HOUSE OF COMMONS

Treasury Committee

Oral evidence: Work of HM Treasury, HC 687

Wednesday 12 February 2025, Darlington Economic Campus

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; John Grady; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 1-131

Witnesses

I: James Bowler CB, Permanent Secretary, HM Treasury; Beth Russell, Second Permanent Secretary, HM Treasury; Sam Beckett, Chief Economic Adviser, Head of the Government Economic Service and Second Permanent Secretary, HM Treasury; and Conrad Smewing, Director General of Public Spending, HM Treasury.

Examination of witnesses

Witnesses: James Bowler CB, Beth Russell, Sam Beckett and Conrad Smewing.

Q1 **Chair:** Welcome to the Treasury Committee on Wednesday 12 February 2025. We are delighted to be at the Darlington Economic Campus, which is a Treasury and other Department hub in Darlington and part of this Government and the previous Government's desire to take jobs in the civil service out of London. We are really pleased to be joined by some key witnesses from the Treasury today to look at its work as part of our scrutiny of it.

I am pleased to welcome James Bowler, the permanent secretary at the Treasury; Beth Russell, a second permanent secretary at the Treasury, who is permanently based here in Darlington; and Sam Beckett, the chief economic adviser and head of the Government Economic Service and a second permanent secretary at the Treasury. They are joined by Conrad Smewing, who deals with public spending in the Treasury. You have welcomed us, so on behalf of the Committee I thank you for the warm Darlington welcome today.

Before we get into our main inquiry, I need to raise a serious matter with you, permanent secretary. Bloomberg is currently running a story about what the Office for Budget Responsibility has forecast. We expect that forecast to be published on 26 March, and the Chancellor has already said that she will come to the House to talk about that forecast, but the OBR says it has had a leak from that forecast. Our understanding is that there has never yet been a leak of information from the OBR going to the Treasury; it has always been revealed only on the day that it was expected to be published. Do you have any further information about how that information may have gotten into the public domain, and what are you going to do about it?

James Bowler: It is vital that the Government and the OBR have the private space to develop forecasts, economic and fiscal, in time before there is an OBR forecast. By its nature, that is a private undertaking, and it is important that that is kept in a private situation.

I am aware of the Bloomberg article. We will be investigating that and following it up as a potential leak, and we will be inquiring about that. It is important to do that, because, as I said, it is important to put a ring around these forecasts and ensure that they are not in the public domain. The reason for that is that the OBR, Ministers and officials need to interact with each other as new information becomes available. They need to do that in privacy, so that would be a serious and very unwelcome undertaking.

The right thing to happen is for the OBR forecasts to be published for the first time on 26 March, in this case, and for the Government to respond to Parliament as the Chancellor intends to do. I take any suggestion of a leak very seriously indeed, and we will be investigating it.

Q2 **Chair:** Thank you. One of the things here is that the leak has come out now—it is not the final forecast, because the timings mean that the latest forecast would come out just ahead of the actual publication. If there has been a leak and we believe what Bloomberg has said, it would be a draft forecast at this point.

James Bowler: Yes, that's right. The OBR does three rounds of both economic and fiscal forecasts. It sends an agreed timetable and a forecast to Treasury Ministers of, first, the economic situation, and about a week later the fiscal situation based on that. That builds, and they both reflect judgments that it is making on the data that it has in mind in any interaction it has with the Treasury.

That process has been going on since the inception of the OBR. It is very important that that is a private process. You really do not want to give a running commentary on that or publish things as it goes along, because that would be extremely market-sensitive and therefore deeply unwelcome.

Q3 **Chair:** If there has been this leak, as Bloomberg said, will you also be working with the OBR? Do you expect it to do a leak inquiry as well?

James Bowler: I think we will cover that. I am not suggesting that the OBR has leaked this information.

Q4 **Chair:** We do not know where it has come from, do we?

James Bowler: I don't know. Is it the case that, having seen this forecast, someone has talked to that thing? We keep these things under really quite tight secrecy.

Q5 **Chair:** How many people will have seen this forecast?

James Bowler: People in the economic, fiscal and budget teams. I will not give you an exact number because I will get it wrong.

Chair: Tens of people. Perhaps under 50—something like that?

Sam Beckett *indicated assent.*

Chair: And anyone in the OBR might have seen it, because a lot of them are working on it.

James Bowler: Yes.

Chair: So there is a pool of people who might have to give evidence.

James Bowler: We will undertake an inquiry and I am happy to communicate the outcome of that.

Chair: Please keep us updated, because it is a serious matter that, as you say, has market-sensitive impacts. Thank you for that.

We now want to move on to our main inquiry, which is broadly on the work of the Treasury. As we are delighted to be here in Darlington, you might expect the Member for Darlington, Lola McEvoy, to be keen to kick off with questions about what is going on here. Over to you, Ms McEvoy.

Q6 **Lola McEvoy:** Thank you. Here we are today at the Darlington Economic Campus, a flagship of devolution from Whitehall to the regions outside London. The Chancellor says that it is her second office and the second base of the Treasury. Could you give us some indications of what success looks like for this for this project?

James Bowler: Can I say something up top? Then, it is important that the person who has been the author of much of that success, Beth, comes in. First, thank you very much for coming here. It is a historic moment for this campus that you are questioning us here.

We are very proud of what we have built in the Darlington Economic Campus. It has gone from nothing in 2021 to now 333 people—just under 20% of the Treasury is located here. We have combined senior leadership with strong employment from the region. That is delivering a much wider and better view of policymaking in particular to the Treasury. We have people from different regional bases with different backgrounds, and people who would not have been civil servants otherwise now advising us. That is probably the key measure of success.

Other things to point out include that we work hand in glove with eight other Departments, which means that it is an economic campus, not just the Treasury. That is a really good focus for how the whole of Whitehall—I shouldn't say Whitehall; the whole of Government—should work in future, where the famous silos are broken down. Beth, do you want to pick up on the successes?

Beth Russell: I will start on the numbers. As James said, the Treasury now has 333 people working here. Our ambition was always to get to 335, so we will be pretty much at that point by March. That is one part of the campus—the fact that we are a campus across nine Government Departments is really important. We now have 1,000 people across the Departments that are newly located in Darlington. That is on top of the 700 Department for Education officials who already worked in the town. The ambition is to have more than 2,000 civil servants based here in Darlington across the nine Departments over the next period of time, and we are on the way towards that.

As James said, it is not just about providing opportunities for people who previously could not think of working in the civil services to have a job here. It is also about the impact that that has on the Treasury and other Departments, in terms of insight and experience into policymaking. A really important part of us being here is that we have a very different set of relationships with local government and businesses in the region. Again, we are getting different insights and having different conversations and different types of engagement with people in the community and the wider region. That is beneficial to us and is part of bringing Government and the civil service closer to people who are not so au fait with what we do in Government. That is a really important part of this too.

Q7 **Lola McEvoy:** Thank you for that answer. It is clearly a source of great pride for you and the Government more widely. I just wanted to probe a bit into the recruitment of the people who are working here. Can you tell us a bit about the breakdown of where they are from?

Beth Russell: Of the 300-odd Treasury civil servants, about 40 of us are people like me who have relocated from London, where we were previously civil servants, but 85% of the people working here in the Treasury—I think it is pretty similar across other Departments—are people we recruited directly in the region. The vast majority of them were not civil servants before. They have all sorts of previous career experience. There are those coming in mid-career from other bits of the public sector, the private sector and the charity sector. We have also brought in quite a lot of people through the apprenticeship route. Across the campus, we have 80 people doing apprenticeships at the moment, and in the Treasury we have had about 50 so far going through apprenticeship programmes.

We have also recruited into the Treasury through our graduate recruitment programme. This year, we took twice as many graduate recruits in Darlington as we did in London, so we have a pipeline of graduate recruitment.

Q8 **Lola McEvoy:** That's great. You said that about 85% were recruited from the region. Is that the north-east? Can you give a bit more clarity on that?

Beth Russell: I would say that our travel to work area is quite big—up to Newcastle and down to York. Some people come across from Leeds, and obviously lots of people live in Darlington. It is a relatively wide travel to work area, and we say that people have to spend at least 60% of the time in the office.

Q9 **Lola McEvoy:** So do you think it would be fair to say that this is really the northern hub of the civil service in the country?

James Bowler: Economically, yes. There is a massive public sector presence in Leeds with the Department of Health and Social Care, and in Sheffield with the Department for Education, but for economics it is.

Beth Russell: The thing that has been different about the wider Places for Growth programme over the last few years—moving civil servants out of London—is that traditionally there were lots of civil service jobs outside London, but they were mostly operational roles, whereas for the first time we are moving big swathes of policy roles and more senior civil service policy roles. That is particularly encapsulated here.

Q10 **Lola McEvoy:** I do not want to jump the gun, but is the ambition to have representation from the senior levels of every Department in Darlington when you open the Brunswick site?

Beth Russell: It is called an economic campus for a reason: there is a real advantage in clustering Departments that work on similar things. One of the things that we can take real advantage of is the fact that every Department here is an economic Department in the broadest sense. There are lots of synergies between the different Departments' work, and we are really trying to break down the siloes between Departments by being co-located here. That is quite a strength. Whether over time you have other, non-economic Departments—one might say that every Department is an economic Department—

Q11 **Lola McEvoy:** The spending review certainly suggests that.

Beth Russell: We definitely say that every Department has an impact on growth. At the moment, we are nine Departments. Obviously, when we build the new building we will have more space here, and I am always keen for more people to join us. Darlington is obviously one of the 12 Places for Growth locations around the country where we are focusing on moving civil servants outside London. There is also a drive to put more policy civil servants in Manchester, Leeds and Sheffield, alongside Darlington.

Q12 **Lola McEvoy:** You mentioned the crucial word growth there. Can you give us a little bit of an outline of the impact the Darlington Economic Campus has on growth in our town?

Beth Russell: There are a couple of things on that. One is that we are providing jobs that would not otherwise exist—public sector jobs and opportunities. If you asked Darlington Borough Council, they would say that they have definitely seen an uptick in private sector interest in locating in the town. Obviously, by being here we also create economic activity—you all had a nice lunch from the deli around the corner—so, that is also making a difference. I do not think that we should overstate the immediate direct growth benefit, but there is definitely some. Beyond that, it is about us better informing policy on growth, as we are here with different relationships and are recruiting different people with different insights.

James Bowler: The one thing I would add, which I think is a real positive, is the community and business outreach that comes from here. There is really quite impressive engagement from all the Departments—Treasury in the lead—on business and community outreach. To be blunt, I am not going to see Westminster City Council in London all the time, but I think here there is much better business outreach and business links. With that, you are getting a better understanding of growth challenges and opportunities, what business thinks, and what the community thinks, and that is really feeding into that. That goes with a really good schools and college outreach—we have doubled our graduate intake locally, for example.

Q13 **Lola McEvoy:** That is brilliant. Obviously, this is the Treasury Committee, but with the wider Darlington Economic Campus, outsourcing the facilities management staff is a cause for concern. When you outsource facilities management staff, they do not have the same terms and conditions as the civil servant staff who are here. I wonder how that decision aligns with the drivers for growth in the area and providing good quality jobs that people might not otherwise have got.

