we think that that wider look at things is more credible than the old measure, which, in Conrad's example, just looked at the money going out, but not look at the assets you were creating in something like student loans.

It comes with a set of guardrails around it. We do not want to let a thousand flowers bloom and just say to anyone in Government, "Go and give anyone some money for a loan or grant." Some of the rules are that we expect a return as good as the costs of borrowing and we expect the very big financial transactions that come out of this to be done by professional bodies like the national wealth fund or the British Business Bank. They are another set of guardrails around what we are doing.

What we do is consolidate the Whole of Government Accounts to the fiscal rules of the day. So, in future, we will consolidate the Whole of Government Accounts to those fiscal rules so that you can see how it all flows, but it rests on Mr Cartner to explain that in any more detail.

Q8 **Rachel Gilmour:** How confident are you that the WGA is reliable for this purpose, given that the audit opinion is expected to be disclaimed in the future?

James Bowler: As Andrew said, the disclaimer is expected, but disappointing. It is because of the—if I am blunt—parlous state of local government audit, which has built up ever since 2014, but which built up very rapidly in 2019. There are 200 missing entities in the accounts as we stand so, as expected, the NAO disclaimed those. That was expected, but disappointing.

There is a legislated recovery plan in place, and it is on track. We can go into the detail of that. Notably, the first legal backstop for local authorities to provide their accounts was in December, and I think at least 90% of local authorities adhered to that.

Q9 **Rachel Gilmour:** When did you notice that? You said 2014 to 2019, so that is a five-year period.

James Bowler: I think the history of local government audit is a complicated one. The Audit Commission was abolished in 2014. Then you had the run-up to covid, and you saw a lot of local authorities failing to provide audited accounts on time. The reasons for that are many, and we can go into them: it is complexity, it is co-ordination and it is timeliness, I think.

We charted a very rapid rise from 2019 to last year, but that number is now falling. So I am hopeful for the future, and I am hopeful that there is a legislative programme on track. MHCLG colleagues can also speak to the future and the advent of a local audit office, to be one body that will bring together—and simplify, I think—how local authorities should go about doing their accounts. The plans are in place, but it will take a while to get through this.

It is entirely up to the NAO what they do with our accounts. I would not be surprised if the next set of accounts are disclaimed. We already know that there is slightly less missing data, but it is still significant. The backstop will really start to hit, and the missing data should really start to reduce, in 2024-25. I think that our and the NAO's hope is that, by 2025-26, we will be in a better place. But being totally honest, we do expect disclaimed Whole of Government Accounts during this period.

Q10 **Rachel Gilmour:** With hindsight, would you say that the abolition of the Audit Commission was unfortunate?

James Bowler: I am desperately tempted to ask my friends in MHCLG. It was the policy of the Government of the day. Certainly, by the time we got to 2019, local authorities were struggling to deliver their accounts. There are a whole set of reasons for that, not just the Audit Commission—the capacity in the system, the complexity of accounts and the fact that there were multiple bodies, all requiring local authorities to do different things—but I do not think it helped.

Rachel Gilmour: Thank you; that is very straightforward.

Q11 **Chair:** Can I press you on that, permanent secretary, just to get this whole matter out the way? It is not only the disclaimer that we are concerned about; it is the timeliness as well. Are you working on both things at once?

James Bowler: With huge thanks to my very diligent team, we will now publish four Whole of Government Accounts in two years. We have published three; by summer next year we will have published four in two years, which is really quite some going. As Andrew said, we have been prioritising timeliness to get back to our pre-covid position. That will mean that, come next summer, we will be publishing Whole of Government Accounts the summer after the year end for accounts, and so we will be back to more timely data. That has been quite an effort, so thank you to my colleagues.

Chair: It is appreciated; we understand that it is a big job, so we are grateful to you. I should make it clear that the accounts were, of course, delayed largely because of covid; it was not because somebody was not doing their job.

Q12 **Rachel Gilmour:** We hope that you have a vision for the future of the WGA. Will you outline what your vision is?

James Bowler: We do. The 15th year of Whole of Government Accounts is coming up. The Whole of Government Accounts gives a much more sophisticated understanding of the year in review; it allows people to look at 10,000 accounts all in one place, but the real thing is that it allows a much more sophisticated understanding of the Government's income and expenditure and—this is key—its assets and liabilities.

The vision is probably to increase its accessibility and usefulness. We have already talked a bit about that, and we can talk about it some more, but there are some good examples of where we are doing a much better job on the use of the balance sheet, not just income and expenditure.

Q13 **Rachel Gilmour:** Given the disclaiming issues, I would hope that reliability is part of your vision for the WGA.

James Bowler: Certainly, yes.

Rachel Gilmour: Good.

James Bowler: Clearly, having significant amounts of missing data and missing entities is hugely sub-optimal.

Rachel Gilmour: Hugely sub-optimal—that is great!

James Bowler: I am impressed by that myself, actually. I think we can confidently say that, with the backstop in place and with plans for a local audit office, reliability should increase.

Q14 **Chair:** Before we get on to the details of local government, which we are longing to do, can I just ask you one question? I was reading these accounts rather late last night and looking at our long-tail liabilities—things like nuclear and pensions. I have even had correspondence from constituents, saying, "God! Isn't it marvellous? The long-tail liability for pensions has gone down hugely." But it has not really; that is due only to the discount factor. Thinking of the ordinary reader, whom we are trying to encourage to use these accounts more and more, could we have a "Constant" column, which eliminates the discount factor, so that we can see whether these liabilities really are going up or down? That question is for whoever wants to answer it.

Conrad Smewing: I very much agree with you that changes in the discount rate can really dominate, in particular, the large long-term liabilities like pensions. I think the change, the increase, in the discount rate in this set of accounts has reduced the liability by around £1 trillion. Does that mean that we are going to be paying out less in pensions in future? No, it doesn't. It means that, in the way we value today, those future cashflow streams have reduced. We do set out very clearly what changes are as a result of the discount rate and what changes are as a result of underlying changes, but we could perhaps do more in the performance report on the future undiscounted liabilities.

I would flag the fact that, particularly for the very largest ones, like pensions—this is a theme of how we think about WGA—it is part of an ecosystem of other ways of looking at the public finances. The OBR's fiscal sustainability report, which has projections for net public sector pensions out over 50 years, in an undiscounted way, will give you an alternative way of looking at this that is also valid.

The change in the discount rate is telling you something. It is telling you how much you would effectively pay to get out of the liability today. Because the discount rate is higher, you would pay less today to get out of those future liabilities. So I would not want to say that it is not useful information at all, but I think you are quite right to want to complement it with—

Q15 **Chair:** I am not in any way saying you should try to get away from it. You cannot get away from the discount rate. It is there, and the liability, in the case of nuclear, is tens if not hundreds of years away, so you need that. But when I am looking at that table quickly, and I see that it was £2.4 trillion and is now £1.4 trillion, I think, "Gosh, it has gone down by £1 trillion." Then I read into the accounts further and realise that it is largely because of the discount factor. I am just wondering, in terms of accessibility, whether that table could have a "Constant" column, so that we could very easily compare one year with another.

Conrad Smewing: We could definitely look at doing that for the performance report.

Andrew Cartner: We will definitely take that away to have a look at. There is one thing that I would add to what Conrad said, and we discussed this in the briefing last week. Obviously, one of the great things about WGA is that it puts a spotlight on these large provisions and liabilities and encourages further work across Government. We know that UKGI are due to publish a report in March, about our large provisions and liabilities, that gets at some of the questions that you are asking: "We know about the discount rate, but what is happening with the underlying cost drivers and assumptions that drive these provisions? What are you doing about them?" There will be a lot of good content in that report coming out in March, and then we can look to bring that into the performance report. We will certainly take away and look at your request as well.

Chair: That is very helpful.

Q16 **Chris Kane:** This is a question for the permanent secretary. The disclaimer on the accounts puts a question mark over the value of them in the mind of non-accountants, so straightaway you have a perception problem with regard to the disclaimer. Could you give us your views on what this criticism does to the value of the Whole of Government Accounts as an important document? I noticed, when you were talking about how you are going to get the disclaimer off, that you talked about the missing data, but there is the unaudited data as well, so there are two elements. There is the perceived criticism generally, and you have talked about missing data, but will you talk about unaudited data as well?

