

Public Accounts Committee

Oral evidence: Accountability in small government bodies, HC 887

Monday 26 January 2026

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Members present: Sir Geoffrey Clifton-Brown (Chair); Mr Clive Betts; Sarah Green; Sarah Hall; Chris Kane; Rupert Lowe; Catherine McKinnell; Blake Stephenson; Matt Turmaine.

Gareth Davies, Comptroller and Auditor General, National Audit Office, David Fairbrother, Treasury Officer of Accounts, HM Treasury, and Siân Jones, Cross-Government Director VfM audit, were in attendance.

Questions 1-92

Witnesses

[I](#): Indrani Banerjee-Jones, Director of Finance and Operations, Government Actuary's Department; Micon Metcalfe, Interim Director of Finance and Resources, Office of the Children's Commissioner; Farhad Chikhalia, Director for Finance Strategy and Partnerships, Ministry of Justice.

[II](#): Janet Hughes, Director General of Public Sector Reform, Cabinet Office; Conrad Smewing, Joint Head of the Government Finance Function and Director General, Public Spending, HM Treasury; Andrew Cartner, Deputy Head of the Government Finance Function, HM Treasury.

Examination of witnesses

Witnesses: Indrani Banerjee-Jones, Farhad Chikhalia and Micon Metcalfe.

Q1 Chair: Welcome to the Public Accounts Committee on Monday 26 January 2026. To ensure that public money is spent and managed well, both Government Departments and arm's length bodies must comply with a wide range of requirements and standards. Despite the variation in size, complexity and risk levels of public bodies, many of these requirements are universally applied. For example, annual reports and accounts—ARAs—remain a vital tool for this Committee to hold Government to account, but preparing those takes significant time, money and resources, all of which are more constrained in smaller bodies than larger ones.

To support meaningful and efficient compliance, reporting duties must strike the balance between accountability and proportionality, so in our first panel this afternoon, we will hear from several small bodies on how compliance works in practice, including some of the challenges they face. We have a senior official from the MOJ to help us to examine the support given to small bodies within that Department.

I am very pleased to welcome our witnesses. I hope I have your names right; please correct me if I have got them wrong. Indrani, would you like to introduce yourself first?

Indrani Banerjee-Jones: Sure. I am Indrani Banerjee-Jones. I am the director of finance and operations at the Government Actuary's Department.

Farhad Chikhalia: I am the director for finance strategy and partnerships at the Ministry of Justice.

Micon Metcalfe: I am Micon Metcalfe and I am the interim director of finance and resource at the Office of the Children's Commissioner.

Chair: Thank you very much. It is good to see all three of you and thank you, too, for your input into our children's homes inquiry and the numbers involved in unregistered homes. We found that to be a very difficult subject—I think it is safe to say that—but thank you for that input.

Right, Sarah Green will start us off this afternoon.

Q2 Sarah Green: Thank you, Chair. I would like to address my question to Indrani and Micon, if I may. What does complying with functional standards and financial reporting requirements look like in practice for your organisations? May I ask you to go first, Indrani?

Indrani Banerjee-Jones: Sure. Thank you for the question and for the opportunity to be here today. If it is all right with the Committee, I would like to address this question by setting out a bit of the context in which the Government Actuary's Department—GAD—operates; then I will talk a bit about what that looks like in practice, giving some examples.



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GAD is a non-ministerial department with around 220 people. We provide actuarial advice and analysis to the UK Government and the wider public sector. We are self-funded, which means we recover our costs through charging for our work, usually other Government Departments. In addition to Government rules, GAD is answerable to the Financial Reporting Council and the Institute and Faculty of Actuaries on ethics, quality assurance and technical aspects. So we are quite a well-moderated organisation and really proud of the professionalism that we take forward.

What does compliance really look like in practice? I preface my answer to that question by saying that compliance itself is not a major issue for us as an organisation. What is slightly more challenging at times is the operational management of that, with perhaps a smaller team to work with. Resilience and access to specialist knowledge can be a bit more challenging.

Starting with financial reporting, we comply with the financial reporting manual. We refer to cross-Government frameworks, such as consolidated budgeting guidance, to ensure that we are following all the necessary statutory and auditing requirements on that front.

In terms of the functional standards, we take a pragmatic approach and a proportionate approach, as the standards framework encourages us to do, being a smaller body.

Q3 Sarah Green: How do you do that in practice? How do you choose what applies to you and what does not?

Indrani Banerjee-Jones: “Managing Public Money” plays a big part in that. We embed a lot of the compliance aspects set out in those frameworks in other policies, in other controls and in our processes. It is very much part of what we do.

Where required and where we do not have specialist in-house capability, we rely on shared services. For example, other core IT services are provided by the Treasury, and our workplace services—estates—are provided by the Government Property Agency. What that really means is that we rely on good practices, good controls and strong relationships, both internally and externally, to make compliance work as efficiently as possible.

Sarah Green: Micon, how do you find it?

Micon Metcalfe: I will give you a bit of context. The Children’s Commissioner is a corporate sole, so she is a postholder and the office that supports her is a non-departmental Government body. We have a budget of just over £3 million a year and a total staff of 30 full-time equivalents, including the commissioner. Working in finance and operations, we have a headcount of 2.6 full-time equivalents, so that gives you the scale of what we are delivering.

In terms of finance and financial reporting, my background is in the academies sector, so I have a direct comparison with another sector that



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is publicly funded and accountable to the Department for Education and feeds into the Government accounts. I would say that we are held to a much higher standard. Preparing the accounts and following good practice in “Managing Public Money” is not a problem. The issue is the amount of information and the amount of testing that needs to be done throughout the audit, because we are held to a much higher standard than I have seen in the academies sector, so I just reflect that there is another model that perhaps would reduce the workload for a very small organisation.

On the other functional standards, with 2.6 FTEs it is quite difficult to have experts in anything, so I would class myself as a bit of a generalist. Obviously I am very strong on finance, but I have a background in HR, procurement and buildings and estates, having built some schools over time. It means that we refer to them and there is helpful information, but practically it is difficult to follow and train people in all the Government standards. Like Indrani, for digital, a bit of estates and procurement we rely on the Department for Education and the information that they provide to us.

Q4 Sarah Green: How does that compare to what the larger Government Departments do, because you are being held to the same standards by the sounds of it?