Beth Russell: The building and its facilities are managed by the Government Property Agency on behalf of all the Departments. They then contract the contractors who provide the services here. We hold the GPA to account for ensuring that those services are delivered and delivered in a way that supports the people that work for them. One of the things that is noticeable about the economic campus, and a brilliant part of it, is how much of a team we are across our facilities, IT, and catering staff—who are very much part of the DEC team. It is something we will keep an eye on to make sure that there are no issues.

Q14 **Lola McEvoy:** Is there a plan to align those terms and conditions for the facilities staff at the DEC with the civil service terms and conditions?

Beth Russell: That is something we would have to pick up with the Government Property Agency—we are happy to do that.

Q15 **Lola McEvoy:** Great. When those decisions are being made on the new expansion and the new property, has any thought gone into ensuring that the jobs in every tier of the new opportunities are good, skilled, well-paid jobs?

Beth Russell: I know that the work on building the new building—which is obviously the focus at this point—is something that the GPA are thinking quite a lot about. In fact, when they refurbished this building they used a lot of local labour, local small and medium enterprises, and lots of local apprentices. We would expect the GPA to be doing the same with the new building.

Lola McEvoy: I am very glad to hear that, given the power of public procurement as a lever for growth.

Q16 **John Glen:** I acknowledge the massive progress over the last four years, which Ms Russell has done a massive amount of work to achieve. Can I ask you about the connectivity to Ministers and policymaking? One of the concerns is about how many people here can serve as private secretary or assistant private secretary to Ministers—that may be a metric for the positive direction of a career. Could you say something about that and how you ensure you give career paths that can lead to where you are?

Beth Russell: Absolutely, the ambition is that you should be able to have as good a career here as anybody in London, up to the most senior levels. We think quite a lot about that. The driver for the Treasury is that any job can be done from here, including private office jobs to an increasing extent. We have had a few examples of people doing jobs in Ministers' private offices, such as diary secretary and assistant private secretary. It is quite hard doing that from here, when Ministers are predominantly based in London and Parliament is in London, and Parliament is very in-person. We will keep trying to make that work in different ways, but until a time when Ministers are predominantly based in another location, it will be much harder to replicate that here.

Those jobs are very small in number, though, and we try to offer different opportunities. For example, we have a lot of jobs here where people are private secretaries to senior officials like me, which is another way of getting that kind of experience. The number of jobs that are more difficult to do from here is very small, and apart from those, any job in the Treasury can be done from here. In fact, we have targets for every team to have roughly 17% to 20% of their team and their group based here.

Q17 **John Glen:** Does your structure replicate what we see in London?

Beth Russell: Yes.

James Bowler: You will be only too aware, but it is probably worth saying, that the thing that absolutely allows us to ensure that the vast majority of jobs can be done from here is that our expectation, which Ministers share, is that Ministers are totally happy to be agnostic about where a policy official, at any grade, is located when that official briefs them and when they engage. At every meeting that a Minister or senior official has it, is absolutely par for the course that it will have a screen, laptops and people coming down the line. It is not the case that if you want to brief the Minister, you have to get on the train to do that. Covid pushed that breakthrough forward to a certain extent, but it has been followed through. There has been a massive change from how Ministers used to work, even quite recently. That is the key for success in making sure that every job can be done from here.

Q18 **Rachel Blake:** You said that you do not want to overstate the regional and town benefits to having the campus here, but some evaluation shows that 67% of people have noticed a benefit, and it talks about some of the benefits you mentioned, including to local purchasing and local industries. Has any thought been put to doing an assessment of the agglomeration benefits of being here, perhaps alongside other civil service functions, and the impact that that could have on the regional economy?

Beth Russell: Yes. At the moment, a lot of this is anecdotal, because we are only three years in and this is a long-term project. We have done some evaluation, but it has been quite qualitative so far. The borough council has started some evaluation, but I am not sure when that will be published. I wasn't saying that there is no impact; I think there is a big impact. There is a big impact on how the town feels as well. We are part of a story about how the town is changing for the better, and we are contributing to it. I am really proud of that. It is a bit difficult to quantify at this stage, but we will definitely keep looking at how we can do that.

Q19 **Rachel Blake:** There has been a discussion about the policy benefits of being here. You have talked about going to Westminster City Council a bit less—

Chair: The permanent secretary might have forgotten you were in the room.

James Bowler: I am sorry about that—I feel a letter coming on.

Rachel Blake: I might have an opinion about the scale of the visitor economy in central London and the impact on local government finance. To pursue that, could you characterise or explore with us the policy benefits of that wider and, we would all argue, more thorough perspective on the stakeholders?

Beth Russell: Making policy is a bit like a sausage machine: lots of different things go into it. A lot of our policy advice is based on analysis and evidence, but it is also based on our own personal experiences and those of the people we talk to and hear from. I have two main points about that. First, we are recruiting different types of people from the people we would recruit in London, with different work and personal experiences. They are writing and giving advice from here to Ministers on all sorts of different policy issues, which is important in itself. That contributes to the debate we have within the organisation about policy issues, with different perspectives coming in. For example, we do quite a bit of red teaming of policy issues. Having people from here contributing to that with different regional and other experiences can only make our policymaking better.

My second point is about the relationships. The insight we get from the people we speak to here is different from, as James said, what you get from the people you speak to when you are based in London. I have a completely different set of relationships now than I had three years ago in London, whether it be with regional or local government, mayors around the north, different businesses and so on. There is loads more we can do on that, but I think that is the other really big difference in being here.

Q20 **Rachel Blake:** I am not going to push you to quantify the impact that it has had, but you have just mentioned devolution and devolved authorities and a more devolved approach to policymaking. Could you give an example of how it has changed thought within the Treasury?

Beth Russell: The example I give is more about how we are managing the relationships rather than the substance. One of the things that I have been keen on, not least as a result of the insights from being here, is that the Treasury at senior level now has a sort of buddy system with all the mayoral combined authorities and the mayors. You often hear people say about the civil service and Government, "There are all these different Departments. Who do I speak to? How do I navigate the system?" We have a set-up now in the Treasury where a senior director general or director has a personal relationship with each of the CEOs of the combined authorities. That is one example.

On the other thing we are doing, particularly with Manchester, I am leading with Sarah Healey, the permanent secretary in MHCLG, a task and finish group to look at further devolution in Manchester, which will then be a basis for thinking about what we do with other mayoral combined authorities.

Q21 **Dr Sandher:** Thank you for being here with us today, Ms Beckett. My opening questions are for you. Growth is the No. 1 mission of this Government; the Chancellor has clearly stated that, and of course the Treasury has a huge role to play. Will you set out briefly how you evaluate the growth impact of different policies? I am specifically interested in investment decisions.

Sam Beckett: Certainly—let me take you through some of our thinking there. Growth in the UK has been sluggish for a number of years. It is common to a lot of advanced economies that since the global financial crisis and the series of shocks we have suffered subsequently—the pandemic and the energy price spike—we have had quite sluggish growth. In the UK, that manifests itself predominantly as a productivity issue, as I am sure you are aware. Productivity is 19% lower than in Germany and more than that than in the US. On the diagnosis for growth in the UK, we have been thinking about productivity, particularly capital deepening, so investment and looking at the investment picture has been a key part of the Government's early policy.

We have seen relatively weak business investment. That is why the growth mission is doing all the right things on this structural growth issue. We look at stability and getting the public finances on to a more sustainable footing. The Bank gets inflation down, but we make sure we are not pulling against that. We look to support investment, so there was a lot of that in the autumn Budget. There has since been a lot on planning reform, which is a stimulus to investment and productivity, as well as the other pillars of the growth mission. Investment has been a key part of that, along with stability. I would pick reform and planning reform as a big lever that has been pulled.

Q22 **Dr Sandher:** That is great. I am interested in the methodology used to evaluate those different public investments. The rest of the panel are free to jump in.

James Bowler: Sam is the absolute expert. There is a Green Book that sets out how we go about appraisal and evaluation, and looking at value for money. At times it is much maligned, but when people push it, there are all sorts of responses—it has been updated and it continues to be updated—to make sure that it is up to speed. Regarding the Treasury's role, we will let Departments do it, but if it is over a certain amount, or novel and contentious, the Treasury will have oversight. That is on a project-by-project basis.

Then, when it comes to things like a spending review, we look at investment in the round and at how we want to allocate a particular Department's big-ticket items coming up, setting five-year capital budgets and a 10-year infrastructure strategy.

So, having pushed all that into the ring, colleagues can pick it up, depending on where you want to go.

Q23 **Dr Sandher:** I want to pick up on the Green Book in particular. The appraisal or review in 2020 was very useful; I think the updated guidance is very useful. I am particularly concerned about the benefit-cost ratio. At the moment, we have not had a lot of investment outside London, and there is at least an argument that that is partly because of the methodology of the Green Book. As far as I understand it, the benefit-cost ratio, especially when it comes to transport infrastructure, would value that in terms of time lost, and time lost would be valued as wages. Is that your understanding of what the Green Book says?

Sam Beckett: That sounds like it would be the way that you approach transport issues. Time lost and then working out what that means in terms of income and wages forgone is a great way to monetise those costs. Obviously, that is also how we approach congestion issues.

The Green Book is guidance. It has gone through significant reform to try to make it take account of much wider issues—the environment, wellbeing, congestion and so on—so that it provides a much broader way of helping Departments to think about evaluating their policies. It is a living document, so we are always very open to challenge and reform there.

Come in on the Green Book, Conrad.

Conrad Smewing: Specifically on the benefit-cost ratio question, the review of the Green Book that we did a few years ago, which you mentioned, really wanted to tackle the tyranny of the benefit-cost ratios in project evaluation. It emphasised the importance of the strategic case in investment. In strategic cases, investment is often harder to specifically quantify and boil down into a benefit-cost ratio. If you are looking at something that can transform economies across a very large region but that is not necessarily easily quantifiable, the point of the review of the

Green Book was to say, "Pick your strategic objective and then work out the most efficient way of delivering that objective."

It is not the case that we line up each and every potential investment project that the Government could ever do, from aircraft carriers through to schools through to everything else, rank them by BCR and then pick the top ones. It is more about asking, "What are the strategic objectives that the Government are trying to achieve?" and then the benefit-cost ratio is about what the best way of achieving that is.

Q24 **Dr Sandher:** I appreciate that the direction of policy has been here. The campus here is in itself a reflection the BCR. My worry is about the way that BCR still influences policy decisions. Specifically, if the benefit-cost ratio is valued in terms of forgone wages, transport infrastructure projects in London will always be more highly valued. I am from the east midlands, which receives the lowest transport infrastructure investment in the country. Look at our second cities. Do you see the lack of productivity outside London as a key constraint on our growth?

James Bowler: Yes—without putting words into Mr Smewing's mouth. I think the point is that you can set the strategic case for an investment not just as time lost in commuting. Now, it does not need to be the case that all transport must be measured with the only benefit being the reduction of commuting time, for example. You can set the strategic case as the economic development of the region.