James Bowler: Look, I agree with you: having disclaimed accounts is rare and poor. What we do to try to work through that, given that we are where we are, is to put in the performance report the data we have—that might be past data. We are trying to make sure you get the best, balanced picture. In the accounts, we will also put some qualified data, I think.

In terms of what we expect, I would expect missing data to reduce and then qualified data to rise. So you go from not having any data to having a larger amount of qualified data. I expect that to be the pattern we will see. It is hugely better to have qualified data than missing data.

It is important that we try, as we have in various spotlights in this WGA, to explain exactly what we do to the reader. It is probably very important for me to say that the missing data does not make these Whole of Government Accounts worthless. It is 1.3% of net liabilities, which is a very large number, but you can still use the Whole of Government Accounts. You can still look at all the liabilities and provisions, less so in the local government area but certainly in central Government. It is not the case that we are treading water for a few years until we can fill that data up.

You are right: there has been a long-standing set of qualifications on the Whole of Government Accounts, and we can go through them. Some are about boundaries, and some are about different timescales for different accounts. The one that I am watching very carefully at the moment is the qualification on the fact that we are a shareholder in NatWest. We do not put that into these accounts, and that is because we do not think that that shareholding in NatWest represents a particular chunk of what the Government is about. That shareholding is now just between 8% and 9%, so we can see an exit from that, and we would expect the qualification to fall away once we have put NatWest wholly back in the private sector. We own just about 8% to 9% as of today.

Q17 **Mr Betts:** Permanent secretary, do you think that the current state of public accounts, particularly the local government accounts, is a mess? You described it as a “parlous state”, which is probably a better description. Given that we are an advanced democracy, do you think it is an embarrassment that our public finances are distinctly third rate in how they are being presented?

James Bowler: I do not think it is great that local authorities have struggled to deliver timely, audited accounts—I do not suggest anything other than that. It is probably worth saying that that does not mean—my colleagues in MHCLG can say more—that we do not know what is going on in the local authority area, and there are lots of other ways in which we check, in particular, the financial health of the local authority area.

If you live in a local authority, if you are the local authority yourself or if you are central Government overseeing a local authority in Parliament, you want to understand what the entirety of a local authority's balance sheet looks like. I am not going to pretend that we are in any other position. It is worth saying that the legislative backstop that is now in place with the first set of things has been one big step forward. In December, over 90% of local authorities had now caught up on the backlogs to 2022-23, and I think there are five more steps.

Q18 **Mr Betts:** I will come on to some of the details in just a second. Do you not think it is embarrassing that we, as a country, do not have a national set of accounts that has been audited and approved, and that you are having to sit there explaining that?

James Bowler: I don't think it is great, no. The Whole of Government Accounts pulls together central Government and local government, and we are one of the few countries that do that in the whole world.

Mr Betts: We are not doing it very well, by the looks of things.

James Bowler: I am trying to say where we should be embarrassed and where we need not be embarrassed. The Whole of Government Accounts of the UK—I do not know what our Dutch colleagues think—is world class, in that it pulls together 10,000 accounts into one place in a relatively timely manner. I am not embarrassed about that. If anything, I think we are world-leading in that regard. Certainly, I am not going to pretend in any way, shape or form that having 200 entities that do not have audited accounts is anything other than a relatively parlous state.

Q19 **Mr Betts:** I want to come on to two aspects of that particular point. First, the backstop is the saviour to all this, and it has started now. Do you accept that the backstop process was started far too late? The problem has been around and known about for many years.

Will Garton: Is that to me?

Mr Betts: It is to whoever thinks they are responsible for it.

Chair: Let's bring you in, Mr Garton, because it is right in your area.

Will Garton: It might be that the backstop could have been introduced earlier. There were plans to do it in the last Parliament, but they were delayed slightly by the general election.

Q20 **Mr Betts:** By the general election is a bit late, isn't it? That is many, many years after you recognised it was a problem.

Will Garton: In answer to your original question, Mr Betts, I think it is a completely unacceptable state of affairs that we have, where the system as a whole can be disclaimed because of the problems in the local authority. We are not hiding from that at all. But we now have a realistic and pragmatic plan in place to fix it. That starts with a statutory backstop, and that is starting to have some effect.

We will have a transition period over the next couple of years, and we will take powers through primary legislation to put in place an organisation that can rectify the situation. It is worth noting that the approach under this Administration is different from that of the last Administration, where the locally led regime was favoured. We have got a change of approach since the change of Government.

Q21 **Mr Betts:** I will come on to the change of approach in just a minute. We now have the backstop. What happens if local authorities do not or cannot hit the requirements of the backstop? What is the fallback? Are there going to be legal powers to insist that audited accounts are produced by a certain deadline?

Will Garton: As you know, the backstop is a statutory requirement. In the event that a local authority does not meet the statutory requirement, we will first engage, and the Minister will write to the 10% where we have not had returns in the coming week or two. We will then be transparent and publish that list so that it is clear for everyone to see.

I want to be a little bit cautious about precisely what our intervention is in the small number of cases where we have not had returns, because it is not necessarily the case that it is the responsibility of the local authority. The market as a whole is broken, so we could go in two-footed on a particular local authority and find that they had a very reasonable and plausible set of explanations as to why they were not able to complete the process.

However, if, in two or three years' time when we have, with the best will in the world, fixed the market and are operating back in an acceptable state of affairs, a local authority failed to publish its accounts in a timely manner—in that scenario, where the market is working—then the Department does have intervention powers. The Department has shown that it is prepared to use them. But I do not think it is reasonable to say that we will necessarily intervene in the small number of instances that occur on this part of the backstop, because the reasons for failure are likely to be multifaceted and complex.

Q22 **Chair:** This Committee is made up of 16 Members of Parliament representing areas all over the country. Only one of them is included in the WGA this year because their accounts are up to time. That gives you a scale of how bad the problem really is. The accounts of one of them at least go back to 2019-20, so some of these local authorities are five years overdue.

We are always very keen on the stick element of all this, but when it comes to that particular local authority, which is obviously in a very parlous state—this is in the public domain—would the Department consider what help it could give directly, maybe with advice? They might have had three or four different CFOs, and there may be any number of problems.

Will Garton: Yes, we would absolutely engage, help, assist and provide support in whatever way we can. That is part of our responsibility. I was just trying to answer Mr Betts's question on the sanction for the 10% that do not hit the deadlines and be clear that we will take sanctions in the future. We are not frightened to intervene, but we would need to be careful in the current set of circumstances, because where responsibility and accountability lies, there is not a straightforward and simple answer to that question given the state of the market.

Q23 **Mr Betts:** I think Rachel Gilmour asked a very particular and proper question about the Audit Commission—the word that you cannot or could not speak. Is it not the reality that when the Audit Commission was abolished, proper thought was not given to where responsibility lay for audit overall?

It was fragmented into different bodies and the capacity of audit at local level was to a large extent removed when the district audit went, and private firms have not had the willingness and capacity to replace that.

Will Garton: In 2014, there was not a problem; it is a significant problem today. That was a policy decision made at the time. The view of this Government is that an overhaul is needed and that is why we are setting up the local audit office. Would we do exactly the same thing now? I do not think so.

Q24 **Mr Betts:** A very diplomatic answer. So the local audit office is going to pull together responsibilities from a number of bodies where it is currently fragmented?

Will Garton: Right.

Q25 **Mr Betts:** And it is going to increase capacity in local audit? How is it going to do that?

Will Garton: With local audit, one of the problems is exactly as you identify: there are a multitude of different actors currently with slightly different incentives and different responsibilities, all of whom are acting logically and rationally as per the system that is set up.

The local audit office will—and we are consulting on some of this—take registration of firms and regulatory systems leadership from the FRC, audit quality reviews from the FRC and the Institute of Chartered Accountants, enforcement from the FRC, the code of practice from the NAO and procurement—responsibility for developing the market—from the Public Sector Audit authority.