Farhad Chikhalia: From a Ministry of Justice perspective, we have a large number of public bodies and the vast majority of them do not have their own finance teams, so we try to take the burden of having specialist finance and, in some cases, HR and payroll and digital teams off them by centralising that functional delivery within the Department. Then what we do is apply a proportionate approach to making sure that the right staff are allocated to oversee the smaller bodies, so that we can provide the functional expertise and functional work that needs to be done for those organisations in a proportionate way. That is a model that we have come to by working with the Government Internal Audit Agency. In that way, they are still able to get the services that they need, but they do not have the issues that we were just talking about.

Q5 Sarah Green: Is that something that the organisations request from you or that you proactively offer? How does that relationship work?

Farhad Chikhalia: It has evolved over time. Years ago, all these organisations would have had their own smaller teams. We have realised that it works better to centralise those functions through a model of functional reform, because what you have is economies of scale and a better ability to access specialist services and to get learning passed on from one organisation to another. I can give examples of where that has happened.

Some organisations continue to have their own functional teams, either because they use a different shared services provider—there are plans to, hopefully, bring some of that together—or because of the history of those organisations. They have always felt independent and, partly because they want to remain independent, they continue to have their own functional

teams. But where that happens, those colleagues tend to be working in the same buildings anyway, so even if, from a technical perspective, they operate independently, there is actually a lot of learning and collaboration happening behind the scenes.

Sarah Green: That is really helpful—thank you. I know that colleagues have lots of questions, so I will leave it there.

Chair: Thank you very much, Sarah; that is a very helpful start. I will hand over to my excellent deputy, Clive Betts.

Q6 **Mr Betts:** Coming again to the issue of functional standards, what are the biggest challenges that you have faced, Indrani and Micon?

Micon Metcalfe: The functional standards are designed for big Government, so when you are thinking about the civil service as a whole and big Departments, you have teams of specialists, divisions and people who are spending 100% of their time on procurement, for example. You want to develop the skills and you want to get it right.

There are aspects in all the functional standards that we can use. We can refer to them and say, “How would this be done?”, but there can be tension between being a very small organisation that works in a more agile way than big Government can. If we take procurement as an example, we are not procuring on the same scale, and we have very small procurement exercises. We follow Treasury guidance and look at the standards, but we cannot be continuously improving or training people, because the team is not big enough. That is just something they are doing as part of their operational delivery.

Q7 **Mr Betts:** Is that the same for you, Indrani?

Indrani Banerjee-Jones: It is similar. However, in applying the functional standards in a more proportionate or flexible way—for example, with security—we have found that it assumes you operate in a very complex system across Government, while in reality, for a lot of the functional standards, our executive committee takes combined responsibility for it as a whole.

A lot of the standards assume that you have specialist resources in place, but often a lot of those responsibilities are split against five or six people who have taken it upon themselves on top of their day job. Having said that, we have taken some decisions on the analysis and finance functional standard, where we have gone beyond the mandatory or minimum requirement, because that felt appropriate to the nature of GAD’s work. It was good to be able to decide which way to go with that.

Q8 **Mr Betts:** Yes—because you could not really be seen to be getting your finances wrong, could you?

Indrani Banerjee-Jones: Yes. My remit is quite broad, but finance is at the core.

Q9 **Mr Betts:** There are other places that both of you could go to get help on



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these matters. You can go to your sponsor Department, such as the Cabinet Office or the Treasury. Are they instinctively helpful, or do they see you as a bit of nuisance that is bothering them?

Micon Metcalfe: I would not say that the Department for Education sees us as bothersome. Actually, with digital and IT, it is very helpful—it provides our IT services. We work within its digital environment, so we know that there is a high degree of security for our digital platforms. It provides us with first and second-line support, and it provides our devices. We recently moved out of the Sanctuary Buildings, and it was super helpful in organising the move and making sure that the devices were there.

I think the onus is on me and my team to work productively with our sponsor Department, and it will always be willing to help. At the same time, it does not have endless resource, so there are certain functions that we are still responsible and accountable for overall.

Q10 **Mr Betts:** Do you get all the help you need, Indrani?

Indrani Banerjee-Jones: Yes. When we have asked for help, both the Treasury and the Cabinet Office have been helpful. With the Cabinet Office, we have had to invest a lot of time in that relationship to get it to where we would like it to be, particularly on the property side, but we are in a much better place.

Where it can be a bit more challenging at GAD for me in particular is the specialist resource angle. My finance team comprises about eight people, and we offer end-to-end financial services—from billing, because we have to re-charge for the work that we do, to audit, accounting and reporting. Everything is done by those people, so the annual report and accounts can be quite a significant undertaking for us. When managing that with a small team alongside our other operational activity, often the audit period will coincide with business planning and other things, so it takes quite careful operational management, and therefore building resilience can be a little bit tricky.

It has been harder to get help—and understandably so. It would be lovely if there were a central resource pool of technical specialists that could be called upon in a year where things are particularly difficult or tricky, or where I might be struggling to hire the resources I need. That might be helpful, but I appreciate that the Treasury has always offered that help. I appreciate that at the same time, it is probably doing its own audit and dealing with its own challenges.

Q11 **Chair:** Micon, just to follow Clive's question, it does seem to me that two and a half people in your finance function—I accept that you are a very small body, or at the smaller end of the small bodies—have to deal with all the external audit, the internal audit, all the compliance and everything else. Does your sponsoring Department, DfE, give you any extra help over and above those two and a half people for finance? Do they give you help on things like HR and the various other bits and pieces?



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Micon Metcalfe: Yes. There is an arm's length body HR adviser, so if we have any queries, we can ask. If we had casework that was beyond our internal capability, it would provide a chargeable service.

From the finance side, we use the DfE's finance system, Business Central. That has pros and cons. It does mean that our information and trial balance are already within the DfE accounts. It can be slightly cumbersome processing invoices, because they all have to be emailed through individually to be scanned in. We do not have a huge number of transactions, and we do not do a lot of procurement, so we can operate efficiently at that level and we have delivered our annual report and accounts. You do need to know where you can ask for support within the Department if there is something that you cannot deal with.

Q12 Rupert Lowe: I have to say, I am struggling to get my mind around this. I now have a list of 48 of these various bodies, of which I think you represent three. I look at history and think of Robert Walpole: the Cabinet met twice for two weeks at his estate in Norfolk, and there was very little involvement of government in people's lives. I am struggling to work out how on earth Britain staggered on without all these various small bodies, as well as the big ones, in which we are uncovering vast amounts of waste.

I would be very grateful if you could explain exactly what benefit you think hiving out these small bodies brings to the efficiency of Government, and whether you like the results for which the taxpayer is paying. Are you better as individual little bodies? I am assuming you have your own offices—do you all have your own offices?

Micon Metcalfe: We do now because we could not stay in the Sanctuary Buildings.