Q25 **Chair:** Those changes to the Green Book rules have been in for a while. Can you give one example, just briefly, of where the change in the rules has meant that we have seen a change—something that perhaps would not have been covered under the old regime?

Conrad Smewing: It is difficult to name a specific example, because you are looking at the entire investment portfolio of the Government.

Q26 **Chair:** Is there something, Mr Smewing, that you think would not have got the green light before the rules changed? Maybe it is too soon, because it was only—I am losing track—two or three years ago?

James Bowler: This applies to quite a lot of regional policy. In particular, the rules are designed to change the fact that, in transport, the only place you invest is where there are large amounts of congestion. It is categorically designed so that that is not the only case. The whole point of that is to stimulate regional investment. I am trying to think of an example, but obviously—

Chair: Perhaps you could think about it and write to us, because it would be helpful.

Q27 **Dr Sandher:** You talked a lot about agglomeration and clustering at the beginning, and I think that is right, but my worry is how undervalued clustering and agglomeration are at the moment in Government evaluation, and that they will continue to be so in spending review policies. I am sure that you guys know all the statistics, but does that not concern you?

Beth Russell: I wanted to add that the Chancellor has announced that we are going to be looking again at the Green Book specifically through this regional angle, so something in terms of both the methodology of the Green Book itself and how the Green Book is used. My instincts are that, although we have made these changes to the rules, the tyranny of the BCR is sometimes the most simplistic way to look at it, and I suspect that that is still what is happening in some cases. That is what we want to be looking at through this review of how we can change the culture of how the Green Book is used, as well as the Green Book itself.

Q28 **Rachel Blake:** I have a quick follow-up. Would the Darlington Economic Campus have got through the Green Book?

Conrad Smewing: Yes.

Q29 **Rachel Blake:** And did it?

James Bowler: It did, and the strategic case is not least that a desk in Darlington—desk, not person—is considerably cheaper than a desk in London.

Q30 **Rachel Blake:** I wanted to ask about growth and the conditions for growth in the co-operative and mutual sector. Do we have the right policy environment for that sector at the moment?

James Bowler: We are doing quite a lot of work, including social impact work and work with academics, think-tanks and the wider sector, on what we can do on growth. Quite a lot of what we are doing in the Treasury is about better engagement and delivery. We are engaging quite a bit with business, but we are also engaging with the wider sectors to make sure that we understand what they think the challenges and opportunities are and how we can help. I guess we are talking about sectors that can spur bringing things together—be the gel that makes communities and other things work. We are particularly interested in doing so, as we are in engaging with business as a sector too.

Q31 **Rachel Blake:** So the sector is on the radar, but the full assessment of any barriers to growth in the sector has not been completed. Is that fair to say?

James Bowler: Yes, I think that is the case. I think there is some sensible work on social impact, social impact bonds and other things, but I do not think that has come to a conclusion yet.

Q32 **Chair:** I just want to be clear, permanent secretary, about the discussion we had at the beginning about the alleged leak of information between the OBR and the Treasury. I understand that it is now being reported that you are saying that the OBR has downgraded the growth forecasts. I just wanted to be clear—

James Bowler: No, I have not said that.

Q33 **Chair:** Yes, I thought you might want to be clear. Could you perhaps be very explicit about what you said, and put it in different words?

James Bowler: I am sorry; I categorically did not comment in any shape or form on the substance of what the OBR might or might not have sent to the Treasury. I did not comment on that. You were asking where a leak might have come from, and I said it was not necessarily the case that it had come from the OBR. I did not say anything on the substance of that. Indeed, most of my remarks were about the importance of keeping that in a private space, so I am very happy to put on the record that I am not commenting on the substance of those forecasts. Thanks for giving me the opportunity to be clear about that.

Chair: Thank you, because that was not quite how I heard it in the room and I just wanted to be clear that I had heard it correctly. I think Lola McEvoy wanted to come in briefly.

Q34 **Lola McEvoy:** I have a question for Beth Russell. How do you think your experience of becoming a fellow Darlingtonian has changed your contribution in your role to things like the levers for growth? I want to know how your experience of the brilliance of Darlington has diversified your views, as you will be contributing to growth for the country.

Beth Russell: A couple of things. I talked earlier about how our policymaking is also related to our own personal experiences. I have moved from central London where I did not drive a car, where I was used to a tube every three minutes and gas central heating and so on, to a village where you are lucky if a bus comes every two hours. I am now a car driver. I know the price of petrol in a way I did not before. That might seem slightly facetious, but those things do make a difference. Our life experiences are a bit different. There are obviously people working in the London office who live outside London, but generally speaking, there is more diversity of life experience now that we have the Darlington campus than beforehand.

The other thing is the relationships point that I talked about earlier. I am having different conversations and getting different insights from different people, and I am definitely feeding that into the policy advice that I give to the Chancellor. I think being here makes me better at my job, not least because I have a different experience now from a lot of my colleagues, and I think I bring that to the executive leadership team of the Treasury and in my advice to the Chancellor.

Q35 **Rachel Blake:** I would like to move on to the spending review. Are you on track for June?

Conrad Smewing: Absolutely, yes. Departments and the Treasury are in the midst of preparations for the spending review. We completed phase 1 alongside the autumn Budget last year. At the moment we are in the middle of phase 2, with Departments focusing particularly on the zero-based review elements. That will all come to fruition in June.

Q36 **Rachel Blake:** I am glad you mentioned the zero-based reviews. For those of us who don’t spend all our time thinking about public spending, I would like to give you a chance to talk about what they are. Also, they are a huge amount of work if done properly. How are you making sure that the Departments have the capacity to do that? Could you start by explaining what a ZBR is?

Conrad Smewing: The zero-based reviews in the spending review are essentially a line-by-line review of the baseline of Government spending. It is often the case in budget-setting processes and shorter spending reviews that all the focus will be on the marginal change, so a marginal increase in spending here—

Rachel Blake: Cut this, grow that.

Conrad Smewing: Exactly. This is different. It is the first spending review where we have done a zero-based review like this since, I think, 2007. Departments are going through the full set of their baseline spending, identifying where they think the highest and lowest value for money elements are, and how aligned it is with the Government's priorities—because obviously there has been a change of Government since the last spending review in 2021—with an eye to shifting money within the baseline from lower-priority to higher-priority spending.

As you say, that is quite an intense exercise. It is one of the reasons why the spending review has had a longer run-up than previous spending reviews. We did phase 1 last year, as I say. We actually started the spending review in the summer last year, and the departmental teams that work on it will be going through that process around now.

Q37 **Rachel Blake:** You talked about low value for money and high value for money. What are the assessment tools for working that out? Building on the discussion about growth, how will you be assessing the slow-burn spending?

Conrad Smewing: It is a range of different things, one of which is how it is aligned with the Government's priorities, which have shifted in some cases. With the priorities for change document that the Government published at the end of last year setting out their highest priorities, there is a question of how spending is contributing to those elements of the missions and foundations—that is one lens. Another lens is about the evidence of impact: what the evaluations of Government policy or different areas of Government spending are saying about how effective that spending is at achieving the outcomes it is designed to achieve. Another lens is around the efficiency of that spending. Another important part of the spending review is whether there is a way of achieving the same outputs of the spending with fewer inputs or lower costs. Those are the kinds of lenses that we are using to look at it.

Q38 **Rachel Blake:** I will give you an example of something that is hugely costly in the short term, but in the long term, investment could change it. Temporary accommodation costs £4 million a day in London. It cannot all be moved through one zero-based review because those are homes and roofs over people's heads. What would the zero-based review approach to that short and long-term challenge be?

Conrad Smewing: That is an absolutely excellent example. One of the important things about the spending review is that it is a multi-year spending review. It is looking four years in the future on resource spending and five years in the future on capital spending. That allows us to look at longer-term shifts in spending. It also allows us to look at where investments might be able to pay off over a longer period of time. Temporary accommodation is a good example where you may need short-term investments in order to get yourself out of more expensive accommodation—where you are paying annually but not able to see the full benefit in the longer run. That will be part of the spending review as a whole. The line-by-line, zero-based review element of it will be picking up where there are relatively large chunks of expenditure—perhaps ones that have grown over the period—and asking how we can do them more efficiently and effectively.

Q39 **Rachel Blake:** But if you were to just look at that line, you would establish that it was not really generating much growth or investment, so you have to look at that line in the context of the longer-term challenges.

Conrad Smewing: As I say, you have to look at it in terms of everything that the Department and the Government are trying to achieve, and whether that expenditure is doing something vital and necessary, as is the case with many areas of spending in Government. You asked about how we can use that to bend spending towards long-term economic growth. I would say a couple of things on that. As I think Ms Russell was saying earlier, all the Departments are growth Departments. In order to have sustainable economic growth you do need effective public services of all kinds. But it is also the case that in the spending review we are looking at where you could shift spending into something that has higher returns or a longer-term strategic growth benefit. That will be a central bit of what we are looking at in the spending review in the run-up to June.

Q40 **Rachel Blake:** Is every Department zero-based?

Conrad Smewing: Every Department is doing a zero-based review.

Q41 **John Grady:** One aspect of the spending review is the challenge panels of external experts. On them are former senior management from Lloyds, Barclays and the Co-operative Group. Who else is on those panels?

Conrad Smewing: There are a range of people on these external panels. Each of them will have a NED from the Department, but they will also have a series of other people on them. You need to strike a balance of enough distance from the Department to have some genuine external scrutiny but also have decent knowledge of the subject area. I can give you a couple of examples. I have not announced all the names, but the Department of Health and Social Care has Richard Douglas, who is the lead NED, Lord Darzi, who did the review last year, people who are chairs of ICBs, and others. DCMS, for instance, has John Kingman, Claudia Arney and other people like that.

Q42 **John Grady:** That is very helpful. It might be helpful if you provided the Committee afterwards with a list of who the challenge experts are.

Conrad Smewing: We can certainly let you know all the ones that have been identified and are public.

Q43 **Chair:** Are there some people who have not been identified? Is that secret, or is it just that they have not been identified yet?

Conrad Smewing: Some Departments are earlier on in the process than others, so some Departments have not fully identified—

Q44 **Chair:** Okay. So these people who are overseeing public spending will all have their names in the public domain, even though they are not civil servants.

Conrad Smewing: Yes, they should.

Q45 **John Grady:** How have these people been selected? At first sight, one might ask how someone from Lloyds Banking Group, for instance, could help with various aspects of public expenditure.

Conrad Smewing: As I say, it has been for each Department to identify who they think is going to be helpful in providing external scrutiny. It is a balance—being close to the subject area but also having a different point of view, to be able to bring something to the panel. That is the process that people have gone through.

Q46 **Chair:** Was it an open process? Did they reach out to people? Were people asked to apply?

Conrad Smewing: I think it varied between Departments. It was largely reaching out to people that they wanted to have on the panel.

Q47 **John Grady:** What process are they going to follow? Is there a standard process for assessing value for money, or are they all going to have their own process?