We are consulting on giving the local audit office powers in respect of the Chartered Institute of Public Finance and Accountancy code to try and make the accounts less complex, so that there are fewer barriers to entry, and, critically, public sector procurement of audit. So there could be a world where all those powers are under one roof, with one chief executive responsible for delivering the system.

Q26 **Mr Betts:** A bit like going back to Tony Redmond's recommendations?

Will Garton: Indeed, yes. Also, recommendations from this Committee, the departmental Select Committee, John Kingman and many other commentators in this space.

Q27 **Mr Betts:** In terms of the capacity, are we certain that the private sector is going to be able to deliver it or is the intention that we are going to put an element of public sector capacity in there as well?

Will Garton: We are consulting on public sector capacity. I note that it is 50/50 in Scotland, 100% public sector in Wales, zero in England. Currently, England is the worst performer of those three nations. I do not want to prejudice the consultation, but I would expect some element of public sector capacity to be in it.

Q28 **Mr Betts:** The National Audit Office has been involved in that. Gareth Davies, if you could explain your role in this as well, that would be helpful.

Gareth Davies: The NAO's role is on the code and that would move to the new organisation under the proposals that the Government set out. My view, and I have worked in both the local and the national audit framework, is that the lack of a public sector capacity has been part of the problem and addressing that would help de-risk some of the issues you have been talking about.

The key point, based on my experience, is that it is important not to underestimate what a significant undertaking it is to create that capacity given that it has gone. That process will not be instant. The National Audit Office is certainly willing and able to assist with practical advice on what is required to establish that kind of capability.

Rosie Seymour: Can I add that, in terms of capacity, we are also looking at what auditors do and trying to look at where we can reduce that. Part of the issue is not just how many auditors there are, but how much they are required to do as part of undertaking local audit.

That is where we are looking at the complexity of financial reporting, but also the new local audit office interpreting ISA requirements in relation to local audit, rather than across corporate and local audit, so that it is appropriate to the sector itself. The capacity will then be more available than under the current system.

Q29 **Mr Betts:** Is this a problem of the requirements on local councils, and then local audit, to deliver to international standards and the fact that overlaid on top of that are particular requirements for the public sector—particularly requirements for councils, which are even more complicated. Is that the issue you are trying to resolve?

Rosie Seymour: Absolutely. The strategy that we published last month includes a commitment to look at the complexity of financial reporting in relation to local authorities and local bodies. Also, given that it is taking on responsibility for interpretation of requirements, the local audit office would look at the sort of audit side of those international standards.

Will Garton: That complexity is a barrier to the market working effectively. As a result, the market is dysfunctional. If we can simplify, consolidate and streamline, there is a chance of stimulating a private sector market and a public sector market.

Q30 **Mr Betts:** I want to pick up on the role of the local audit office, before I come on to the issue of local government finance problems. Will the local audit office have the capacity? One of the things that I think the Audit Commission used to do well—I am not necessarily talking about value for money and all the things that Ministers and councils often got upset with at the time—was being a place where auditors could go if they had a really challenging situation in a local authority that was of concern to them and they were not quite sure how to approach it. They could go there, and there was a repository there of understanding, thinking and appreciation of what is happening across the piece. Will the local audit office be expected to do that?

Rosie Seymour: Absolutely. We would expect it to be a centre of expertise. It would be taking on a role in relation to training, working with colleagues at the NAO to make sure that we are making the most of that across the public sector. It would also be there as a body publishing reports and insights on what is going on, what the challenges are and ways in which others have approached those.

Q31 **Mr Betts:** I think the permanent secretary mentioned that really, it is not as bad as it looks, because we still know what is going on in local authorities and where there may be problems. How do we know, if we do not have any accounts?

Will Garton: The accounts are a really important tool in our armoury, but they are by no means the only tool by which we understand what is going on in the sector.

I would point to three ways in which we engage and try to understand this £70 billion sector that is delivering vital services up and down the country. First, the Department has a series of local authority sustainability financial tools. We are constantly looking at other forms of published data, levels of reserves, Ofsted reports, percentage of spend on statutory services and the like. The NAO has seen those tools and engaged with them, and it thinks they are of a pretty decent standard, so we have complex and intelligent models.

Secondly, despite the numbers bit of the audit sector being broken, we still rely on and use public interest reports and value for money reports. They are a useful contributing factor to our overall assessment of the sector.

Thirdly, although I am conscious that this can sound unspecific and a little bit vague, as a Department we are thoroughly engaged with the sector. That is where our soft intelligence—our staff and teams based throughout the country—have conversations we use to co-ordinate our view on authorities at risk.

Last year, a number of authorities came to us for exceptional financial support, and absolutely none of them was a surprise to us. We felt that we knew there were problems in that set of authorities. This year, we will have a number of other authorities come to us for exceptional financial support. Again, we predicted the list almost precisely six months prior to that. We have a good and advanced understanding of what is happening in the sector. We would very much like an audit system that worked as well to complement it, but we are doing okay without it.

Q32 **Mr Betts:** So what is your prediction for next year for the number of authorities?

Will Garton: I am going to leave that particular bit of information for Ministers to disclose to the House in the usual way, if I may.

Q33 **Mr Betts:** But you are certain that you know all the authorities that may be coming?

Will Garton: An authority can come to us at any time for exceptional financial support. There is not a deadline, as such. My point was that, if we look back about six to nine months ago, we had a list of authorities we were concerned about, and that list is as we thought it would be.

Q34 **Mr Betts:** So you do not expect any more nasties to appear when these accounts are eventually finalised and audited?

Will Garton: For this point in time, I think we have a really very good understanding of where what you might call regular financial pressures exist through not being able to keep up with service demand and the like.

There is sometimes a quirk that comes out of the system. For example, this week Barnet has issued a 114 notice. That is because of a payment—roughly, they put it into a pension scheme and took it out again, which they should not have done. Both transactions were unlawful. They have realised their mistake and declared it, but they have to issue a 114 as a consequence by law. We were not aware of that before the council came in and engaged with us, because it is an accounting error, in effect.

I do feel confident that we know if an authority is particularly challenged by pressures in adult social care, children's services or SEND and have a good grip of where those issues are.

Q35 **Mr Betts:** In terms of Barnet, when did that happen?

Will Garton: Earlier this week.

Q36 **Mr Betts:** When was the illegal transaction?

Will Garton: I would have to write to you and tell you the exact timetable. I do not have—

Q37 **Mr Betts:** Is it something that would have been picked up by the auditor if the accounts had been audited?

Will Garton: My understanding is that the accounts were audited in the case of Barnet, and the account auditor did not pick it up.

Rosie Seymour: It wasn't picked up.

Q38 **Chair:** Can I come back in on this? The matter that Mr Betts is driving at is really serious. We saw from our hearing on SEND that very large numbers of local authorities are under financial pressure. Surely, when they are under financial pressure, it is even more important that we get up-to-date accounts so that their finance officers, other officers and councillors know way down the track—long before you do—that they are beginning to get into financial problems.

Surely it is really important that we get up to date with this matter as soon as possible, because we want to try to avoid as many 151 situations as we possibly can. When those happen, they almost inevitably end up being far more expensive for the local population than if they do not happen.

Will Garton: I couldn't agree more.

Q39 **Rachel Gilmour:** Maybe I am a bit thick, but you are telling me that the WGA relies on what you refer to as soft intelligence, because people talk to each other and then they talk back to you. In my definition, that is anecdotal evidence.

Will Garton: No. Mr Betts's question was: in the absence of properly functioning accounts, how on earth do you know what is going on? My answer was threefold. First, we have a series of complex and relatively sophisticated models that look at the sector.

Rachel Gilmour: I understood that.

Will Garton: Secondly, auditors still produce public interest reports and value for money reports.

Rachel Gilmour: I understand that.

Will Garton: Thirdly—this is separate from and independent to the WGA—we do have a programme of what I would call soft engagement or soft intelligence. That is about talking to the sector, talking to local authorities and being immersed in it. I realise that you could describe that as anecdotal if you liked, but I think it is more sophisticated than that, and it helps us to garner intelligence and understand particular problems. It is not our only tool, because we have public interest reports, VFMs and hard data as well, but it is there. When you are trying to understand the sector, it is a useful way of doing so.