Rupert Lowe: Your own little empires, and your own—

Micon Metcalfe: Difficult to have an empire with 30 people.

Q13 Rupert Lowe: Do you think you need to be separate bodies?

Micon Metcalfe: From the Children's Commissioner's point of view, yes, because the post is defined in legislation. It sets out that there is a commissioner, their powers, duties and independence, and their ability to hire staff and run an office.

The funding is determined by the Department for Education. We have delivered our reporting this year on slightly reduced budgets in real terms. It is not a huge amount, but within the current framework there is a requirement for the office and for the Commissioner. Is there an argument that you could do some of the back-office stuff more efficiently through shared services? I would hazard a guess that it would cost more than the 2.6 FTE that we are delivering on as a small, agile organisation. If we were subsumed into bigger Government, that would require more process to function at the level of transparency that is required. However, it would be up to Parliament to determine whether—



Q14 Rupert Lowe: Farhad, it appears that a lot of the legal bodies we have here stem from Tony Blair's reforms in 2005, when he basically set up the Supreme Court. Again, do you need so many different legal bodies operating as separate entities? I would be grateful if you could help us in questioning the main people responsible for these small bodies; I would like you to load our weapon for us—figuratively—because we need to represent the taxpayer. I see vast numbers of people with little empires, and I presume you all have to have your audits and accounts done, and to pay professionals for all the work that is done. What can we do to make this more effective and better value for money?

Farhad Chikhalia: It is a very good question. In the MOJ, we do a continuous process of reviewing the organisations we have. We have just worked closely with the Cabinet Office to do a review of all our bodies, and that has thrown up some interesting insights. It has always been possible to reduce the number of bodies by doing the things we are talking about—you could introduce statutes to get rid of them—but there is a separate question about whether we think that, collectively, those functions need to exist. In terms of getting rid of GAD, for example, I do not think anyone is arguing that we wouldn't need an actuaries department that does the calculations around the pension liabilities of the Government as a whole—

Rupert Lowe: I would not for one minute suggest that we get rid of GAD; it is a question of where they sit.

Indrani Banerjee-Jones: Thank you—it's good to hear that.

Farhad Chikhalia: Exactly. So the question whether bodies need to exist, and whether they need to exist as independent organisations or can be subsumed within the larger organisation, is probably one of Government policy. I do not think it is for us to give a view on whether that is the right thing to do from a Government policy perspective.

Rupert Lowe: So you think that is a question for the Ministers?

Farhad Chikhalia: In a lot of cases, it will be. My sense is—

Rupert Lowe: But what do you think? Do you think it is better as it is, or do you think it could be improved?

Farhad Chikhalia: I think there is always scope for improvement, and I think that the kinds of things we do—

Q15 Rupert Lowe: How would you improve it?

Farhad Chikhalia: The things we have done in the Ministry of Justice to centralise functions and give economies of scale in a lot of organisations are one way to get efficiency. You do not have lots of smaller bodies with their own smaller finance teams, which means that you have greater resilience, because if something complicated comes up, it is easier to access specialist support. The things that we were talking about, such as the ability of smaller bodies to meet functional standards, are easier as

well. That shared services—or more centralised, functional—model is probably something that other organisations could explore.

We could also look at whether the workload of organisations has changed, and whether that means that bodies that were set up in the past are still needed. Those are the kinds of things that other organisations could look at, and that we have done.

But I think the wider question of whether bodies need to exist at all, or to exist independently, is more one of Government policy. In most cases—certainly in the MOJ—where we have looked at bodies, even if we have made the assessment that they could be brought in-house, our view has been that, actually, the efficiencies generated from that would be relatively small, and that sensible, rational decisions have been taken in the past for why these bodies exist as independent organisations, and those rationales remain.

Rupert Lowe: Okay, thank you. Thank you, Chairman. I have no other questions.

Chair: Good. So you are satisfied for the time being, Rupert?

Rupert Lowe: Not for the main session—there's one a bit later, isn't there?

Q16 **Chair:** Indrani, let's hear from you to start with on this question. I started to probe this, but how much help do you get from the Cabinet Office and the Treasury for your operation? You obviously have a discrete operation; you run it with highly professional people and, from what I understand, you do a very good job. But there are all these financial and other functions that you have to do, so how much help do you get with that from the Treasury and the Cabinet Office?

Indrani Banerjee-Jones: The main source of support comes through the shared service agreement that we have in place for digital or IT via the Treasury and the estates services via the Government Property Agency. We also get support on security; there is some implied support there. If it is physical security or cyber-security, that will be covered by the GPA. Beyond that, we have not necessarily asked for specific support through the angle of the functional standards from them per se, but that is following the assessment of how best we apply those functional standards to GAD.

Q17 **Chair:** Micon, you obviously have a smaller body than Indrani. Do you get any help from the Treasury and the Cabinet Office?

Micon Metcalfe: Not from Treasury directly, other than the publications for producing accounts and information. I do not really have any interaction with the Cabinet Office, other than when dealing with commissions, and apart from the Government Property Agency, which does support us. It supported us with our move to 64 Victoria Street when we could not stay at Sanctuary Buildings any more. That has been my only real interaction with the Cabinet Office.



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Q18 Blake Stephenson: My questions are for Farhad. How many small bodies do you have at the Ministry of Justice, and how do you support them to comply with the financial reporting arrangements?

Farhad Chikhalia: We have 36 public bodies in total. Of those, about seven are in the scope of the NAO Report. As I have said, the MOJ supports those smaller bodies to meet the functional standards by providing a lot of the functional services that those organisations rely on centrally from the Department. We do that in a proportionate way. When tailoring the amount of support we provide in terms of finance, HR and other services, we look at the operations, the budget, and the financial and other risks to the organisation. Even where organisations do not rely on the Ministry of Justice for functional expertise, their functional teams—be it HR, finance or IT—work closely with the Ministry of Justice. They are working together throughout the year, but particularly when they have to produce their annual accounts, so that if the requirements have changed, they can learn from each other about how those should be implemented.

Q19 Blake Stephenson: For those seven organisations that you provide support to from the centre, how many people from the MOJ are involved, and how much does it cost?

Farhad Chikhalia: I do not know off the top of my head, but I could write to you on that.

Q20 Blake Stephenson: That would be helpful, because it would be interesting to know the extent to which these small bodies can stand on their own two feet versus requiring support from the MOJ, and what the cost is to the taxpayer. Are there examples where the MOJ has had to step in to support small bodies because they are way off the mark, and had you not stepped in, there would have been material risks to reporting?