Conrad Smewing: It will definitely vary Department to Department, because obviously the issues that are raised are quite different in different areas. If you are thinking about DWP, for instance, you are thinking about a very large number of transactions and how to do those most efficiently. If you are thinking about the Treasury, it is much more of a strategic question of what size and shape of Department we want.

Q48 **John Grady:** But one is weighing up different expenditure lines and different expenditure proposals, so surely they need to be assessed to some common parameters, to have some sort of output that gives comparability.

Conrad Smewing: It is a question of challenging whether the expenditure is being made as efficiently as possible—as I was saying earlier on the zero-based review, how far it is contributing to the priorities of the Department as they now are, and thinking differently about, "Is this the only way that we could deliver this set of outputs or outcomes, or is there another way of doing it?" This is one part of the process. The zero-based reviews are being done by Departments. This is an opportunity to provide external scrutiny and check that things are not being missed and that people are thinking about things in a sufficiently rigorous way.

Q49 **John Grady:** How will this relate to the work of the Office for Value for Money? Will that team talk to these individual other teams? How is that going to work?

Conrad Smewing: Departmental submissions from the zero-based reviews will come back to the Treasury. As part of that, they should be identifying where they are going to deliver the minimum efficiency and savings targets that we have asked the Departments for in the spending review. The OVFM will be helping scrutinise whether those returns from Departments and the targets are stretching enough. The OVFM will be doing that.

Q50 **John Grady:** Let's say I am sitting in a Department and I have been asked for my opinion, and I am feeling a bit grumpy because it has been ignored—a bit like at home. Will my concern about a spending proposal find its way from the Department to the OVFM or the Treasury as a matter of course?

Conrad Smewing: The external scrutiny of the ZBR will, I am sure, form a part of the return on the ZBR. We will be asking Departments, "What have the external scrutiny panels been saying to you? What suggestions do they have? What thoughts have they had?" It will form a key part of the process.

Q51 **John Grady:** Is part of the process that, as a matter of course, these external experts must report in writing to the Treasury so that ultimately Darren Jones and Rachel Reeves can see what they have said?

Conrad Smewing: We have not asked for separate reports from the external panels, but we engage directly with the Departments and if we wanted to engage with the external panels, we would definitely be able to do so.

James Bowler: I just want to try to put it into context. The bottom line is that Ministers and their accounting officers are accountable to Parliament for every penny in their Departments. There are very big decisions coming on a multi-year allocation of Departments. What can we do between now and then to get to the best decisions on that? We are saying, "Don't just beaver away in your own silo doing what you have done before. How are you going to get red teamed? How are you getting any challenge on that?" It is still for Ministers to be accountable to Parliament on it. People who are doing these things don't have set accountability on that, but they can deliver some challenge. We are keen to set up a framework in which they are challenged. That is the first point.

Secondly, in a zero-based review of the Treasury, the first thing we have done is to ask our staff what they think we should change—that goes to your point about whether someone is sitting there, frustrated about stuff. In the Treasury, there are lots of suggestions. We're coming back on duplication as a lead thing.

The third element is the Office for Value for Money. I have seen the Committee's report on the Office for Value for Money. We are setting it up not to duplicate, but to fill a gap. It is not trying to replicate the NAO or what Departments are doing. It is a temporary body to try to do a set of things at system level, value for money level and investment appraisal. We are trying to make all that work come together so that we are setting a framework to get to the very best things. We are learning from the past where the danger is that if you leave things to their own devices, you perhaps don't get new ideas, reforms, challenge and scrutiny. It is not being done with a massive stick from the Treasury, where you must report back so much. This is a framework that people have welcomed.

Q52 **John Grady:** Has the Office for Value for Money found us any savings yet?

Conrad Smewing: The primary focus of the Office for Value for Money at the moment is on phase 2 of the spending review. Specific measures that deliver those savings will be part of phase 2 of the spending review. It has already made a recommendation to the Chief Secretary and the Chancellor in its system reform responsibilities, which the Chief Secretary has accepted. As you know, we have reformed the spending framework so that we will have regular spending reviews every two years. The OVFM recommended that in the off year we undertake thematic reviews of spending that cut across Departments, basically to set yourself up for the spending review that will come after that. It has made recommendations that have already been accepted. The really detailed spending stuff will come through in the spending review itself.

Q53 **John Grady:** The last question from me: have I understood right that the OVFM has so far given one recommendation, or is there more?

Conrad Smewing: It made that recommendation early on as part of its system reform responsibilities. As I said, its main focus is on its role within the spending review, which is scrutiny and challenge on the efficiency targets, and its VFM thematic studies, which it will be conducting for the spending review.

John Grady: So just one so far, but there will be more to come.

Conrad Smewing: Yes.

Q54 **John Glen:** As a former Chief Secretary, I recognise four or five things. First, clearly, vast tracts of Whitehall and different Departments have no discretion over their spending because they are spending money that comes from benefits, pensioners or the NHS. Secondly, Departments guard their budgets institutionally. That defensiveness is pretty embedded. No Department wants to say, "We don't really need to do this."

Thirdly, legislation is often required to reprioritise. For example, if you are to change the entitlements of benefits you need to legislate—there is a lag to deliver it. Fourthly, there are clear political costs and trade-offs. Clearly, that is a ministerial matter, but it is about clarifying what they are in advance. The fifth thing is that often incentives and investments are needed in order to do things differently.

In practice, the number of real choices that exist is relatively small, given the priorities set out last year in the Budget. Is it somewhat misleading to say that there is a zero-based approach, because in practice there is a small number of things? Would it not be a bit more real and true to get into what those choices are, because otherwise we are misleading about how easy this will be?

James Bowler: You make a set of sensible points. Quite a bit of money flows directly from central Government, in formulae, to schools, to benefits, or to other things—

John Glen: You cannot control it.

James Bowler: The interesting thing I would focus on, in where we are trying to make the zero-based review work, is two aspects. First—you will absolutely know this—left to their own devices, people will focus on the marginal and not the stock, so they will focus on the change. We are very clearly hardwiring in that this is about the stock, not the change. We do that through all sorts of things, be they planning assumptions or everything we have set up for line by line.

Secondly, a new approach we are taking is to identify the bottom 20% of our priorities. As you will know, having been Chief Secretary, the answer is that Departments will perhaps not unreasonably say, "Everything requires money to do things. We do your priority, someone else's and our own, but there has to be additional money to unlock it"—invest to save, or whatever.

What this approach says is, "Identify your lowest 20% of priorities and use that to transform and move to the Government's focus, and what they are trying to do"—they have published a "Plan for Change", which sets that out—and then that is your thing. Departments have been tasked to do that. The Departments will go through it, and we gave you examples. They are required by law to spend money on all sorts of things so unless you want to change the law, that is it. So yes, there is a sense of focus.

There is a last thing to say. I imagine all sorts of Committees worry when we get to AI, but a profound change is coming to how we deliver everything in our economy and, very obviously, public services. That is hardwired into this thing. Interestingly, we are not saying that we in the Treasury are the experts on it; we are saying that DSIT is, under the Secretary of State there. That is their work. We will take the £26 billion spent on digital at the moment, and we will want to look at it all together to see if that is going in the right direction. That is three different points.

Q55 **John Glen:** That is helpful, but I think you would also acknowledge that the depiction of the AI dividend has a significant amount of uncertainty around its roll-out Department by Department.

James Bowler: Certainly, yes.

Q56 **John Glen:** Do you create some meaningful qualifications on the delivery? The danger is that you attribute vast savings from mode of delivery to something that is unproven in reality.

James Bowler: Yes, certainly. We are setting out a whole slew of things about how, first, a Department like my own can get assistance to think through this and on how we go about it. Secondly, we are also saying, "Don't all have a go on your own, in the dark, hiring your own consultants and your own company. Let's look at it together." We have a centre of excellence in DSIT, which is doing a very good job actually. We are trying to set that up for success.

I think there will be a set of early wins and a set of things that will take more time, but what we cannot do is to pretend and not think about the fact that that transformation is a thing. Nor can we say that any transformation has to come from money over and above what we are going to get and so, if we do not get it, do not transform. We are trying to work through those things. It is complicated and there are some big things, with lessons to be learned from IT and digital in the past. This Committee Chair or someone else from the Public Accounts Committee could give them to us.

We are trying to set that up to succeed at the moment. That is deeply sensible. A spending process where you just all ask for a 50% increase in your budget, and then don't get it, is not a sensible use of everyone's time, compared with one that genuinely examines that.

For my own budget, in the Treasury, we are spending our time examining our budget as to what we are going to do within the thing, not particularly to report into anything, but to start planning on how we are going to do it. There is no magic to it, and it is not immediately straightforward, but we are trying to set it up with that, and give it a bit of time, to try to do that. I don't know whether my colleagues want to add anything.

Conrad Smewing: The only thing I was going to add, or underline, was that I think the point on the limited set of real choices is true in the short run, but much less true in the longer run. That is one of the reasons why it is so important to do these spending reviews over a multi-year period, so that you can look at, "Okay, this is where I am spending my money today, but these elements are not actually very high priorities. So, over time—over a period of three, four or five years—I can shift the balance so that I am spending more money on my priorities." That, I think, is a really important aspect.

Chair: Okay. Mr Glen?

John Glen: I will just say thank you. I do not want to ask any more questions; I think you have given us good insight into the rationale for the process, so thank you again.

Q57 **Yuan Yang:** Bringing in Ms Russell and Ms Beckett, if appropriate, could you give a kind of concrete, worked-through example of how the Treasury would negotiate this zero-based review? Let's say one Department is spending money on youth clubs and another is spending money on filling in potholes; would you be asking for the same set of metrics for both

Departments, and what would they be? Or would there be different metrics depending on different Departments?

Beth Russell: As Conrad said earlier, I think some of this will differ by Departments, in terms of thinking about what value for money looks like. The other thing we have not talked about, which I think is really important—and different in this spending review—is that we are also building in some more collective decision-making and discussion processes.

Traditionally, a spending review has been a very bilateral process between the Department for Education, or the Department for Transport, and the Treasury—and obviously with No. 10 involved as well. Now that we have the mission and foundation structures, the plan is that, once we have initial returns through the ZBR at the end of February, we will then have a series of more collective discussions in the areas around the missions and the foundations, and be able to talk about prioritisation across Departments within those groupings, not just think about it by Department.

That does not quite answer your question of potholes versus youth clubs, but I think it is part of trying to find different ways to make those prioritisation decisions, not just in a bilateral way between the Treasury and Departments.

Q58 **Yuan Yang:** In that process, would the Treasury then be speaking to each Department about specifically, "How many youth clubs are you procuring? How many potholes are you filling?" Would it be that detailed, or would it be more a sense of making sure that their processes are correct? What level of detail would you get?

Beth Russell: Conrad might want to come in, but, in a spending review, we sometimes do get into more detailed discussions, although it generally tends to be at a more aggregate level. But obviously, Ministers want to understand, "What is the implication of this Budget for this particular Department?" So we do not get into all the detail, but then, obviously, it is for the Department to work out, within the priorities that the Secretary of State and the Government have in that area, how they would spend it.