Q40 **Rachel Gilmour:** But how can you track and audit soft intelligence?

Will Garton: It is not part of the audit regime per se; it is another thing that the Department can and does use to understand the sector. It is independent to audit. If we did not have it, I am pretty sure that the Committee would say, "Why are you not engaging with the sector to properly get under their skin?" I am just saying that we do that and we do it systematically, and I think that we do it moderately well.

Chair: I am going to call Clive Betts in a second, but after him I will follow our now-normal convention of having a short five-minute break.

Q41 **Mr Betts:** Just to follow up on one of the technicalities I alluded to, there is the impact of IFRS 16 on the Whole of Government Accounts. Permanent secretary, are you able to actually work through now to calculate and adjust what the impact will be?

James Bowler: I will pass that over to Andrew in a second, but the answer is that central Government have moved over to IFRS 16, which is no small feat. Local government is due to do so in 2024-25. Is that right, Andrew?

What we can see in the WGA is an increase in lease liabilities of £24 billion because of the move to IFRS 16. We are also recognising increased right of use assets, which are the benefit that the Government get from these leases. They are on the balance sheet at £29 billion. Consequently, we also see a reduction in the operating leases category. Under previous accounting rules, the Government would be classed as not having ownership of those assets so they would not show on the balance sheet, but we would continue to pay an amount in a lease. They have reduced by around £22 billion, so we can see the impact of that.

At a further level, what we also see as a consequence of the accounting change is a change in some of the asset categories. For example, the MOD leased a number of properties and pieces of land that were shown under property, plant and equipment, but they have moved to the right of use asset category that I mentioned. That is the situation for central Government.

As James says, local government are due to introduce this system in '24-'25. We have an accounts qualification on different accounting practices in the WGA, and the difference in approach between central Government and local government on lease liabilities is one of them. It is for the NAO to say, but if it is implemented, we can hope and expect for that aspect of the qualification to be removed.

Q42 **Mr Betts:** Local government will have to introduce this new system as well. Given the problems in local government, that is not going to be a seamless transfer, is it?

Will Garton: No. It adds to the size of the challenge.

Rosie Seymour: But they are due to do so next year.

Q43 **Mr Betts:** Is it well understood how leasing arrangements are differently treated depending on the nature of the lease? Given the Treasury's directive to Departments that in future, capital and revenue should be separate, and identified capital resources should not be used for revenue, is leasing a grey area that could be used by Departments to get around those rules?

Andrew Cartner: This is a very clear international reporting standard; it is globally accepted. There are really strict criteria around what you can capture as a long-term lease, a liability and an asset on the balance sheet. In central Government, that is audited by the National Audit Office for the Departments that have already introduced it. For local government, their financial reporting and accounting framework is set by CIPFA, but we work really closely with them in the Treasury, and we will share knowledge and lessons learned from implementing this. CIPFA sit on our financial reporting advisory board within the Treasury, so we do join up and we will share our experience.

Conrad Smewing: Just to pick up the point on the control framework, I think the move to IFRS 16 improves the position from the previous set-up. Under IAS 17, there were two types of leases: operating leases and finance leases. Only the finance leases were scoring in the capital budget, and the operating leases were just being expensed through the resource budget in future. IFRS 16 does not have that distinction, so you are picking up the right of use asset in the capital budget for all the leases. It is removing one of those cliff edges that can produce perverse control incentives.

Q44 **Mr Betts:** But did you not say that local government do it differently, and that there might be an issue if the National Audit Office has to look at it?

Andrew Cartner: No—sorry if that was misleading. Local government will implement this in line with the accounting standard. They are just implementing it later than central Government. We introduced it in central Government in the financial year '22-'23 and local government are doing it in the financial year '24-'25, but the treatment and approach will be the same.

Q45 **Chair:** Can I follow that up with one other question? This whole business of improving accounting standards when the sector is having problems is problematic. One of the other areas that causes local government auditors a great deal of problems is valuations. We have a different set of valuations for roads, for example. Roads are roads are roads—it does not really matter whether they are national or local. Why on earth we have a different set of accounting standards for national and local roads I cannot imagine, except that the local government system of historical cost is much simpler than that of current cost less depreciation. Is it sustainable to have two different systems? What will that in itself—changing local government road valuations—do to the complexity of the accounts, to the time auditors need to do it, and to the specialists they need to involve to value all these assets?

Andrew Cartner: A couple of points on that. You are correct that in central Government we value those infrastructure assets on depreciated replacement cost, which is: how much would it cost to build a modern equivalent for that asset? If it is a road or rail network that has depreciated over time, as you say, local government do historic costs, which is the cost when the asset was put in place.

The reason we use depreciated replacement cost in central Government is that we think this is a better, higher value measure and is a more accurate capture of the value of the asset on the UK balance sheet. The historic cost approach is simpler, but some of these assets could have been brought in 20 or 30 years ago and the value could have changed, and that approach would not capture that. That is why we do this in a certain way in central Government.

The discussion is ongoing with local government in CIPFA about if and when they should move to a different valuation approach. There is nothing at the moment mandating local government to value their assets in the same way as central Government do. We have part of a qualification in WGA that recognises that difference. We continue to engage with CIPFA, and if at a point in the future the value of doing this outweighs its cost and the extra administration, then this could be a future change—but there is nothing at the moment.

Q46 **Mr Betts:** Are there any assets other than roads where this difference applies?

Andrew Cartner: I think there is a difference in water infrastructure in Scotland as well. Those would be the two main asset categories.

James Bowler: On pragmatism, which you are getting to, there are quite a few qualifications where it is not necessarily the case that we will be putting all our eggs in the basket of getting rid of them, because it essentially depends on the value for money. Another example is that people report in different years—academies, further education, other things—and you have to look at the extent to which we can reasonably get those bodies to do things differently, as you do with local authorities and roads. When you do a set of accounts, you do it on international financial reporting standards and you audit it against the whole set of standards. That is the right thing to do—to do anything else would be wrong—but it will be the case that you have some qualifications where, arguably, now is not the time to try to blast your way to get rid of all of them. This is probably why quite a few of the qualifications in the Whole of Government Accounts have been there for a little while.

Chair: That is a very helpful clarification, permanent secretary. For those who are following our proceedings, it may be helpful to know this is dealt with on page 147 of the Whole of Government Accounts.

We will now take a short break. It is 11.08 am. If we could be back by 11.15 am, that would be really helpful.

Sitting suspended.

On resuming—

Chair: We resume with Sarah Green.

Q47 **Sarah Green:** My question is to James Bowler. We have already spoken about the state of the local authority audit market, which has been described as sub-optimal, dysfunctional and parlous. What actions have you taken to prevent a reoccurrence of the issues we have seen in that market?

James Bowler: The answer is looking backwards to catch up the implementation of the legal backstop and looking forwards to the bringing together of the local audit office. In terms of stopping a reoccurrence, I would stress the local audit office being able to get into capacity in the sector, potential public provision of audit capacity and the issue of complexity—all the various bodies being brought into one. That is the key to stopping a reoccurrence.

Q48 **Sarah Green:** Last May, you gave evidence to the Committee referring to a "carrot" of £45 million to address the issues around the declining local authority audit fees. How has that improved audit delivery?

James Bowler: Gosh—my memory will test me here. I think the answer was that it is just a reality that the costs of audit were rising faster than had been otherwise predicted and, to recognise that, the Treasury allocated £45 million over three years to MHCLG to give to local authorities to be able to purchase the audit that was required. It was not a case of massively improving things, but if we had not done that, the local authorities would have had to find the money from elsewhere, which, given the state of local government finances, would not have been great.

Q49 **Sarah Green:** Does that mean you will have to do the same again in the near future?

James Bowler: Colleagues will have to work it through, but the answer is that, to the extent to which we look at the capacity in the market generally, we will want to look at being able to provide audit at a reasonable price.