Farhad Chikhalia: It is less that we have had to step in because otherwise there might have been an error, and more that we have stepped in in cases like the one we had a couple of years ago, when the National Audit Office raised a question about how, for one of the larger public bodies that we have, we were accounting for the pension liabilities related to the local government pension scheme. The centralised finance support for that larger body realised that the same issue would arise for one of the smaller bodies, so we were able to take that into account, working closely with GAD at the time to make sure that that was accounted for in the financial reports. That is the kind of thing you get through a centralised team that works closely together.

I have another example from a few years ago. During the annual budget-setting process for one of the smaller bodies, we had a concern about how it was doing its day-to-day financial management and bookkeeping. We went in as a finance team to assure ourselves that everything was being done properly, and it was, but that is the kind of thing where it is helpful to have a close working relationship with a body and provide that financial support. In this case, we were not doing all the finance functions for that body, but we were able to go in and do the assurance where it was needed.



Q21 Blake Stephenson: In recent hearings, we have heard about the vast waste through fraud and error. Some of that will be attributed to the MOJ, although I do not know how much. With fraud and error, would you say that the MOJ is ultimately responsible, or these small bodies?

Farhad Chikhalia: A lot of these bodies will have their own accounting officers, and those accounting officers will be responsible for making sure that action is taken to reduce fraud and error as much as possible. The principal accounting officer is obviously in charge of the organisation as a whole.

There are lots of controls that we put in place to minimise these things as much as possible—not least the fact that, ultimately, all the accounts for these bodies will need to go through a process of consolidation into group accounts. That is not done simply by taking the numbers from these organisations; the MOJ works closely with these organisations to make sure that checks are done as part of the consolidation process, so that we can reduce the opportunity for fraud and error as much as possible.

Q22 Blake Stephenson: If I can wrap that question up, for these seven organisations, where there are errors and fraud—or other misdemeanours—where does the buck stop? What oversight does the Ministry of Justice have over those organisations? Going back to a point Rupert made before we went into a public session, these small bodies are accountable to Parliament, but there is not a huge amount of oversight over them.

Farhad Chikhalia: I disagree with that. I think we have quite a detailed oversight regime for all these public bodies. We have an annual assessment for all these organisations, which is based on the previous assessment of them, what we know about policy or operational issues that will be coming up for them over the coming year, and the previous assessment of the financial controls in place. We have a series of arm's length body reviews that we do on an ongoing basis to identify issues with their governance or the way they are operating.

All of that together helps to build quite a rich picture for these organisations, and the oversight is dialled up or down based on that. That does not mean that bad behaviour never happens—you can never fully account for the behaviour of individuals—but as much as possible we use the information that we have to put in place an oversight regime that is proportionate to what we know about the risks.

Chair: Sarah Green next, I think.

Q23 Sarah Green: Definitely Sarah Green. I have a question for the whole panel. If you could make any changes to the accountability requirements for small bodies, what would they be? What would “good” look like for you?

Micon Metcalfe: You need accountability and transparency, but I think you could look at models that were not designed for big Government, so you could look at proportionality.



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Q24 **Sarah Green:** Does that not happen already?

Micon Metcalfe: No, not from our point of view. The level of testing for our £3 million turnover is vastly more than I experienced in a £60 million turnover academy trust, which is 95% funded by public money as well. There is a different approach between the departmental public bodies and the academy sector—a different audit approach and different levels of proportionality—so you could think about that.

I do not have a problem with the reporting or with following good practice around procurement and how you spend money; all of that is really important, and it is helpful to keep your eye on the ball. Sometimes, the level of information that is asked for around commissions and the use of spreadsheets is quite onerous, and sometimes the information is perhaps irrelevant to a small body.

Q25 **Sarah Green:** Can you give me an example?

Micon Metcalfe: Recently we have been asked about the shared services model, and we have been asked to say how much time and cost is allocated to each function. Within HR, there will be five different functions that all link into the standards, and then there is the same for digital and finance. Because there are so few of us, it is like a 10th of somebody's time—you are doing it when you need to. That process is not going to yield very good information for us.

I go back to the question of whether a big enterprise system would be able to deliver at lower cost than a very small, agile organisation that does not have many people. We do not have many transactions, so we do not need massive enterprise systems to deliver all our processes. It is about analysing whether having shared services or shared back offices actually saves money. You need to be clear about that in the first place. It can do—I am not saying it does not—

Q26 **Sarah Green:** It does not work for everyone.

Micon Metcalfe: For very small organisations, it often does not.

Q27 **Sarah Green:** That is very helpful. How about you, Indrani? Is there anything you would change if you could wave a magic wand?

Indrani Banerjee-Jones: The accountability currently sits with the accounting officer, which feels right and proper. Anything that works within the existing frameworks without adding additional complexity is always helpful.

In terms of changing anything else, I think Treasury takes a proportionate approach with us when it comes to oversight. Shared services are a good example of that. We are currently in the process of implementing a new finance system. We went to Treasury, as our sponsor body, to see whether we could onboard on to their system. They were very open and honest about that. We had a good conversation about whether that would work for us, because the model and the work that we do are quite different. The flexibility, the functional standard and procurement that commercial offers



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us mean that, as a smaller body, we are able to tap into the SMEs a bit more. That means we are not spending millions of pounds on a system that we will not use as best we might, or as something like MOJ might. It means that we are—

Q28 **Sarah Green:** More agile?

Indrani Banerjee-Jones: A bit more agile. We can be proportionate and a bit smarter in the way we are allocating our time against what will ultimately be seen as taxpayers' money.

Q29 **Sarah Green:** How about you, Farhad? You must have lots of different, smaller bodies. What would you change if you could to make life a bit easier?

Farhad Chikhalia: My recent experience of the Treasury is that it is doing as much as it can to make the system of reporting, approvals and everything as proportionate and streamlined as possible.

Q30 **Sarah Green:** When you say “recently”, what do you mean by that?

Farhad Chikhalia: The introduction of the Office for Value for Money, looking at how Government approvals are done and at the limits on spending that Departments have themselves versus what the Treasury signs off on—there is already work in train, which we really welcome.

A lot of what we have talked about today is about that proportionate approach for smaller bodies. One of the things that might help as part of that is examples of smaller bodies that have not applied particular functional standards or certain types of reporting, and that is recognised as being okay.

We have a “comply or explain” model in the UK already, but it is probably more weighted towards “comply” than “explain”. More openness about where certain standards or certain types of reporting do not need to be followed for certain organisations might be helpful. For example, sustainability reporting may not be a big thing for smaller bodies because they do not have lots of buildings, large transactions or lots of estates. Does it really make sense for them to do lots of sustainability reporting? Probably not. That is the kind of thing where examples or frameworks for decision making might be helpful.