Q59 **Yuan Yang:** Are there any examples—this is perhaps for Mr Smewing—of the green flags that you would want back from certain Departments to make sure that their youth clubs programme, let's say, was value for money, or some red flags that would show you that it wasn't? What kinds of examples would you want?

Conrad Smewing: The absolute best thing is a kind of robust evaluation of the impact of the policy—

Q60 **Yuan Yang:** In terms of social value, or in terms of taxpayer money? What kind of evaluation would that be?

Conrad Smewing: Ideally in terms of social value per pound invested. That can be very difficult to do, although it has been done. I think a good example is what is now the Ministry of Housing, Communities and Local

Government's Supporting Families programme, which used to be called Troubled Families. It has an excellent policy evaluation that demonstrates that something like £2.30—I can't remember the number—for every pound invested is being saved for the public sector by intervening early in these families. That sort of thing is the gold standard of evidence that you would want to see. It is not always possible to get that—often, programmes have not been running long enough to be able to do that—but you can certainly show evidence of the earlier-stage impacts of a policy being effective.

Q61 **Yuan Yang:** So it would be social value defined in terms of the impact on the taxpayers of funding over all public services provision in the longer run—if that data is possible; that is the ideal.

Conrad Smewing: You will tend to look at what objectives or outcomes we are trying to deliver in this particular policy area, and ask, "Is this an effective way of doing it?" It is not tractable in the end to boil everything down to, "This one is £2.30 of social value per £1 and that one is £4," because you are comparing aircraft carriers and schools, and the questions aren't tractable. The question is, given this set of policies and objectives that the Government have, are these spending policies achieving what we want them to?

Q62 **Yuan Yang:** I don't know whether you are looking at millions of spending lines across all Departments, but do you have a sense of how many of those have social value estimates?

Conrad Smewing: I don't have an answer on that. Often, with quite large lines of public spending it is not possible to do something like that. But for things that are more self-contained—policy programmes or policy packages, like the Supporting Families one—not enough of them have good, robust evaluations, but more of them than in the past.

One of the things that we have done in previous spending reviews, and will do again in this spending review, is use the evaluation taskforce to focus, help us assess the evidence of impact, and also ensure that the programmes that we are putting in place or continuing do have robust evaluation panels.

James Bowler: I think the Treasury has two roles. At a spending review, you do want to know what you are buying and what outcomes you might deliver. Also the Treasury needs to set the framework and best practice and make sure that Departments are building their own capabilities—for example on evaluation, to make sure they can do this well themselves.

The reason I came in on that is that I don't want the Treasury to be second-guessing every single thing that a Department does. Sometimes, too much micro interference is at the expense of macro, so we are getting out of people's hair and letting them do that. So there is a trade-off here, but the key thing you want is a good framework and an understanding across all of setting up Government spending that there is value for money, and that the Departments have the capability and skills to look at this themselves.

Q63 **Lola McEvoy:** Mr Smewing, I just wanted to take you back to the challenge panel of experts. You said that some Departments had not got them yet. How many Departments do not have challenge panel experts set up, and is that a cause for concern, given the timeframe that we are looking at?

Conrad Smewing: I don't have a full list. It is not many of them and it is not a cause for our concern. We are expecting most of these panels to be taking place over the course of February-March, so I think we are not going to worry about it.

Q64 **Chair:** While we are on the issue of the external panels, having knocked around the system for a while, in the case of an experienced permanent secretary versus someone outside Whitehall, or outside Darlington, I know who would win in most cases. How do you know that permanent secretaries are not going to guard their territory hard, and accept and welcome the advice but maybe not always follow it?

James Bowler: I have not forewarned her that I might say this, but I am asking Sharon White to lead our Treasury challenge panel, with some of our NEDs and others. She is herself an experienced ex permanent secretary, but also someone who has chaired John Lewis, and I don't think she would take any nonsense from me.

Q65 **Chair:** Okay, but there is a danger that there is not a clear path through for that advice—not necessarily to get in a separate package to Ministers, but to necessarily be taken on board. I just wonder whether it is window-dressing. I can't quite see the metrics for how—what they will see, how quickly they will get up to speed, sometimes from another sector. For all their intelligence and insight, they might not always understand enough the system that is being dealt with. Sometimes there is a lot of legislation behind things, making it difficult to change things, as Mr Glen said.

James Bowler: I think John is right, but I think it is better than not doing it.

Q66 **Chair:** Would you say it is an experiment this year and we will see how it goes?

James Bowler: No. I think it is a very sensible thing to do. By the way, we have non-executive directors on our boards anyway and it is a very sensible part of policymaking to have a thorough engagement in terms of your policy and be challenged—a red team-type thing. So I think it is a really sensible—

Q67 **Chair:** Are they being paid for this?

James Bowler: They are not being paid.

Q68 **Chair:** How much time are they expected to give to it?

Conrad Smewing: This element of the process will last for only another couple of months or so; it is rapid.

Q69 **Chair:** How do you guard against conflicts of interest, so that you do not have people coming in who might want to bid for a Government contract and get inside information?

James Bowler: They are not taking decisions, and they are not ministerial appointments—

Q70 **Chair:** But they will have access to information.

James Bowler: They will have access to spending and things, but it will be for each permanent secretary in the usual form to consider. Having a sensible challenge in the way—

Q71 **Chair:** Permanent secretary, I do not think anyone is against sensible challenge—

James Bowler: But there is a danger sometimes that you put—

Chair: At the moment, we have experts being cast around for by permanent secretaries not applying. They are the people they know.

We have been talking about diversity a lot with Beth Russell and the team up here. That maybe raises some issues. They are not remunerated—that is absolutely fine; people may do these things—but they may have other reasons to get involved sometimes and they may know the sector. They will get access to information, but there seems to be no framework around how that information will be provided or how they will be protected both ways from conflicts of interest.

Are you saying that this is a test bed of this process and that you will be honing those sorts of things? I am a little confused about the safeguards around the system.

James Bowler: No, there is a whole set of existing rules and things that need to apply about access to information and the conflicts of interest that we are very used to applying in all sorts of things. Ms Russell can give the examples on growth. The Government are setting up a number of advisory panels on growth. We have an infrastructure one, for example, so there are ways in which people can come in and give advice.

Q72 **Chair:** But there is a difference with panels coming in. Many of us will have had breakfasts at No. 11 or No. 10 over the years at which people have been brought in to have a roundtable of businesses from a certain sector to talk to the Chancellor or the Prime Minister of the day or whoever. This is a group of people who will be crawling over the figures in public spending and in bids to the Treasury for the spending review. That is quite a lot of detailed information, and that is the concern I am raising. Perhaps you could write to us about the safeguards—

James Bowler: I would say that there are sets of safeguards in place that exist when you bring external expertise into these kinds of things—

Q73 **Chair:** Could you write to us with the detail of how it will apply in this case?

James Bowler: Not least, each Department has a set of non-executive directors—

Chair: I keep going back to this, but could you write to us on the details of the safeguards, rather than going through it now? Mr Grady, would you like to come in?

John Grady: No, that's fine; that has covered my point.

Q74 **Chair:** I want to turn to efficiency savings, because they are part of the same package, in a sense. We have heard lots of reports about how much is to be expected for phase 2 of the spending review. It would be helpful if we could make these pretty short, sharp and factual answers. How much will you be asking Departments to make in phase 2 in terms of efficiency savings, Mr Smewing?

Conrad Smewing: We set a minimum target of 5% of savings and efficiencies. Within that, there is a minimum 1% a year of technical efficiencies.

Q75 **Chair:** So it is within that; okay. Was I right in saying that there are 2% efficiency savings this financial year, which were announced halfway through, inevitably, because of the election? How is that going?

Conrad Smewing: It was 2% savings in '25-26—

Q76 **Chair:** Sorry. And then in the following year, '26-27—

Conrad Smewing: It will be 5% from '26-27 to '28-29. It will be three years.

Q77 **Chair:** That is over that three-year period; okay. You must be getting some examples of what efficiency savings are expected. Will that come under the full spending review proposals?

Conrad Smewing: The ones in phase 2 will be in the full spending review in SR2. In '25-26, one very big example is in the asylum system, in the changes to processing to reduce costs on hotels. Reductions in consultancy spend and Government communication spend have been a big element in the '25-26 spending review.

Q78 **Chair:** One of the dangers, or challenges, of making efficiency savings, even in the financial year after the election, is that if you do it fast, they are not always as efficient as they seem. How will you ensure that they are actually efficiency savings and not just cutting costs, staff or other projects? Maybe some of that is efficient, but how will you ensure that they are actually efficiency savings? That is very challenging to achieve.

Conrad Smewing: As I say, we have split the 5% savings and efficiency target into a minimum of 1% a year technical efficiencies, as defined by the Government efficiency framework. We have a framework that we use to categorise savings by technical or allocative efficiency; technical efficiency is lower inputs for the same outputs or higher outputs for the same inputs, and allocative efficiency is shifting money from one thing, which has less effective outcomes, to another.

Q79 **Chair:** And those are the hard choices that the Chancellor talks about.

Conrad Smewing: Exactly. That is more the 20% lower-value spending ZBR return area. We will use the Government efficiency framework reporting as a means of following that through, so Departments will need to report on how those efficiency savings are being delivered over the course of the spending review.

Q80 **Chair:** In looking at those efficiencies, one of the challenges is measuring them. You say you have those metrics in place, so we will be watching that closely; I am sure our sister Committee, the Public Accounts Committee, will be watching too.

One area that can be thrown up as an efficiency is reducing staff. If you are going for more output for less input, as you say, sometimes that can mean staffing numbers. Are you aware of plans in the Treasury and in other Departments to make redundancies?

Conrad Smewing: As part of phase 2 of the spending review, Departments are preparing strategic workforce plans, to see what the right size of workforce is for delivering—

Chair: So there may be redundancies.

Conrad Smewing: There will be strategic workforce plans. There will have to be savings in some areas and there may well be reinvestment in other areas.

Q81 **Chair:** Okay. Let’s say that redundancies might be part of that package. I see you are not willing to commit, but I get where you are at, because decisions have not yet been made. Of course, a redundancy does not make savings until further years, because there is an offer of a redundancy payment. How will you be factoring that in? Or are you expecting Departments to make their own judgments on that?

Conrad Smewing: What we would typically do in a spending review such as this is make those sorts of considerations, alongside other invest to save opportunities. For example, if a Department were to do a voluntary exit scheme and pay redundancies, we would be looking, as part of the discussion, at the costs of that scheme and how quickly the savings would accrue. Coming back to the multi-year point, we would need to look over a number of years and build that into the settlement overall.

Q82 **Chair:** What is the Treasury doing to generate efficiencies, Mr Bowler?

James Bowler: We are doing our own zero-based review, exactly as described. We are looking at a whole set of areas in which we can do things more efficiently on non pay. The headline things are duplication, where we are doing a set of things in more than one area across the Treasury, and flexibility.

Q83 **Chair:** Can you give us an example of duplication?

James Bowler: We do various bits of economic advice in different bits of the Treasury. Some of our international engagements are across several bits of the Treasury.