Will Garton: As part of the spending review, we will look to allocate money going forward for a three-year settlement. We know that one of the actions is that by increasing fees for the private sector provision, we have a chance of increasing that provision. That is one element of our plans, so we will want to do that as part of the next spending review.

Chair: Thank you, Sarah; that is very helpful.

Q50 **Chris Kane:** Rosie or Will, what do you think has caused the local audit crisis?

Will Garton: As we have discussed, the 2014 Act allocated responsibility to a multitude of different actors. Those actors are all acting rationally and doing what is asked of them, but the lack of co-ordination between them is a factor. It is ironic, isn't it, because quite often we look at the public sector and say, "You're not achieving value for money; you're not negotiating hard enough; you're not procuring strongly enough," but what the public sector has done in this market is effectively procured too hard. Fees in public sector audit fell by 40% between 2014 and 2018, because the public sector was driving a harder bargain, and they rose in the private sector. That has led to a market that does not work.

As I am sure the Committee knows, we have to get local authority accounts signed off. They need to be signed off by an audit partner—an individual. There are about 100 of those individuals in the country who are qualified to do so, and that is too few. We have ended up with fragmentation, with the public sector driving too hard a bargain to the extent that the market of private sector provision does not work. That is why Tony Redmond, John Kingman, this Committee and the departmental Select Committee have said "You need to bring all these functions together and think about the system holistically." That is what the local audit office does.

Q51 **Chris Kane:** Are you confident we are going to fix it?

Will Garton: I do not want to over-promise. This is an ambitious and difficult reform, but we have set out aspirations to have most disclaimed opinions to have ended by the end of the '25-26 financial year, most qualified opinions ended by '26-27, and no disclaimed or qualified opinions by the end of the '27-28 financial year. Those are objectives we have set out publicly; they are ambitious.

It is hard, and it is possible that we are back here in two years' time having not quite made it, but it is better to be demanding of ourselves and to put in place tough targets. It is a huge overhaul and I do not want to leave the Committee in any doubt that it is quite a hard tanker to turn around. But we are absolutely determined to do so; we know how important it is. We cannot have a situation where the Whole of Government Accounts are disclaimed because of the local authority sector, so we will give it a good go.

Q52 **Chris Kane:** Until you fix it, will it be that more moneys are required to help with the audit fees?

Will Garton: That is a part of it and, as James said, we put in more money, but we want to have the local audit authority introduced in legislation later this year. We hope to have it up and running in a transitionary effect in 2026 and fully operational by 2027-28. We should try to pull all these levers simultaneously, and the Department is working particularly closely with the Comptroller and Auditor General on trying to foreshadow future arrangements for the local audit office before they are set up in legislation, if that makes sense. We have regular formal forums where we try—without wishing to prejudge Parliament's passing of the legislation—to look forward to the new institutional relationships and see what we can do now to get there more quickly.

Q53 **Chris Kane:** I remember that in my time in local government, in respect of the prudent approach, it was always politicians who tried to be the least prudent, and then it was officers and then the accountants. The accountants are always the ones who are most prudent. In terms of your financial forecasting as a Department for how long you will have to have additional money in the budget to help with this, do the accountants agree that you can fix this in the next couple of years?

Will Garton: Yes.

Chris Kane: So the forecasting of how long you will need this additional funding in your forward planning are the same as what you are telling us.

Will Garton: I would not want to give you a spurious answer. We have talked about £45 million going in over a three-year period at the last spending review. The local government settlement is worth £69 billion. It would be disingenuous of me to say that I have identified £15 million in 2028-29 in advance of a spending review, and what exactly that is going to buy, because the system is more complex and bigger than that.

The key staging post for us is spending the last £45 million wisely, which I think has happened. I will be talking to James and Conrad about what we will do at the spending review next time around, to put some money into it, and then we hope we will have a functioning market by the end of ’27-28. That is our objective.

Q54 **Chris Kane:** Okay. I think that in last year’s Committee appearance, permanent secretary, the Chair talked about the difference between hope and surety. Is your opinion that we are still hopeful that we are going to do this? Or do you have that assurance that you think we are now beyond that and we are better than hope—we actually have a plan that will deliver?

James Bowler: Parliament has legislated for the backstop and the first one has happened. It is worth saying that 90% of local authorities did it. The first one required them to do quite a lot of historic data to catch up. That has happened. There are plans to legislate for the local authority office, which I do not think are particularly contentious. So we can point to iron-cast things that have happened.

On the example you gave, I will repeat that I hope I have been realistic about what we expect. We are doing another Whole of Government Accounts—the fourth in two years—come this summer. We know now that there is enough missing data in that probably to mean—it will be for the NAO to take a view—that the WGA will be disclaimed again. We will see. Then we expect that missing data and the backstop to kick in thereafter, but we are probably looking at ’25-26 as a realistic place there. I hope I am being open with you that there is no suggestion that this has all gone away and it is all fine.

Q55 **Chris Kane:** It is the word “hope” that causes the issue.

James Bowler: Okay—we are planning. We know now, because the WGA takes an awful long time to put together, that there is slightly less missing data but still significant missing data for our next Whole of Government Accounts.

Will Garton: On the local authority side, we have an objective—an aspiration; something we want to achieve—for there to be no disqualified or disclaimed accounts by the end of the financial year 2027-28. It would be unwise of us to give you a cast-iron guarantee; we cannot do that. There are factors beyond, and it is an ambitious timeline. We really want to achieve it, and we are going to put our shoulder to the wheel in trying to achieve it, but we cannot commit to doing it—

Chris Kane: No, you cannot give us a cast-iron guarantee, and I do not think we would ask for a cast-iron guarantee. We are trying to get an assurance. Language is important for assurance, but I do take the point that you cannot give a cast-iron guarantee.

Chair: Hope springs eternal.

Q56 **Anna Dixon:** Good morning to the witnesses. Before I get into my area of questioning, I have a couple of relevant conflicts of interest to declare. I worked as a civil servant at the Department of Health and Social Care until 2015, and as a result I have a civil service pension.

You will be pleased to know that we are moving on from local authorities and some of the reasons for the disclaimer on the WGA, in order to look at some of the qualifications. Obviously, even if there were no disclaiming of the opinion, there are a couple of qualifications on the account, both of which relate to the Department of Health and Social Care.

The first qualification relates to the £1.4 billion of the PPE inventory—in this case, PPE is personal protective equipment, as opposed to the PPE acronym in the WGA, which has a different meaning—to £1.6 billion of impairment and write-down, which I assume relates to dud PPE, and to disposals of £8 billion of consumption of the inventory.

The second qualification also relates to the Department of Health and Social Care, specifically to the UK Health Security Agency. The Comptroller and Auditor General said they were unable to obtain "sufficient appropriate audit evidence".

What resolutions are you putting in place to deal with these qualifications on the accounts? Perhaps you could start, permanent secretary.

James Bowler: I will hand over in a minute, if I may, to give you more detail. The Whole of Government Accounts is the amalgamation of 10,000 accounts, and the big ones are the central Government accounts, one of the biggest of which is the Department of Health and Social Care's accounts. You are seeing the implications of their accounts feeding into the Whole of Government Accounts—rightly—so those qualifications move. Andrew, do you want to come in?

Andrew Cartner: Yes, I will give you a quick answer. The underlying qualification in the DHSC accounts you are talking about has, as James said, significant value, so it is material in WGA terms. Before I answer that specifically, I should say that we have had a number of these type of qualifications over the years: DEFRA previously had one in terms of its assets, valuations and record keeping, and the MOD previously had one.

We have been able, through good work in the Departments and the finance function over the last several years, to remove the two in DEFRA and the MOD. The DHSC one is to do with inventory records. There is a lot of work happening at the moment within DHSC to improve that—it is an improving picture.

Conrad is the head and I am the deputy head of the Government finance function. We lean in to support Departments in terms of best practice and share lessons from Departments that have had similar issues. That is an improving picture. Again, it is for the C&AG and the NAO to determine, but in the future it will become not material to WGA, and I would expect to see it disappear over time.

There are a number of other qualifications that we have touched on. I do not know whether it would be helpful for me to give a quick summary, or whether you feel we have we have covered them already.