Q31 **Sarah Green:** Is that almost giving them permission, because they can see that other bodies have gone down a similar route?

Farhad Chikhalia: I think so. I think that the pay-off is probably better-quality reporting for Parliament.

Q32 **Sarah Green:** You are getting the information that you actually need.

Farhad Chikhalia: Exactly.

Q33 **Rupert Lowe:** Can we drill down a bit more on shared services? It strikes me that we are almost going full circle. We have gone independent and now we are looking at how we share services, which begs the question of



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why we hived ourselves out in the first place. I guess the definition of “needing to be transparent” is subjective rather than objective. How can you improve shared services without affecting the operation of small bodies?

Indrani Banerjee-Jones: Just to clarify, as in what could be done a bit better?

Q34 **Rupert Lowe:** Yes. On your shared services, you said that you have an audit and presumably you use different auditors. When you talk about turnover, I am assuming that a lot of what is going through your various bodies is spend rather than turnover?

Indrani Banerjee-Jones: Yes. It is like grant-in-aid.

Q35 **Rupert Lowe:** So it is funded by the taxpayer who is giving you money that you are then spending. Let us get the term right: it is not turnover; it is spend. On payroll, auditing, office and communications—loads of things that, if you run a business, you try and ensure that you spend as little as possible on—what are you all doing to ensure that you maximise that opportunity?

Micon Metcalfe: In terms of the external audit, we are audited by the NAO, so we do not have a say in who audits us. We are required to have internal audit, and we go out to tender through a framework agreement. That gives us the opportunity to be proportional about the scope and scale of internal audit that we need. From experience, there is not a big variation in price with external or internal audit because it is based on the number of days required for the audit and for seniors and other partners to work. We run our own payroll and have a small payroll system that has a small annual cost—but we have expertise in-house to do that. That works out at a very low per-payroll cost. We do little procurements in terms of comms and things like that and that is within our headcount.

Q36 **Rupert Lowe:** You just mentioned accounts packages. I find that if my companies are all on the same accounts package it is much easier for everybody to understand what is happening everywhere. Are you all on the same accounts package? It sounds as if you are not.

Micon Metcalfe: No.

Q37 **Rupert Lowe:** So you are on different ones?

Indrani Banerjee-Jones: To the Treasury, yes, and likely to Micon.

Micon Metcalfe: We use the DFE’s accounts package. There are pros and cons of doing that, but it means that all of the information is there and accessible to the sponsor Department, and the cost is hidden—you would not see it within our expenditure because it is a service provided by the sponsor Department. I could not quantify what that would cost if we were buying it commercially.

Q38 **Rupert Lowe:** In your example, Indrani, which package did you select? Was it Sage or Xero?

Indrani Banerjee-Jones: We went for Access Financials. They are fairly small; they cater to—

Q39 **Rupert Lowe:** I have never heard of them.

Indrani Banerjee-Jones: I had not either until we onboarded with them, but they are within the wider Government frameworks.

Q40 **Rupert Lowe:** Will they still be in business next year?

Indrani Banerjee-Jones: They will be.

Rupert Lowe: Good.

Indrani Banerjee-Jones: We have done our due diligence. We have gone with them and there are pros and cons to moving into using Oracle, for example, which is what the Treasury use. We are a somewhat differently organised entity. I mentioned earlier that we are self-funded, which means that all of our expenditure—or spend—is met through the income that we are generating by recovering those costs for the work that we do.

Q41 **Rupert Lowe:** From other parts of Government?

Indrani Banerjee-Jones: Yes.

Q42 **Rupert Lowe:** So captive recovery?

Indrani Banerjee-Jones: They do not have to use us for some of our services. In fact, because we are not looking at profit margins or turnover at the end of the year, we can often deliver actuarial work for the wider Government much more cheaply than the private sector. That is the advantage of using GAD. We are very careful about planning our expenditure. Even going for the finance system implementation has been something that we have been thinking about for a little while now. It was an infrastructure change that was needed because the current finance system has been in place for over 20 years. That obviously comes with its own inefficiencies. We feel that, by undergoing this bit of a transformation, we have had to plan for the affordability of it. We are demand-driven as an organisation, so our reach across the public sector is what we can rely upon to keep afloat, if you like.

If we had to go with someone like Oracle, particularly the way the Treasury use it, they would not have a timesheet module, for example, which is something we rely on to see how much of our time is spent on various activities. That would probably cost us a lot more to bring in than a very affordable package that we are implementing at the moment. I feel like, in certain instances, that flexibility has meant that Treasury doesn't have to completely change its module, which would be costly, plus GAD.

Equally, our reporting is fairly straightforward, because we are not as big an entity as, say, the Treasury. Perhaps if we were changing our chart of accounts for whatever reason, that might have some of its own inefficiencies attached to it. Some of it has to be a bit of an options

analysis, which is what we went through. It was never off the table that we would join forces.

Q43 **Rupert Lowe:** Are you collectively comfortable that enough is being done to take full advantage of shared services, or is there more you can do?

Indrani Banerjee-Jones: In my experience at GAD, we are doing the best that we can with what's available out there. Could more be done? Yes. The signposting of exactly how to get further shared service support would be quite helpful.

Q44 **Rupert Lowe:** Who is driving that? Who is responsible for that? In my experience, unless someone is responsible, nothing ever happens.

Indrani Banerjee-Jones: The Cabinet Office and the Treasury between them are in charge of a lot of the shared services.

Q45 **Rupert Lowe:** That worries me.

Indrani Banerjee-Jones: Some aspects of it work quite well. For example, the Treasury aspect works quite well for us. The Government Property Agency has sometimes been a bit difficult to engage with. We will invest a lot more time and effort to make sure we can manage that relationship and the reliance or dependencies that we need for reporting, so that it does not cause a knock-on impact.

For the purposes of what GAD needs shared services for, it works well. Is there more than could be done? Yes, sure. On the HR side of things, perhaps, it would be useful to engage the Cabinet Office a bit more. Better signposting on centres of expertise would be useful. I know there are a lot of forums and groups, such as the technical accounting centre of expertise, RASIG for resource accounts that HMRC runs, and the small-and-medium-Department forum that I am a part of. I know about a lot of these forums because of my 12 or 13 years in the civil service. I might not know about them automatically if I was on day one, so a bit more signposting might help us make the most of what already exists.