Sam Beckett: We are having conversations with Ministers to get some internal challenge on the way we are thinking about it—directors general, second perm secs and James, obviously. Some areas might come up. In my area, in the fiscal group, there are people who are monitoring the markets and thinking about financial market moves. In the area managed by my colleague Gwyneth Nurse, they are thinking about financial stability. We both talk a lot to the Bank of England. We have identified that we should go away and look at whether there are any synergies and whether we can collaborate more together, to bring some efficiencies and improvements by working more closely together.

Q84 **Chair:** That is interesting. I completely get how Departments are working across policy areas—policy on Ukraine covers many areas, for instance—but I would have thought that that was low-hanging fruit that you could have found before. What has changed?

Sam Beckett: It gives us an opportunity to look again.

Q85 **Chair:** Do you mean that the zero-based review is giving you the opportunity to look again? Is it because a spending target has been set that you are looking at this now? I am surprised this has not been looked at before, given that we have seen quite big reductions in the civil service.

Sam Beckett: Indeed. This was a particular example of an area where you might see an internal overlap, and where you could find some synergies and savings that way. It is part of a much broader process looking at where we do things that our ALBs do or where there are some other areas of duplication externally. That was just an example of something internal.

James talked about how analysis was another area. In my area in the hub of the economics team, we will look at labour market issues, but the team that is looking at broader welfare and other working issues will have some analysts as well. That is another area where you can look for savings and working more closely together. Duplications are just one theme. James mentioned thinking about more flexible resourcing—how we handle peaks and troughs of work over a year or a spending review cycle. There is how we use AI to get more efficient internally. There are lots of lines of inquiry.

Q86 **Chair:** These are all great things, but if we are at lines of inquiry at this point and we are expecting an efficiency saving by the end of the next financial year, there is quite a lot to achieve: cultural change, transformational change and staffing changes. Are you actually going to be able to deliver that?

James Bowler: Yes, we will. It is worth saying that the second phase of the spending review starts in April 2026.

Chair: Yes, but we are talking about the 2%.

James Bowler: You need to take some of the decisions now to inform the budgets that you are going to get, but also work it through.

Look: it is not straightforward. The Treasury is full of brilliant people working really hard. The duplication point is not about people sitting around twiddling their thumbs.

Chair: No, I don't think we are suggesting that.

James Bowler: There is just a genuine question about whether you can bring people together more in some areas.

We are also going to have to prioritise. Prioritising means doing less of, or stopping, some areas of work. In particular for the Treasury, that probably means overlap with other institutions and working out who does what. We could talk about our people survey and all the rest of it. As permanent secretary, one of the driving things that I will be looking at is workload, which is a concern for Treasury staff. We cannot just ask people to do much more with fewer people. We will need to look at our outputs and how we do things. That is why I made the point earlier about not micromanaging Departments but setting framework.

Chair: Indeed. We have to make sure that Departments deliver, as I know from the past decade of my work.

James Bowler: We are expanding our delivery unit with that in mind. It is a fluid thing.

Q87 **John Glen:** Fusing the efficiency and the spending review point, we had OFSI before the Committee a few months ago, which has surged in numbers. We also have the Ukraine policy in the MOD and FCDO. I thought that might be an area of duplication. One of the classic challenges that I feel is worthy of comment is the challenge of bringing cross-departmental teams together to deliver while simultaneously having accountability. For example, looked-after children is a massively costly enterprise, but a crucial policy area to get right.

Is there anything you can say about efficiency and the spending review that will deliver better outcomes in these knotty areas? The Office for Value for Money asserted some potential areas, but was reluctant to be committed to what they are. Could you give any more clarity on how you will embed better joined-up Government between Departments, to avoid this duplication as an ongoing activity, but also get some better outcomes?

Chair: Perhaps you could touch on the joint bids to the spending review.

Conrad Smewing: I think Beth mentioned earlier that one of the other things that we are doing very differently in this spending review from what we did in past spending reviews is building in a stage that is much more cross-departmental, focused on the missions and foundations but bringing together those Departments that are working on that area to make sure that all the spending proposals and plans fit well together and you are getting more than the sum of the parts.

As the Committee knows, the classic joint bids or cross-departmental working problem has been identified before. Our primary answer to it in this spending review is a new process leading up to a series of ministerial meetings in those areas to make sure that things are working in a proper cross-departmental way. You are right that that is focused around the missions and foundations. The Office for Value for Money's studies will also focus on areas that are perhaps slightly lower-profile than the missions themselves; they might be knotty problems that involve a number of Departments, or bits of the delivery architecture of the public sector, to make sure that we are making the most out of them. That is what we are trying to do this time around.

Q88 **Chair:** The Committee has looked at this issue before. When you have ringfencing of budgets—we have seen a lot of money going into the NHS—that is a political priority. Ministers, or the Chancellor, have decided that that is a priority, but money spent elsewhere could reduce the number of people needing the health services, for example; social care comes to mind. Has any thought gone into the ringfencing issue and how, especially if you have joint bids, you can have a bit more cross-fertilisation?

Conrad Smewing: A classic case is that the health mission will involve the Department of Health, MHCLG, DWP and other Departments that have an impact on exactly that, so that we can link up.

Q89 **Chair:** But will it mean that the money given to Health could be spent on, say, improving housing, which would obviously have a major health impact? It is quite tricky to do that once it has gone into the Department.

Conrad Smewing: That is at the point before we have fixed budgets. In order to achieve the outcome set out in the mission in the programme for change, we decide where we think the best balance of investment is, collectively as a Government. Some of it will be in the health service; some of it will be in housing; some of it will be in social care and local government. We are trying explicitly to think about that. That might involve pots of money where you do have dual keys, or you are not just allocating straight to the NHS or the local government settlement for adult social care. The process will allow us to do all of that.

Chair: So we need to watch this space to see what happens.

James Bowler: As you have pushed this over a number of years, I just want to say that we are determined to make a lot of progress on reducing the number of central Government grants going to local government—in other words, the number of small penny packets. We have a process in the spending review to try to do that.

Q90 **Chair:** On its own, that will save money, won't it?

James Bowler: There will be much more flexibility in how they go about things, so that would be a real prize.

Chair: Trusting those local leaders to spend as they see fit.

James Bowler: Correct.

Q91 **Chair:** The other side of the question, Mr Smewing, is cost shunting, which has been a bugbear of mine over the years: you end up cutting in one Department, but an extra cost is then shunted to another Department. How are you going to guard against that in the spending review?

Conrad Smewing: That is what this more cross-departmental phase of the spending review is designed to do. We will get initial returns from Departments, and cost shunting or knock-on impacts in other elements of the public sector will be front and centre in the discussion. A classic example is always the criminal justice system, where you have this long run.

Q92 **Chair:** Would that mean that, for example, the Home Office could say, "Hang on a minute—if you close mental health hospitals, the police will have extra costs," so other Departments will crawl over each other's spending reviews and make those points? Is that how it will work?

Conrad Smewing: That is the point in the process at which we are explicitly making room for exactly that kind of question to be asked.

Chair: I can see some interesting political discussions at that point, and possibly blood on the carpet.

Q93 **Yuan Yang:** Does anyone on the panel know which subjects the Office for Value for Money is looking at? I think you mentioned two or three subjects.

Conrad Smewing: The subjects that it is looking at are currently being discussed with Ministers, so we should be able to confirm them relatively soon. It is looking at things like the temporary accommodation issue that was mentioned earlier.

Q94 **Yuan Yang:** We look forward to that. Secondly, I know that efficiency savings are a goal of almost every single Government. Have there ever been reviews of previous efficiency savings and whether they have led to a reduction in service provision?

Conrad Smewing: The answer is yes. In previous spending reviews, there has frequently been reporting on the impact of efficiency savings. For instance, after the 2010 spending review there was a series of reports; I think they were audited by the NAO. Your question goes wider, though, to the impact of those savings on services. That can be harder to get at than the question of whether the efficiencies have been delivered by the relatively narrow definition of "Did we save the money we were hoping to save?" It is a harder question to get at.

Q95 **Yuan Yang:** I suppose the definition of efficiency savings, as I understand it, is about trying not to lead to a decrease in provision. You are trying to find other ways of saving cost, for example on the procurement side.

James Bowler: Can I flip it around a bit? There has been quite a lot in the press this week about public sector productivity. In particular, the ONS released some experimental data on the NHS, which essentially tells the tale of how as workforce numbers go up, far from that being matched with public sector productivity going up, productivity is actually falling. Different people have different stats on this, and that is understandable, but another way of looking at your point on efficiency savings is about the productivity of the public sector. That really matters: it matters to the Treasury, it matters because the output is better public services, and it matters to the whole economy, because the public sector is part of the economy. We will be looking at public sector productivity as part of this.

Q96 **Yuan Yang:** I am concerned about sectors in which productivity is more or less fixed. For example, you need one teacher for, say, every five toddlers in a pre-school. You cannot change that ratio very much, unless robots become very effective in the next few years.

Chair: I don't think that was a policy proposal from Ms Yang.

Yuan Yang: In those sectors—particularly in unprotected departments, such as funding for local councils, which fund social care, SEND in schools and so on—it is predominantly women who pick up the slack and withdraw from the workforce when services are cut back, as we saw during the pandemic. Is there an assessment in the spending review on the impact on the workforce, and particularly on women and carers?

James Bowler: Others might want to come in, but I will say that both this Government and the last Government have made significant interventions on childcare explicitly with that in mind. On impact, we have had a really quite rigorous set of things. In particular, these are policies that we have put to the OBR as part of a fiscal event process and have debated with the OBR. The OBR has made a judgment on the impact that those policies will have, particularly on people staying in or returning to work. These are predominantly women. It scores that impact. You get a positive growth benefit, so, if you like, the policy is cheaper than it might otherwise be. That whole way of going about policy and looking at those second round effects is a deeply important bit of progress that we are making, in relation to childcare and other things. The next step, obviously, is asking whether that has come to pass and whether those interventions are working.

Chair: We need slightly shorter answers, although it is great that everyone is so enthusiastic.

Q97 **Yuan Yang:** Will you conduct an equalities impact assessment? If so, how long and how rigorous will it be and how will it be done?

Conrad Smewing: There are equalities impact assessments on all of the policies in the spending review, and we will do that again this time.

Q98 **Chair:** Will they be thorough? There have been times in the last few years when all we have seen in legislation is "There is no equalities impact issue." Will yours be fuller than that?

Conrad Smewing: They will be like the equalities impact assessments that we have done in previous spending reviews. We will do them for this one as well.

James Bowler: And the distributional impact assessment that we do at fiscal events is world-class.

Q99 **Lola McEvoy:** A number of us on the Committee are interested in the National Wealth Fund. A recent Treasury press release states that, "The National Wealth Fund has fuelled 8,600 jobs in the last six months, unlocking almost £1.6 billion of private investment". Can you elaborate on what happened there, how you quantified those jobs, where they will be and any more information?

Beth Russell: The National Wealth Fund makes the amount of investment deal by deal and in a lot of cases those investments have specific job numbers attached to them. I have a whole list of the specific investments and we can provide those, with the number of jobs where there are jobs attached to them. I think that was for the period since the UK Infrastructure Bank transitioned into the National Wealth Fund, over the last six months or so.