Q57 **Anna Dixon:** I think it is fine. As you say, the Department of Health and Social Care is the largest, and this Committee will be coming back to the most recent Department of Health accounts, subsequent to this. We will probably have more opportunity to drill into that, but I invite the Comptroller and Auditor General to comment.

Gareth Davies: This is the ’22-23 Whole of Government Accounts and, therefore, it is the same year for the Department of Health. Since then, we have finished the audit for ’23-24 for the Department, and this Committee will hold a session on that shortly. The disclaimed opinion on the UK Health Security Agency has been removed, and it is now a qualified opinion, so it is much improved from the previous position. The qualifications on the Department’s accounts are much less significant than in previous years, so there has been good progress in ’23-24 in addressing that. That will be reflected when you see the ’23-24 WGA.

Q58 **Anna Dixon:** Good. That is positive to hear. Another area in the accounts is the treatment of NatWest Group. Obviously, it was previously under public ownership and, therefore, very much on the Government accounts. Gradually, the Government have been disposing of its shareholding to the point that the Office for National Statistics has now reclassified it as private sector. Could you say a little about what you think the expected future impact of the changes in NatWest ownership, as well as the resulting sale, will be on future WGA?

James Bowler: Andrew will correct me if I get this wrong. We had a qualification based on the fact that we never put our ownership of NatWest fully into the accounts because it was always intended to be temporary. The exciting—by my standards—situation is that we can now see the light at the end of that tunnel. The Government’s holding in NatWest is 8% to 9%. We are selling it off, so the expectation is that, by the end of the next financial year, we will have returned NatWest fully to the private sector. It will no longer feature as an issue for the Whole of Government Accounts once the Whole of Government Accounts catches up to that, so that qualification should fall.

Q59 **Anna Dixon:** Thank you. Another challenge with the WGA is the alignment of financial year ends. Ideally, all the public sector bodies that you scoop up into the WGA would have the same period. Probably one of the most significant misalignments relates to academy trusts and further education colleges, with FE colleges now having been reclassified and moved into Government accounting. We are talking about some 9,000 academy schools and quite a significant FE sector, so I would like to know what progress you are making on resolution around those timing issues for both academies and further education colleges. Again, I look to whichever witness is most appropriate.

Conrad Smewing: Let me pick that one up. There are, as you say, around 9,000 academies. Their planning year is the academic year, and so is their accounting year. That is what is leading to the lack of coterminous accounting periods. To come back to the questions of pragmatism and proportionality, we do not think that running two full sets of books for all those 9,000 academies so that we can remove the qualification in the WGA is the right approach. Previously, we tried to infer a 31 March balance sheet for academies, using the information we have and some statistical modelling. Unfortunately, that was not something that the C&AG would have been able to audit to his own satisfaction, so would not have removed the qualification.

The position we have reached on academies is that the Department for Education publishes a sector annual report and accounts for academies on the academic year. That started some time ago. The WGA uses that, and then we provide an analysis of what the maximum variance is likely to be between those figures and what the 31 March figure might have been. That shows that it is not that significant in WGA terms. That is the position for academies at the moment.

Q60 **Anna Dixon:** Okay, so you are not seeking to move them to align and they will stay on their current pattern. Could you say a bit more about the ability to be transparent about the methodology? Is the intention that you would use a much more transparent, and therefore auditable, methodology to try to model the alignment?

Conrad Smewing: On page 118 of the WGA we compare the balance sheet positions from the SARA—the sector accounts—in between years. You can infer that the balance sheet at 31 March would have been between those two figures and you can get a sense of the maximum variance from the number that we are using. I think we are quite transparent about how we approach it. We think that is a reasonable position given the scale of any potential variance within the whole of the accounts.

Q61 **Anna Dixon:** Does that lead, effectively, to there being a perpetual qualification relating to this, but there is nothing more proportionate—which is your term, Conrad—to do?

Conrad Smewing: It might be possible in future, with improvements in the technology of the accounting, to look at this again and see whether it was proportional to do it. If it became possible to do it, we would definitely want to, so I do not want to say it is perpetual, but at the moment it is the position we have reached.

Q62 **Anna Dixon:** Where are we with FE colleges? Are we in a similar position to have sector accounting and transparent—

Conrad Smewing: FE colleges were reclassified into the public sector relatively recently—I think in 2022. We are working through a pilot with the Department for Education on how to approach FE colleges. There are not as many FE colleges as there are academies, but the same academic year and financial year problem arises. The pilot is looking to make sure that we get the data we need for parliamentary supply and control on a financial-year basis. We will then use our experience from that to work through what it might be possible to do for FE colleges. I would not want to give a definitive answer. Again, ideally, we would want to be consolidating them properly, but we need to work through the pilot to find out how practical that is going to be.

Q63 **Anna Dixon:** When will your pilot conclude?

Andrew Cartner: In time for the '26-27 financial year.

Anna Dixon: Okay. And at that point you will take a view as to whether a similar methodology to academies could be implemented.

Q64 **Chair:** Can I come in here? I declare my registered interests. The Inland Revenue have just required all private small businesses to move to a 31 March year end. I have just had to spend a huge amount of money on accountants to produce an 18-month set of accounts. It is a one-off—next year it will be a lot easier—but surely what is sauce for the goose is sauce for the gander. If the private sector is being forced to do it by HMRC, why are you not taking a much tougher line on these academies and further education institutions?

Conrad Smewing: The point is the one that you made. I think what you are referring to is basis period reform for corporation tax. I do not think the Inland Revenue is forcing anyone to hold two sets of accounts, and certainly not in perpetuity, whereas, given the position for academies, we would be forcing them to do two sets of accounts in perpetuity, just for the purposes of the WGA. So on the proportionality point, it falls on the other side of the line.

Q65 **Chair:** But IFRS 10 requires all consolidated accounts statements to be within three months of the year-end of the consolidated accounts. Academies have their year-end in August, so that is a lot more than the three months. Effectively, until you can remedy that matter, you are bound to have a qualification on these accounts. The whole thrust of this hearing is to try to reduce these disclaimers and qualifications, and this seems to me an area where you could reduce the qualifications.

Conrad Smewing: I definitely agree that we are keen to get qualifications and disclaimers off as much as we can, but we do need to be pragmatic about the level of burden that it would put on the academy sector—

Q66 **Chair:** HMRC were not worried about the burden it put on small businesses.

James Bowler: You raised this last time, Chair, so I have an email here from HMRC. They would assert—but who knows—that: "The new system does not require two sets of accounts. Businesses can continue to choose the accounting period that is right for them."

Chair: That was not the advice that I got, but I will go back to my advisers and see. Anyway, thanks for that clarification, permanent secretary.

James Bowler: It's all these accountants.

Chair: Well, maybe HMRC might produce an answer for me. Anyway, thank you.

James Bowler: That might have been selective quoting on my part.

Chair: Nevertheless, having done that, it is a one-off thing and I do not see why these academies and further education colleges should not be strongly encouraged to do the same.

Q67 **Anna Dixon:** Moving on to the issues around liabilities, the WGA has about £4.9 trillion of total liabilities. A very significant proportion are pensions. I would be interested to see the split between the funded and the effectively unfunded pension liabilities that the WGA exposes.

Some written evidence on this from the Institute of Chartered Accountants makes the point that, due to the discount rate, it is very difficult to actually see, transparently, the shift in pension liabilities due to public sector pensions. The majority of those are unfunded schemes, in the sense that it is today's contributors and taxpayers who are having to pay the money. They suggest that, actually, if you did do the calculation, there would be an additional £117 billion added in 2022-23 for those public sector employees, but that is not very visible on the face of the accounts. Is there anything more you could do to show the real increases in pension liability, rather than the apparent reduction in liability due to the change in the discount rate?

Conrad Smewing: We touched on this a little earlier in the hearing, but for the accounts themselves, we are bound by the accounting rules. The discount rate that we use does have a significant impact on the provision. As I said earlier, it has reduced it by £1 trillion. I think the discount rate is going up again in 2023-24, so again, the provision for public sector pensions will reduce as a result of that. We are very happy to look at ways in which we can sort of split that out even more clearly in the performance report, so that users can see what is going on in the underlying cash flows as well.