Q46 **Chair:** We have not really drawn out enough this afternoon—and you have all been, I think, very loyal to your sponsoring Departments—but I would like you now, Micon, to be a little bit more candid with us. These 14 Government functions must be a terrific burden for an organisation as small as yours.

Micon Metcalfe: If we were being audited and checked on them or having to fill out checklists, I think they would be. We follow them in as far as, if we are doing a function, we check the standards. Do I spend my days worrying, "Are we meeting all the functional standards?" No, I don't. If we are carrying out a specific function, do I check the functional standards? Yes, I do, to make sure I comply.

Q47 **Chair:** They all have to be reported against in your annual report and accounts, don't they? That must take time and resources.

Micon Metcalfe: The annual report and accounts take time, but I wouldn't say they take an inordinate amount of time—perhaps because I



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have spent a career producing annual reports and accounts. Our auditors are happy with the way we report them and the evidence we produce. I think we are doing enough. Could you look at a simplified model of accounts if you were going to keep small bodies independent? Yes, you could. That happens in the charitable sector, where charities with lower levels of income do simplified accounts, and it is the same with companies. There are things that could be done that would reduce the burden and free up time, ultimately, to do other things.

- Q48 **Chair:** If the Treasury updates FreM—the standard of auditing you all have to report to—twice a year, and every time it makes a change, it places an additional burden on you all. You have already usefully pointed us in the direction of simplified accounting standards, and there already are some carve-outs in FReM. I do not mind which of the three of you answers this question because it is a very important one: is there more we could do in simplifying your accounting reporting?

Micon Metcalfe: I would look at what information is required to be assured that the level of governance is right, that there is no fraud and error, and what level you need. We are, I think, the smallest body within the Department for Education accounts with our turnover. We are like a little rounding error in there—one line in the Department's accounts. It is a case of risk analysis; even if we went terribly wrong, what would the risk be? Could it be an income and expenditure statement that is checked and assured, rather than a full set of accounts and a full annual report? We would still report our work, so there is still an element of wanting to report publicly what we have delivered operationally.

- Q49 **Chair:** You keep jumping to the further thoughts that I have. Should all these 48 small bodies be risk assessed, and should their accounting and reporting standards then be related to the risk that they run to the taxpayer?

Micon Metcalfe: That would be a proportionate approach, because you would base it on how much income they receive and whether their operations are particularly risky. We are fairly straightforward; most of our costs are staff and there is a little bit of the rest, because we deliver reports—that is how we operate. Other Departments may do more commercial work, and that may pose more risk in terms of getting things right. On size, the NAO Report covered small Departments up to £30 million—we are a tenth of that. You could set some limits about what was proportionate.

- Q50 **Chair:** Farhad, your Department runs next steps bodies or ALBs, everything from HMCTS running into the billions to—I looked and I think there are about four of these small bodies, am I right?

Farhad Chikhalia: I thought there were seven.

- Q51 **Chair:** Fine, we will not quibble over those figures. Do you think this risk approach basis gives some scope? You are dealing with the very biggest ones, which obviously have some big risk involved—we know that they have a certain amount of fraud and error and that sort of stuff—compared

to the smaller ones. Is there something to be said for Treasury and Cabinet Office setting the rules based on risk base, and less onerous for those with very low risk?

Farhad Chikhalia: It is definitely worth exploring. Ultimately, it is for Treasury and the Cabinet Office to work out the best way to get their reporting regime right. I think you have to draw the line somewhere, and it is always going to be difficult to work out where to draw that line. The £30 million or the 50 people rules that were used in the NAO Report—

Q52 **Chair:** We are going to ask the Treasury about that.

Farhad Chikhalia: You will get more or fewer bodies depending on where you draw that line. The other thing is that I am not entirely convinced that the risk of a body is directly related to the headcount or the budget. You can have small bodies where the risks are quite large and are not necessarily related to how they spend their money, but just down to the type of policy that they cover. That is one of the potential issues: in drawing the line and saying, “You can do a lower level of reporting”, you reduce the reporting burden on bodies that should be doing quite extensive reporting.

We have talked quite a lot about efficiency today, and something to bear in mind is that there are probably going to be some elements of reporting that you would want all bodies to have a minimum standard on. Senior pay is one of the obvious examples, but there are going to be other examples like it as well. A general approach to having less onerous reporting sounds fine in principle but I think, once you delve into the detail of, “Where is that appropriate and where is it not appropriate?”, you probably find that you want to be more—

Q53 **Chair:** My question was very precise. I said, “risk assessed”, so I agree with you. It is not necessarily related to size or finance; it is assessment. Indrani, is there anything else you want to add to what we have already said?

Indrani Banerjee-Jones: Only that the main area where I think things could look a bit different, particularly in annual report and accounts, is around the greening Government commitments. Some of the sustainability reporting that we do is quite lengthy; the requirements are quite rigid as to the sort of information you are required to put in, and there are limited opportunities to really tell the story as to what that means. When I think of annual report and accounts, it is a very useful and meaningful vehicle for Parliament and the public to know what the Department does and the value it adds. For some of the requirements in the greening Government commitments, we rely on, say, the Government Property Agency and our travel booking provider to give some of that information. Because we are in a Government hub, we are sharing our building with a lot of other smaller and bigger Departments, so I am not sure how meaningful looking at just GAD’s waste or just GAD’s water usage is. What does that really say against the commitments we are making as a country to net zero? If we are all inadvertently relying on GPA to provide the information, could there not be a separate report that GPA does that is perhaps a bit more

meaningful, and talks to the greening Government commitments in the context of their portfolio estates?

Chair: Thank you all very much. It has been an interesting session that has given us some useful ammunition for when we ask the Treasury, Cabinet Office and others how all this should work. Thank you for your time today. As I said at the beginning, stay if you wish to, but you are not obligated to do so.

Sitting suspended.

On resuming—

Examination of witnesses

Witnesses: Andrew Cartner, Janet Hughes and Conrad Smewing.

Q54 **Chair:** We now move on to our main session. We have just heard from our panel of witnesses about some of the challenges that small bodies face in complying with functional standards and requirements, and the support needed from larger Departments.

I would like to reiterate that, to support meaningful and efficient compliance and accountability, reporting duties must strike the balance between accountability and proportionality. The Government currently have ambitions to change the way they work. For example, they aim to simplify and streamline regulations, reduce duplication and inefficiency in arm's length bodies, and move back-office functions to shared service centres. These changes provide the Government with the opportunity to enhance transparency and are also meaningful for organisations of all sizes. For small bodies, that means avoiding undue burden.