Q100 **Lola McEvoy:** On the National Wealth Fund investments, we were previously talking about the scrutiny of public departmental spending. Through what lens of value for money should we look at the National Wealth Fund? Are we applying the same value for money tests on these investments? How are we testing the impact socially on the areas that are getting these projects?

Beth Russell: They will look deal by deal at things like jobs created, but they are particularly looking at filling a gap where private sector investment would not otherwise take place. They have an objective overall to crowd in private sector investment at a three to one ratio. That is also a guide to where they would particularly look to invest.

Q101 **Lola McEvoy:** When you are thinking about the National Wealth Fund and the success stories, have you got any examples of the projects that are particularly good for value for money, or that you are particularly proud of as a Department?

Beth Russell: The National Wealth Fund has been accelerating its investment over time. Some of the recent investments include investment in EV charging infrastructure and investment in Cornish metals to reopen a tin mine to support key sectors like electric vehicles. There is a particularly interesting investment they are doing alongside some of the big banks around retrofitting homes. They are investing alongside them to incentivise the banks to operate in that area. Those are just some of the examples. They are working on a pipeline of future investments as well.

Q102 **Lola McEvoy:** A final one from me on that. On the jobs created, I am always interested in the double counting of jobs and whether it is an existing job or a gig. If you are a construction worker, you work in gigs. You do six months on the site and then you go to another gig, but that is the same person doing that same job. I am interested in that.

Beth Russell: I do not know the answer to exactly how that is calculated, but we can find out.

Chair: Yes, please do, because every MP is always obsessed with exactly how real the jobs are. Ms McEvoy is a great champion on that. Dr Jeevun Sandher is next.

Q103 **Dr Sandher:** I also want to ask about the National Wealth Fund. The German development bank, KFW—I am not going to pronounce the German.

James Bowler: Go on.

Dr Sandher: I am in politics—it is very dangerous. KFW raises finance through private sector loans. Was that looked at as an option for the National Wealth Fund? Or private sector bonds, more accurately.

Conrad Smewing: You are talking about whether the National Wealth Fund would itself sell bonds through the markets?

Dr Sandher: Yes.

Conrad Smewing: I think that that was looked at and I think it is allowed for in the legislation. But there is a value for money test on how they source their financing, and it will tend to be the case—I am sure there might be circumstances where it was not, but it will tend to be the case—that it will be more efficient for the DMO to tap the markets using the gilt market—

Chair: The Debt Management Office.

Conrad Smewing: And then on-lend to the NWF. It is a question of the most efficient way of raising the financing.

Chair: Thank you.

Q104 **Dr Sandher:** What would the treatment of bonds be? Would there be a different treatment within the fiscal rules, given the liability accrued, if it was at the National Wealth Fund, because you would expect to be paid back in full versus raising it through the DMO?

Conrad Smewing: On how it would work, both the Debt Management Office and the National Wealth Fund are within the public sector. Their liabilities would both score within the public sector, so there would be no difference in the debt. The big difference with the National Wealth Fund is under the new net financial debt rule. The financial assets, which the National Wealth Fund holds on its balance sheet, would net off that rule. It is not so much about where the debt is sourced from; it is about how the cash is used. If the NWF has financial assets, which will be returning cash to the public sector, that is netted off.

Q105 **Dr Sandher:** So in one sense it becomes neutral under the fiscal rules, as long as they are productive investments, as you would expect them to be.

Beth Russell: Then we have a financial transactions framework around that. Sam might want to say a bit more around making sure that we have control, despite the fact that it is neutral from a financial liability perspective.

Sam Beckett: It is quite an advantage of the new fiscal rules that it is a broader measure that takes on financial assets as well. Under the old PSND rule, for all intents and purposes a grant was scored in the same way as a loan and the same way as an equity investment, so the Government was forgoing good investment opportunities. The net financial debt measure is quite a step forward in that regard.

As Beth says, of course, because they are neutralised—because you get the assets offsetting—we have put guardrails in place on the use of the financial transactions. There has always been a financial transactions regime across Government, and that remains, but on top of that, all financial transactions that are significant have to go through an expert body that is set up and able to value them appropriately and do a good deal for the taxpayer—like NWF or BBB—

Chair: Just to be clear—the National Wealth Fund or the British Business Bank.

Sam Beckett: Sorry; yes, indeed. UK Export Finance is another example.

The valuations between these assets can change over time, so they need to be recorded, and will show up in net financial debt. They are going to be published every year. We are going to have a transparent report on that. Those asset valuations will have been done by the NAO. This report will bring them all together, so we are completely transparent about what is going on under the bonnet of netting off assets.

Q106 **Dr Sandher:** That is very helpful. I want to pick up on where the Treasury has gone wrong previously with the industrial strategy, which is, to some extent, having losers pick the Treasury, lots of policies changing, very top-down and a lack of supporting investment. Here we have a brand-new investment strategy—an industrial strategy. How do you ensure that the supporting investments are made? For example, if the National Wealth Fund issues a loan for a gigafactory, how do you ensure that that area has the skills needed or similarly the transport infrastructure needed, as I think we covered briefly before?

Sam Beckett: As Beth outlined, it is a three-to-one partnering with private sector money, so in addition to what the Government will look for in terms of making sure those investments are going to yield a return and be really good investments, you have the private sector alongside, which will be doing its due diligence and challenge as well. That kind of framework helps avoid poor quality investment decisions.

Beth Russell: The other thing that is really important about the National Wealth Fund compared with the UK Infrastructure Bank is going to be the extremely close working with mayoral combined authorities and regional government. The National Wealth Fund is already working alongside some of the MCAs to work up investment propositions. As you say, there is then a broader conversation to be had in that region or area about how that fits into a wider regional strategy and the infrastructure and other things that you need to support those investments.

Q107 **Dr Sandher:** At the moment, the thinking seems to be very much case by case, individual projects, but the industrial strategy has to transform the structure of economic activity across the country by areas and by sectors. Is that a change in your way of thinking? Have you found it easy to implement that across the organisation?

Beth Russell: The National Wealth Fund will still look deal by deal at what it makes sense to do, particularly in terms of crowding in private finance, but will be very focused on the industrial strategy and the industrial strategy sectors, particularly green energy, but broader than that, in terms of the scope and focus of where they want to invest. That is going to be very much a guiding line for their areas of focus.

James Bowler: I will briefly answer your wider question. Take something like the Chancellor's announcement about the Oxford-Cambridge corridor that she made recently, that requires action from the university sector, the transport sector, a lot of water changes—sewerage and water are a big part of that—planning, skills and all of that. It is a very good example of all that you need to do to effect change in areas and not just, you know, announce a railway or a change. There is a whole set of delivery with Lord Vallance making sure that it all actually happens. There you are pointing to, this has been announced before, but what is different now?

Q108 **John Glen:** I was involved in the legislation setting up the UK Infrastructure Bank. The National Wealth Fund relies on the same CEO, the same staff, the same board, the same location. The mandate is the same. I notice, Ms Russell, you said about the relationship with local authorities and regional government. There was always provision for that under the UK Infrastructure Bank. We went over the new fiscal rules. Can we just clarify for the Committee's edification what is actually meaningfully different between the UK Infrastructure Bank and the National Wealth Fund? The headline numbers are still quite modest.

James Bowler: More money and a wider remit.

Q109 **Chair:** That is the extra £5 billion?

James Bowler: Yes, and a wider remit than the UKIB. To your first point, it took three years to set up the UKIB in Leeds.

John Glen: It did.

James Bowler: It would not be sensible to set up a brand-new bank somewhere else. You might imagine that that might take another three years. We are walking towards the synergy rather than away from it.

Q110 **Chair:** So actually this is a moment where Government did not create new infrastructure?

James Bowler: Indeed, I seem to remember giving evidence to the Committee and you said, "Are you going to scrap the UKIB?", so we are building on it.

Beth Russell: Just to mention another couple of specifics as well, we will be giving it the ability to use an expanded suite of financial instruments, including performance guarantees, and we are also talking to it about a new risk framework, which would enable it to take more risk than the UKIB did through the amount of economic capital that we give it.

Chair: But not ARIA-level risk—somewhere in between.

Q111 **John Grady:** The National Wealth Fund's predecessor, the UK Infrastructure Bank, led to a regeneration project in Teesside, the value for money of which some have questioned. It is probably best for the panel to answer these questions with either a yes or a no, and then follow up in writing, because time is marching on. Will the National Wealth Fund play any role in assessing the value of the projects it lends to in advance of the lend and then post the lend as the project is implemented?

James Bowler: Yes.

Q112 **John Grady:** Could you follow up in writing just to set out how you will do that?

James Bowler: Yes.

John Grady: Then we can move on.

Chair: Well, there you go—Mr Grady and Mr Bowler are being super-efficient.

Q113 **Yuan Yang:** Ms Russell, you mentioned earlier that the Treasury is also conducting its own zero-based review of its own costs. Do you consider the Treasury indemnity to the Bank of England's asset purchase facility as one of those costs? I note the publication from the Bank yesterday that estimates around £30 billion a year is being transferred from taxpayers to commercial banks as a result of that historical indemnity.

Beth Russell: I will have to ask my colleagues.

Sam Beckett: On what the Bank published yesterday, it does its transparent accounting for the APF quarterly. It had the lifetime costs, ranging between £55 billion and £115 billion in net present value terms. Obviously, it was always seen that QE, which gained us, I think, £124 billion, would reverse, and now it has actually gone in reverse and we are running down those numbers. The pace of that is a monetary policy decision and not something that we get involved in. When it comes to thinking about the value of that, you have to think about what QE was for and the circumstances in which—

Q114 **Yuan Yang:** I am not questioning that action needed to be taken in the light of the financial crisis and so on, and the origins of QE and the indemnity signing in, I think, 2008—it was around that time, or 2009, perhaps. My question is, in the light of the fiscal situation that the Government are now in, and given that you are conducting a fresh zero-based review, do you consider that there is value for money in this arrangement? If so, what kind of value do you think is generated from that arrangement?

Sam Beckett: Standing back, the Bank of England has a really important role to play in financial stability and monetary policy, so it needs to be financially secure, and the indemnity was a way in which we were able to move to make sure that it was able to use this extraordinary monetary policy tool. Yes, that was the right thing to do, and we are in the process of that unwinding, but with some way to go.

Q115 **Yuan Yang:** Putting aside again the historical decision to start the indemnity process, which was made long, long ago—many previous Governments ago—does the Treasury, or do you, have a view on whether, given the current fiscal and macroeconomic outlook, the commercial banking sector needs that £30 billion a year from the taxpayer?

Sam Beckett: I think that is just a set-up that was put into place for reasons that you obviously understand. That was a monetary policy decision, and that will roll down. We will come back with the Bank to think about lessons learned for the future for extraordinary events such as that and how you would manage them, just as other central banks around the world are looking at how they handled similar events and the kind of impacts that it had on them fiscally. Arrangements differ in different countries.