However, I would repeat the two points I made before. First, although the WGA is a very good way of thinking about public sector pensions, it is not the only way. The OBR's fiscal sustainability report is a very useful alternative lens, which looks at those cash flows without discounting them.

Secondly, the change in the discount rate is telling you something: it is a change in the way you should value future cash compared with cash today. So I would not say that the information that is a result of the change of discount rate is useless. I totally agree that it needs to be separated out from what is going on in underlying cash flows.

Q68 **Anna Dixon:** This is a similar point on pensions. Obviously, actuarial assumptions—in particular, things like assumptions about life expectancy—can also make a very significant difference. In terms of the assumptions that underpin this in the WGA, how they have changed, if at all, and do they materially affect the assumptions about the liabilities? Is your method similar to that used by the OBR, or do you have your own WGA method, and how transparent is that for readers?

Conrad Smewing: What we tend to do for these evaluations is to get the Government Actuary's Department to do all the work for departmental accounts, the accounts of the pension schemes themselves, feeding through into WGA. They also will be doing all the underlying modelling for the OBR's analysis. We have one centre of deep expertise on public service pensions, and it is one set of assumptions underlying all that. I don't know whether there is anything you would add, Andrew?

Andrew Cartner: Just a couple of points. This goes back to what we were saying right at the start of the session about some improvements we have made to how we present this in the WGA, but we are going to take these points away to see what else we can do. On page 73 of the WGA, a chart shows how the pensions liability has moved over the year. You can see the big line in there that is a revaluation loss—about £1.3 billion. The majority of that is due to the discount rate. More detail in notes is on page 241. That is where we get into some of the detail around the underlying causes.

You talked about actuarial changes and assumptions. The Report talks about the assumed rate of pension increases and the assumed rate of pay rises. That has reduced in this financial year's calculation, because of those actuarial assumptions. This is in there, but I think it goes back to the point we talked about earlier: how can we make it a bit more accessible? We will take that away.

Q69 **Chair:** I was going to ask about this. You have little bits on pensions all over the place in the WGA. On your system of producing the consolidated accounts with a note, surely a note would take you to all the bits you would want to know about pensions; you would go to that note and you would get the whole lot, rather than having to look at different bits of the accounts. Could you consider a change in the way you present that kind of information?

Andrew Cartner: Certainly we will look at that. The back part of the WGA—the accounts and the notes—is very much produced in line with IFRS, so we do that in a certain format, but certainly, regarding the content that we put in the performance report, bringing that together in summary level and cross-referencing it, we will have a look at how we can improve that.

Q70 **Anna Dixon:** I want to go beyond presentation—although that is important—to look at what you are doing to manage these underlying issues. Let's stick with pensions. What actions are you taking with Departments about some of these very large liabilities in terms of the unfunded pension schemes?

Conrad Smewing: There was obviously a very big reform to public service pensions in the 2010s. This moved them from final salary to career average, changed the uprating and made a number of other changes, which reduced the cost of public sector pensions. That kind of large reform is not something that you want to do repeatedly, because you want a stable and relatively clearly understood pension offer for public sector workers, so the terms of the pensions themselves are relatively stable. The question for management is all about, essentially, how many people you are employing—that side of things—and that is something where the system that the Treasury operates charges Departments for the contribution to the pension, so that they are exposed to the marginal cost of hiring more people and therefore increasing the net public service pension liability. In that way, they can properly trade off the full cost of employing someone, not just the salary but the accrued pension, which I think is that current service cost in that graph. They are charged the full cost of that. Therefore, if they can find ways to do the same thing with fewer people, they are incentivised by getting the full benefit of not employing those people.

Q71 **Anna Dixon:** Obviously the direction is hiring more doctors, nurses, police officers, so are there projections and assumptions about workforce growth that arise from changes in Government policy built into this?

Conrad Smewing: There should be some workforce growth projections. I confess I have not checked quite how we are producing that.

Q72 **Anna Dixon:** Okay. Perhaps you could follow up in a note on that point. Thank you. The most significant other contingent liabilities—if I could come to those briefly, Chair; I am conscious of time—are: first, nuclear decommissioning, which is some £18.5 billion or around 27% of the amount; and secondly, clinical negligence, which again relates to the NHS, which is some £33.4 billion, getting close to 50% of these contingent liabilities. Can you say anything about actions being taken on looking at how accurate these are, when they might be crystallised, and what actions can be taken to reduce those future liabilities?

Conrad Smewing: On the nuclear decommissioning liabilities, that is the responsibility of the NDA. They do a number of things to try to make sure they have the most accurate estimate of those liabilities. I think there have been changes in the valuation of the liability in this WGA as a result of the NDA reviewing costs at some of their sites and seeing how much and how long they think it will take to do the nuclear clean-up. They do a lot of work to ensure, to the best of their ability, the accuracy of the liability. Then there is an ongoing discussion between the Treasury, the Department for Energy and Net Zero and the NDA through spending reviews on how to do this most effectively and efficiently with the cost of the liability as it comes due.

On clinical negligence, this liability arises from negligence in the national health service, so even leaving aside the financial costs, there is a very strong desire and drive in the health service to get that down as far as possible. Obviously, the financial consequences are also an important consideration. The primary way in which I think the Department of Health and Social Care and the NHS approach this—obviously, you should speak to them rather than me—is the patient safety strategies and making sure that the number of incidents which can lead to this liability is reduced. NHS Resolution also looks at ways to manage this more effectively and reduce the burden and legal costs around reaching a position. That is the other area they look at.

Q73 **Anna Dixon:** As the co-chair officer for the APPG on patient safety I commend you as somebody in Treasury with this understanding, but I think it is perhaps not as high profile an issue with the Department of Health and Social Care and NHS England. The result of not paying attention to patient safety and of not having the right culture is enormous, not least in terms of the damage to individuals. Particularly with maternal outcomes, the tragedy is those are lifetime costs, so that is a large part of this. A lot of the costs are coming from maternity safety issues. Well done for answering that question, but obviously there is a lot more to do.

Again, I am afraid there is this discounting issue on these figures, which suggest that the liability has been more than cut in half from 2021-22 of £75.2 billion to £33.4 billion. That is mainly as a result of the discount rate. We need to understand whether we are going in the right or wrong direction overall on clinical negligence, for example, or on nuclear decommissioning—although I think that is something that could be managed down over time, whereas at the moment I do not think clinical negligence is. As you say, there is at least some good news in there that the majority of cases are being settled without going to litigation. People do not like a lot of public money going to the lawyers, so we are making sure that more of that money goes to the families that need it.

I do not know if there is anything else colleagues wish to raise, particularly on contingent liabilities, or whether you want to offer any further actions that you are taking?

James Bowler: This is precisely one of the big uses of Whole of Government Accounts, which is to shine a light on these future fiscal risks and then get into what you can do about them. I take your point about the discount rate, and we have rehearsed the issues around why we discount it.

I think it is in the Whole of Government Accounts that claims are down a little bit, but claims in clinical negligence quadrupled over the 17 years prior to that. As you said, on NHS resolution, 80% of claims are now resolved without court proceedings. The cost of legal fees for those was north of half a billion pounds.

I am no expert—you will know a lot better than me—but I think there is a three-year maternity plan, which is essentially about midwives and getting in the workforce that might reduce those things. This is exactly where we are keen that the Whole of Government Accounts bites and effects change.

Q74 **Anna Dixon:** I hope that through discussions with the Department of Health and Social Care, we will make sure that it does bite in terms of taking patient safety seriously. Thank you.

Andrew Cartner: One further point on that, on your question regarding the accuracy of the estimation of contingent liabilities in the WGA. We have UKGI, which has a centre of expertise in contingent liabilities that works closely with Departments, the Nuclear Decommissioning Authority, and the DHSC, on how they estimate these in terms of the assumptions regarding the risks that may materialise.

There is an active programme of work with experts on how you value these. That work is ongoing. It is due to publish a report in March with a lot more detail around some of these things.

Q75 **Chair:** You were referring to clinical negligence and nuclear decommissioning on page 259, for those who are following.