Today's session will be an opportunity to examine the current landscape of standards and requirements, and to further examine the challenges that small bodies face in compliance. We will also explore future opportunities to adapt requirements and standards used by small bodies. Before I start with the questions, I will ask you to introduce yourselves. Some of you are well known to this Committee and some are not. Janet, would you like to introduce yourself?

Janet Hughes: I am Janet Hughes. I am the director general for reform and efficiency in the Cabinet Office. I am responsible for the work we are doing, among other things, to improve the efficiency of arm's length bodies. I am leading a review of arm's length bodies, which includes making sure that what we do works for smaller arm's length and Government bodies. I have been in the role only since June. Prior to that, I spent 28 years in and around the public sector, including in London, Parliament and, most recently, DEFRA.

Chair: I gather this is your first time before the Committee, so a special warm welcome to you. Conrad, you are well known to the Committee, but would you like to introduce yourself?

Conrad Smewing: I am Conrad Smewing. I am the director general of public spending in the Treasury and the co-head of the Government Finance Function. It is lovely to be back.

Chair: Andrew, you are also well known.

Andrew Cartner: Hi, I am Andrew Cartner. I am director of public spending at the Treasury and deputy head of the Government Finance Function.

Q55 **Chair:** Thank you all very much for being here. I will start with you, Janet, if I may. What is the role of the centre in enforcing standards and reporting requirements for small bodies?

Janet Hughes: In terms of the centre, I would include within that scope the Cabinet Office, Treasury, DSIT and other organisations that own some of the functions. We set strategy for the functions, set standards and offer guidance, offer specialist support and ensure that the standards across Government are working as a whole. We do not hold individual bodies to account on compliance with those standards. That is the role of the principal accounting officers and Secretaries of State in Departments.

Q56 **Chair:** Thank you. Conrad, could you tell us what the Treasury's role is in all this, please?

Conrad Smewing: Absolutely. The Treasury's primary role in financial reporting is to set the financial reporting requirements. We own the financial reporting manual, which adapts international financial reporting standards to the UK public sector. We have independent advisers to help us do that in the Financial Reporting Advisory Board, but we set that standard. We also set the standards and frameworks more broadly across public spending, for example "Managing Public Money" and the Green Book.

I am also head of the Government Finance Function; within that, we set the finance function standard and do all the things other central functions do.

Q57 **Chair:** You heard me asking in previous questions about FReM, the Government's financial guidance for these bodies, being changed twice a year. Does the committee you just talked about have on its agenda how you could reduce the burden to these small bodies?

Conrad Smewing: Both the Treasury and the Financial Reporting Advisory Board, when thinking about how to adapt private sector reporting standards to the public sector, think about the burden of that and the proportionality of that burden. In some cases, when we are adapting standards, we make changes where it would make less sense to do something like that in the public sector. For example, when we brought in IFRS 9 on financial instruments, we adapted it so that you did not have to do expected credit loss for Government bodies that owe money to other Government bodies. We consider proportionality.



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What we do not do at the moment, which the NAO Report picks up on, is to have separate regimes for smaller and larger central Government bodies, which I think is the question the NAO Report is posing: should we do that? We are keen to look at that. There are obviously quite a few considerations to balance here: it might save time and money, but it would reduce transparency, and we need to think through where to strike that balance so that the reports and accounts meet the primary needs of their users, including, of course, Parliament.

Q58 Chair: We will examine some of that later. I have a simple question before I pass to my deputy, Clive. If we are going to continue down the line of giving different standards for smaller bodies—maybe on a risk-based basis, as I said during the previous panel—surely we ought to have a standard definition of what small bodies are. The NAO has come up with a definition, but it is not approved by the Treasury, so you might then start reporting on small bodies using a different definition. This Committee likes to be able to measure things and to have baselines. Surely it is important that we all have the same definition for what a small body is, is it not?

Conrad Smewing: I certainly agree with that; you are touching on a question for us to think through in the implementation. As you say, the NAO Report focuses on a turnover of £30 million and the number of FTE employees as a way of getting at “small bodies”. That is not a perfect way of getting at it. The principle would be the risk associated with the body, but once you get into trying to design a simplifying regime so that some people do not have to worry so much about it, having a complex and subjective thing such as the level of risk as your threshold might not work that well.

You would likely get into, “What is the right turnover level?”. The NAO have got £30 million; for some elements of the reporting regime, it is £500 million—I think that is our ratio for the task force on climate-related financial disclosures. Where you put your threshold within that will change pretty significantly, depending on how many bodies you have and what loss of transparency you end up with.

Q59 Mr Betts: Standards and reporting requirements are set at the centre for all these bodies to follow. What happens if they do not?

Conrad Smewing: For the financial reporting, the standards are set by the FReM, and we then have the NAO to audit those accounts. It identifies where there are problems and qualifies the accounts, if it needs to do so and bring that up. That is the system for financial reporting. On the functions, do you want to say a bit about that, Janet?

Janet Hughes: It is important to note that the standards are made up of both compulsory, mandatory elements and discretionary elements. It would depend on which element of the standard had not been met, the extent to which it had not been met and the consequences of that.

The Secretary of State for each Department is accountable for the performance of all the bodies that report into that Department, and the principal accounting officer is ultimately accountable for managing public



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money. As Conrad has said, the chief executive, who is usually the accounting officer for an arm's length body, has some delegated accountability—if it has gone wrong within their remit, they would be accountable.

There are then arrangements to hold each of those layers to account, including yourselves, Parliament and—in the case of arm's length bodies—internal audit and National Audit Office audit. They also have their boards, which have responsibilities to oversee, scrutinise and challenge. The consequences would determine what it is that happens when something goes wrong. If there has been a material impact on the public, you would expect that be of a higher order than a minor error that has had no particular consequence.

Q60 Mr Betts: Can you give us some examples where bodies have failed to follow the appropriate rules and standards, and what has happened to them?

Conrad Smewing: In the financial reporting world, the NAO qualifies the accounts, or more so, and there is a process of setting in train what needs to be done to get the qualification off the accounts. Andrew, do you want to elaborate on that?

Andrew Cartner: If you want a specific example, there is the annual report and accounts in DEFRA, where the Environment Agency has a number of flood defence assets that I think are worth about £1 billion, and the FReM says that you have to value those assets on depreciated replacement cost. For historical reasons, they did not follow that valuation method, and those accounts were qualified. Those accounts being qualified was in the public domain, and a programme had to be put in place to value those assets in the right way. It would be picked up by the NAO and then reported to Select Committees, such as this Committee, that in that instance the accounting principles had not been followed.

Q61 Mr Betts: Is that the only one you can think of?

Andrew Cartner: There will be others; that is the one that springs to mind.