Q116 **Yuan Yang:** The reason why I ask that is, when we speak to the Bank of England about this, it will of course say that the impact on the taxpayer is not for it to consider and that it is a consideration for the Treasury. Of course, what you are saying is that the monetary policy side is for the Bank to consider, and I completely agree with that assessment.

Sam Beckett: Fair point, I can see you would be going round in circles. The point to make is that primacy is the Bank of England's monetary policy concern. Subject to that, we are obviously asking it to take into account, subject to all its monetary and financial stability concerns being taken account of, what is the best value and least risk for the taxpayer in its arrangements. There is something going on with how the Bank of England will look at its balance sheet in the future and equally, it would discuss with us the way in which that would be financed by the Treasury. In fact, the Court of the Bank of England has been looking at that today and I think the announcement on the Bank of England's balance sheet arrangements will be made tomorrow.

Chair: So this is very timely. Thank you.

Q117 **Bobby Dean:** I just want to move to the balance between growth and regulation. You will be aware that the Chancellor has pulled in a lot of the regulators and said that she wants them to be more focused on growth. Could you talk us through the discussions you may have had with Ministers and the Chancellor about the potential risk this might pose to consumers, workers, and smaller businesses?

James Bowler: It is worth saying at the top—and this is particularly the case in financial services where the Treasury has a direct line—that robust and high standards of regulation are the cornerstone of stability, particularly in the financial system. There is whole-sector regulation, including the regulation after the global financial crisis in the financial services system, with things like capital requirements in banks that are there for a reason. That said, in her Mansion House speech, the Chancellor asked to look at regulation as a whole. She asked from a number of areas; she asked that regulators had an explicit secondary objective on growth in how they go about thinking about things, so that they take into account growth as they make their decisions. She has asked regulators to write to her and the Prime Minister with positive ideas to help growth. I think, in the things she has been looking at, there is regulation and then the delivery of that regulation, and whether that creates bureaucracy and delay.

There is overlapping potential regulation, and she said—again this applies to financial services—there is effectively managing, but not necessarily eliminating, risk. All those areas are there but, to answer your question directly, it is absolutely the case that you need to weigh up the implications of any changes in regulation with the impact it might have on the risk to customers and all the rest of it. I think the answer is that we are very used to doing that, but we need to make sure that we are considering growth, as well.

Q118 **Bobby Dean:** When we speak to regulators, they speak most often to the firms that they are regulating so some of their ideas for deregulation may be coming from those firms as well. Can you give us some concrete examples of where deregulation in the recent past has resulted in tangible and sustained economic growth?

James Bowler: I will give you a couple of examples from the financial services sector. First, there is regulation in place that says that financial services firms need to be very careful about giving financial advice to their customers. That is totally sensible, but the impact is perhaps bigger and more problematic than it might seem.

For example, banks might be able to see that a customer has a large amount of money in their current account which could be gathering interest if they moved it into an access savings account, but they are not allowed to target those customers and suggest that they might do that because of some of the regulation. That seems a bit counterproductive, so that is a good example. Secondly, an impact of our secondary growth objective on our regulators—in terms of the PRA and the Bank of England—is that we passed two very large sets of international regulations, Insolvency II and Basel 3.1. I think Sam Woods would say that, with the growth objective and the making for growth objective in mind, that has influenced how the regulator has gone about that. If you take the plans on Basel 3.1, the regulator has to take a decision that impacts, for example, how much banks can invest in infrastructure or in small and medium-sized enterprises. Obviously, the more capital banks have to hold in those areas the less they can invest in those. They have taken a decision, which has been mainly welcomed by the financial services industry, to be less aggressive on that than might otherwise be the case, because of that particular secondary growth objective. Those are two examples.

Q119 **Bobby Dean:** We have taken quite a bit of evidence and had a few discussions recently about what is happening in the motor finance industry. The absence or ambiguity of regulation has been put forward by firms as a reason why problems have happened, and consumers say that they feel like they have been ripped off because of collusion between firms. That kind of absence of regulation does not seem to be growth generating—it is just a transfer of money from the consumer to the firms. How are you going to guard against those types of measures being put forward? That deregulation is not necessarily growth enhancing—it just sees transfers of money to firms from consumers.

James Bowler: Absolutely. I don't think there is a rule of regulation bad, less regulation good. For example, increased regulation in crypto or AI may have the potential to help the industry to blossom, because it will provide a set of standards, and it may be a source of investment for the UK, because the UK is well known as a sound and attractive place with financial stability and sound regulation. On the issue of motor finance, I have to be slightly careful as legal proceedings are well under way. The Government have applied to intervene in the appeal to the Supreme Court. One of the reasons is to ensure consumers continue to have access to motor finance and it doesn't damage that, because it is obviously a popular way of buying a car. There is an application for us to set out the Government line, and that is yet to be replied to by the Supreme Court, so I do not particularly want to go into that.

Q120 **Bobby Dean:** A lot of the focus seems to be on potentially weakening protections for consumers. To go back to your previous example about money sitting in a bank account, could we not regulate better to get the banks to allocate that capital properly, rather than trying to encourage consumers to take riskier investments?

James Bowler: I am not suggesting consumers take riskier investments.

Q121 **Bobby Dean:** If they move it from cash into, say, a stocks and shares ISA, they might believe that is a relatively sound investment, but it is still riskier.

James Bowler: Sure, but this would be about perhaps just moving it into a savings account that pays interest, rather than a current account that does not.

Q122 **Chair:** But is a savings account really growth?

James Bowler: Well—

Bobby Dean: But the bank still holds that money—

James Bowler: There is a whole set of other things where we are doing more to protect the consumer. Perhaps the best example, which came up last time I was here at the Committee, is in the buy now, pay later area, where the Government are moving forward with regulation of that sector, to ensure there are options for redress and cover for consumers. On the issue of fraud, we are taking the legislative cover to ensure banks can delay suspicious payments, in a world where there is mostly an enthusiasm to deliver payments as quickly as possible, in order to allow consumers to not make mistakes and not have to have redress. I am trying to agree with you, but it is not the case—

Bobby Dean: Yes, I understand.

Chair: It would be helpful if you have any other examples that you could write to us about, in detail.

Q123 **Bobby Dean:** You probably understand my direction of travel. I also read about the Chancellor having industry forums. There have been concerns in the past that industry lobbyists are very powerful and firms can employ them to get access to the Treasury on a scale that is not matched by consumer groups, so can you give us some reassurances about how much input consumer groups, unions and small business are having either into those industry forums or through other avenues?

James Bowler: They are part of the groups who Ministers will be meeting regularly. We are undertaking a financial inclusion strategy. You see representatives of the financial services regulators—the PRA and the FCA—in front of your Committee regularly. It simply isn't the case that the Government are giving undue weight to lobbyists.

Q124 **Bobby Dean:** What proportion of meetings do you have with, say, financial industry representatives versus consumer groups?

James Bowler: We have a whole mixture of them all. I do not know the exact percentages, but we will have a whole mixture and we will make sure we see both sides.

Q125 **John Grady:** Perhaps we can be efficient and do a yes/no, Mr Bowler. If I understood your example correctly, one of the rules you would like to change to get some more growth is to enable banks to target people with large current account balances and encourage them to move them into interest-bearing savings accounts. Did I pick that up correctly?

James Bowler: Yes, so there is there is currently—

Chair: We know what the rules are. You said that.

James Bowler: I don't know how to do a yes or no answer to that one.

Chair: We are just confirming that that is what you said.

James Bowler: Yes.

Q126 **John Grady:** Have I understood that correctly, and could you explain to us how that would work to get growth? If I were a bank, I would think, "Let's keep it in the current account and not move it into an interest-bearing account."

James Bowler: The FCA are doing the advice guidance boundary review—for brevity, I can write to you on this—and they are looking at the extent to which the current regulations are stopping people doing something that would be sensible for consumers. That is the best way of saying it.

John Grady: Right, okay.

James Bowler: That is not necessarily growth. It is sensible for consumers that they might get a return on their savings that they might not get otherwise.

Q127 **John Grady:** I guess—and it is one for the letter, because I do not want to try Dame Meg's patience—I do not see the incentive for a bank, if someone habitually keeps £30,000 in their current account doing nothing, to encourage that customer to move it to a savings account, unless maybe it is some sort of longer-term savings account.

James Bowler: Well, why don't we set it out for you?

Chair: Okay. Thank you, Mr Grady.

Q128 **Chris Coghlan:** Since the summer, the chair of the Competition and Markets Authority and the chief executive of the Payment Systems Regulator have left their positions. If the leaders of regulators regularly resign if they do not agree with the Treasury's policy proposals, in what sense can regulators be considered to be independent?

James Bowler: Well, I do not think they are resigning because they do not agree with the Treasury's policy proposals, and the Competition and Markets Authority is not a Treasury regulator.

Beth Russell: As Mr Bowler said, the Competition and Markets Authority is a Department for Business and Trade regulator. I think it is really important that we have independent regulators. The Chancellor agrees with that. I do not want to comment specifically on the CMA case, not least because it is not our regulator.

Chris Coghlan: Sure. I understand that.

Chair: Thank you very much indeed. We have had an interesting session. I would like to thank our witnesses: James Bowler, the permanent secretary; Beth Russell, the second permanent secretary; Sam Beckett, the chief economic adviser; and Conrad Smewing, the director of public spending at the Treasury.

In summary, we have heard some interesting evidence. Crucially, following reports of the leaking, or suspected leaking, of the OBR's preliminary forecasts, the Committee looks forward to your letter, Mr Bowler, about the results of the leak inquiry. We note again for the record that you made no comment on the actual forecasts received so far. We heard about the ambition that civil service staff based here in Darlington can have comparable careers to staff based in Whitehall. However, we did hear that there are still some difficulties about ensuring that staff in ministerial offices can work from the Darlington Economic Campus.

We also had some interesting discussions about the Green Book, with yet another update coming after the last one, which took two years to implement. We will be interested in watching that with our sister Committee, the Public Accounts Committee. We are clear, of course, that Beth Russell has offered to engage with the Government Property Agency on terms and conditions for facilities staff who work at the Darlington Economic Campus, which is something that is of particular importance to people living and working in Darlington. We are looking forward to the publication of the names of the outside advisers to the spending review, who will sit on the external challenge panels, and further information on that—and, of course, you are going to write to us on a number of issues, Mr Bowler.

Can I warmly thank Beth Russell and Matthew Taylor, and the whole team here at the Darlington Economic Campus, for your very warm welcome to us? It has been fascinating for us to come here. It was the first Treasury Committee hearing outside Whitehall and Westminster this Parliament and, we think, the first Select Committee hearing held in this place. I also record my thanks and those of the Committee to the broadcasting team from Bow Tie for their work in ensuring that the hearing is available to the public; to our colleague at *Hansard* for coming to Darlington today; to Darlington market, especially Mr Blair the greengrocer, for furnishing us with good fruit and veg to take home with us; to Lola McEvoy, the MP for Darlington, who has made this visit super special by explaining to us all the important contacts and arranging some of it; and to the Treasury Committee team, as ever, who made sure things ran smoothly. Thank you very much indeed.