Can I come back on your comments on nuclear decommissioning, Conrad Smewing? In recent years, this Committee has twice been to Sellafield. We are going again in February. My impression was that this is a huge business up there in Sellafield, and it is all very difficult because it is to do with health and safety. However, I did not get the impression that there was real pressure to drive these future liabilities down. I am wondering what more you can do in the Treasury to see how these costs can be driven down to a minimum. You may want to come in on this, permanent secretary.

Conrad Smewing: I definitely think that both the annual cost of decommissioning to the NDA and the long-term liability—thinking about if you are doing something today that is going to push up costs in future—are a crucial element of every spending review discussion we have had with the Department for Energy Security and Net Zero.

There is a real drive to do that as efficiently, and with as much value for money, as possible. I would be very interested in anything you learn from your visit and further ideas that you have. As you say, it is a huge amount of money, and it is an ongoing program which is going to last many decades. If there are other ways that we can do it more efficiently, we would love to do so.

Q76 **Chair:** We will keep our eyes open. As the person who, more than any other, has to scrutinise these contingent liabilities on behalf of Parliament, what are you doing to manage all of them when you enter into a contingent liability and as the process goes along? What are you doing to manage them, to make sure that they are kept as low as practically possible? I do not think there is an official sign-off. For the big ones, I would expect there to be an official sign-off, so that everybody knew that that particular liability was extinguished.

Conrad Smewing: For contracting contingent liabilities, there is definitely a control framework. We have done two big things in this area in recent years. The first one is setting out the contingent liability control framework, which requires approval from the Treasury to take out large contingent liabilities above a threshold. We have also looked to synchronise decisions on those contingent liabilities with fiscal events—spring statements and Budgets—so that you can take decisions on incurring those kinds of fiscal costs in the round with the broader fiscal position.

The second one is the creation of the central capability, which Andrew was referring to, in UKGI, who do a number of things. First, they bring together reporting on all of this in a much more accessible way and shine a spotlight on these liabilities. Secondly, they offer expert support to Departments who have one of these things coming up to think about valuation, about charging—if this is the kind of guarantee where it might be appropriate for the Government to charge the recipient of the guarantee, what is the right price to do that?—and about the management of the liabilities themselves once they have been taken out. That is the main area of work that we have done on these things.

Q77 **Chair:** Thank you for that. I have a couple more questions about the presentation of facts in the Report. Many things are mentioned in these Reports, but some of them do not have, in my view, a good enough explanation. To give you one example, I was looking to see if I could find out what the liabilities to the European Union were, and I could not really get it from the information. The next question I am going to ask about is the Bank of England asset purchase facility—I am going to come to you in a minute, permanent secretary, to ask about what you have done there—and I would have welcomed a bit more explanation as to what exactly it is. I went on to the internet and I now know an awful lot about it, but one of the things about making these accounts accessible is not having to do that. You should be able to get it from the accounts themselves. I am wondering whether you could consider that in future Whole of Government Accounts.

Conrad Smewing: We definitely could, but we obviously need to strike a balance. They are already quite long.

Chair: I get that.

Conrad Smewing: But definitely, for areas that this Committee, other parliamentarians and other users are interested in, we try to explain them as well as we can. We should also be linking to other places on the internet where you can get more information. I am very happy to look at doing that.

Q78 **Chair:** Permanent secretary, I think you are probably the best person for this question. This is a slightly fast ball, but looking at that paragraph on page 271 on the Bank of England asset purchase facility, I am wondering why you crystalised a loss of £45 billion in one year, up to April 2024, when interest rates were at a reasonably high level. Why did you decide to crystalise that in one year, rather than spread it over a number of years? It is a big sum of money.

James Bowler: I have not caught up with that paragraph.

Chair: I am happy if you want to write to me.

James Bowler: First, on your point about where the information sits, in the Treasury's accounts, you will have more information about EU liabilities and the asset purchase facility. We go into more detail. I am flipping to my Treasury Committee answers now.

Chair: We are happy if you will write to us.

James Bowler: I am very happy to. The answer is akin to the fact that the asset purchase facility is part of monetary policy and the decisions are made as part of monetary policy—independent of Government. But it is complicated, so why don't I set it out for you?

Chair: That would be really helpful. Do colleagues have any more questions?

Q79 **Anna Dixon:** I do not know whether this was highlighted when you discussed discount rates earlier, but obviously, as we come to the end of this session, the value of the Whole of Government Accounts approach is to give us a big picture of where our net position is. According to the Institute of Chartered Accountants, if you looked at the accounting loss, excluding those discount rate gains, we are talking about some £200 billion—equivalent to 20% of revenue. That is a very different presentation from what you would otherwise get in the national accounts. It comes down to this question of whether we really understand our true position, which is effectively that we are still, as a country—or have been, in 2021-22 and the years that we have been looking at here—spending an awful lot more than we have coming in, so it is not sustainable.

Conrad Smewing: I would say two things about that. One is that for the ongoing deficit, I think WGA is an interesting source, but probably the best thing to look at is the Office for Budget Responsibility forecasting of the deficit. The key things that matter are, yes, what is the deficit today, but also what are the prospects for it over the next three, four or five years, given expected Government policy, including changes in policy?

The OBR forecast that accompanied the autumn Budget last year is the place I would first go for that key question that you are asking, which is: what is the sustainability of the position? Are we spending more than we are getting in, and is that sustainable? Obviously, the Government took a great deal of action in the Budget in the autumn to set the public finances on a much sounder footing to meet fiscal rules forecasting for 2029-30. That is the place that I would go first for that kind of thing. WGA can shine a light on the edges of the public finances, but that core sustainability question is best answered—

Q80 **Anna Dixon:** But you would not read anything too much into the figure that I just cited? What perspective does it give in addition to the OBR perspective, which you are saying is really the one? The Chancellor has made it very clear that the most important thing is the fiscal rules and whether we are meeting them.

Conrad Smewing: I think it picks up the same underlying position. They both reflect the underlying deficit. The WGA figure is a broader figure, because it includes things like the increase in the pension liability as a result of accruing a further year of that. It adds something to the OBR forecast, but in terms of what the Government is doing to set public finances back on a stable footing, I think the Budget and the Budget forecast are the primary gauge.

Q81 **Chair:** I am grateful to Ms Dixon for that question, because there is a really worrying statement here on page 37, which I will quote. It says, "Debt Sustainability: Demographic pressures, adapting to climate change and rising geopolitical tensions are projected to increase pressures on the public finances over the next fifty years"—this is the important bit—"and put public debt on an unsustainable trajectory, on the basis of policy at the Spring Budget in March 2024 and in the absence of policy action to mitigate the rise in debt." The OBR has said that on current projections, debt will treble in the next 50 years. I am just wondering how seriously that is taken, permanent secretary, within the Treasury.

James Bowler: Very seriously. This is the OBR's fiscal sustainability report. It does a 50-year forecast, and it looks at what happens if everything stays the same. The type of issues it raises are an ageing population, the demands on healthcare given an ageing population, climate damage—I think it did another spotlight on that—and other things. Essentially, it projects current policies going forward, and the main takeaway from it is that you are going to have to do some things differently.

Q82 **Chair:** Absolutely. What is that something different?

James Bowler: Then you get into very long lists of issues: adult social care, for example; an ageing population; prevention, not just paying for things; and a whole set of things. Certainly, fiscal sustainability is pretty much the foundation of most of what we are looking at in the Treasury, other than growth. We are one of many countries with an inheritance of covid and energy that means we need to get to a more sustainable position now, but we also need to look to the future and look at some of the big cost drivers coming our way and what we are going to do about them.

Chair: This is a very big question, and I am absolutely certain that this Committee and other Committees will be coming back to it. You have all been very generous with your time today, and I think this has been an interesting session. We will be reporting on this in the next few weeks, with some recommendations, and it will be very interesting to see how this session has perhaps changed the presentation of these important numbers. I am really grateful to all of you, and particularly you, permanent secretary. You are all really busy people. The uncorrected version of our transcript will be up and running on our website in the next few days, and our Report in due course. Thank you all very much.