Conrad Smewing: There will be lots of examples of qualification of accounts. The other part of your question is on examples of where different bits of the sector have not met the functional standards. I do not whether Janet has specific examples of that, but it is more of a "comply or explain" standard for the bits that are non-mandatory.

Janet Hughes: Yes, the remainder of the functional standards tend to be more of a question of following best practice, rather than complying with things that absolutely shall be done, although they all include "shall be done"-type statements.

There are plenty of examples of non-compliance to the extent that we are on a continuous improvement journey across the whole of Government. All the arm's length bodies are expected to have a continuous improvement



framework in place; that should be reviewed every year, and they ought to be making improvements. At the last assessment, we assessed that around 58% of the ALBs had such a framework in place. That was in line with expectations, because the remainder were not bodies that had their own separate accounts and separate set-ups. On compliance, in the range of about two thirds were meeting “good”, according to the standards, so there is still plenty of improvement to be done.

From my own experience, there were plenty of Departments not compliant with the digital standard when it was first introduced, and it is worth fleshing out the fact that it is not just about holding to account and punishing; there are a range of interventions that the functions are intended to make, including masterclasses through the commercial function, learning and development, professional standards and interventions with specialist support to try to up everybody’s game in an enabling way. The move in the centre of Government and the functions is much more to operate in that way first, and only to fall back on formal accountability and sanction-type arrangements when that is really necessary and everything else has failed.

Q62 Mr Betts: Just to follow up, do you ever look at what is not being done, and at the problems that bodies have in complying with certain rules in certain ways, and say, “Perhaps we ought to reshape the rules, because they are no longer fit for purpose and are probably either asking too much, or asking in a way that is difficult to comply with”?

Janet Hughes: Yes, definitely. One of the things that Conrad and I have jointly sponsored is Project Reset, where we have been looking in some detail at the way decisions are made across Government. The result is that Ministers decided, as announced in the Budget, to delegate a lot more decision making to Departments, which can delegate more to their arm’s length bodies, to remove unnecessary layers of approvals in the system and to focus our efforts in the centre much more on the bigger risks and the most important investments. That is one example of us making quite a big leap in the way we operate.

Each of these standards is also reviewed every two or three years, and when we do that, we take on board feedback from all Departments and arm’s length bodies; indeed, they were all consulted in the development. We are reviewing all our guidance at the moment to ensure that it is in line with the principles of Project Reset.

Conrad Smewing: In the financial reporting world, as a matter of course, we have quite lively internal bits of feedback from Departments, and discussion on how it has been, particularly when implementing new reporting standards. We have more formal assessments of how that has gone.

At the moment, the IFRS 16 leasing standard is a good example. We are looking at how it is being implemented, and whether there is anything we can do to make that more proportional. We also have a more broad-scale survey out at the moment across Departments and arm’s length bodies,



looking for their views on where there may be disproportionate requirements within the framework. We do that as a matter of course, and we are doing more of it as a result of this Report.

Janet Hughes: The Report was very helpful in flagging feedback from Departments and ALBs about matters to do not with the substance of the standards and guidance, but with how they can access the information, guidance and supporting information available. We have already taken steps to act on those recommendations, and we want to continue working to improve that.

Q63 **Mr Betts:** Sometimes you put down requirements and guidance and they simply are not adhered to by a body. Do you have any examples of chief execs being held to account for failures?

Conrad Smewing: As I say, things like financial reporting tend to be absolute requirements. We have quite a well-established system involving the NAO auditing and qualifying, and Select Committees holding accounting officers to account for that. I think that is a thing that happens each and every year. With the functional standards—

Q64 **Mr Betts:** Have you any examples of action being taken on failure?

Conrad Smewing: I am sure we could come up with lots of examples of accounting officers reacting to qualifications on their accounts for the financial reporting standards. I do not have any off the top of my head, apart from the one that Andrew mentioned. As I say, for the functional standards it is much more of a framework for continuous improvement. There is discussion with the principal accounting officers about how they think they are doing, and how their arm's length bodies are doing, but it is primarily for them to hold their arm's length bodies to account for those elements of the functional standards.

Q65 **Blake Stephenson:** We have large organisations within Government, such as HM Prison and Probation Service, spending about £6 billion. Then, at the other end, we have organisations such as the Office of the Registrar of Consultant Lobbyists—I have no idea what that is—spending around £326,000. As you said earlier, Conrad, we have exactly the same reporting regimes for those types of organisation. First, is that sensible? Secondly, has any work been done to understand the costs associated with small organisations having to go through these bureaucratic hoops to meet the standards applied to much larger organisations?

Conrad Smewing: It is right that for financial reporting we are applying essentially the same process. I will say one thing, as important context: smaller organisations, just by their nature, have simpler accounts to produce. The Office of the Registrar of Consultant Lobbyists probably is not generating a load of quite complex financial instruments; it is not doing discounted cash flow on the future liabilities for clinical negligence; it probably just has some pay and admin costs. Applying the same framework to different bodies does not mean the same level of work for all of those, but it is also true that you could have a disproportionate burden on those bodies.



What we need to think through, in considering what a small bodies regime would look like, is what loss in transparency you get from applying a smaller bodies regime, compared with the cost savings that you might have. That is absolutely worth investigating. We should not overestimate the level of cost savings that you would end up getting by removing those elements of transparency, for a couple of reasons. One is that the main costs you have here, for instance in financial reporting, are in having the finance team who are doing stuff. A lot of these smaller bodies are already outsourcing that to their parent Department, so the marginal costs might not be that great. Nevertheless, it is worth looking at, so that is what we intend to do.

Q66 Blake Stephenson: You say that it is worth looking at. Is any work actively under way to look at it? I ask because in your response there are quite a few assumptions about what the savings might be. Is it not a valuable piece of work to do, so you know whether there would be savings and so you can balance value for money against levels of transparency?

Conrad Smewing: It is worth looking at, and that is why we are looking at it. I think at the end of last year we had a roundtable or discussion involving the small bodies in financial reporting; I mentioned earlier that we have a survey out, asking more broadly for views. I don't know whether you want to add a bit more, Andrew, on what we are doing in the finance function on this, but that piece of work is active and ongoing.

Andrew Cartner: We have done what Conrad has said. We are going to be engaging with ALBs and small bodies throughout the coming months as well. We talked earlier about FRAB, the Financial Reporting Advisory Board. We also have the user and preparer advisory group, which involves representation by Departments and ALBs, so we will be consulting them. We see the first stage of this piece of work as being to continue our consultation, which we have already started.

Conrad Smewing: What we would like to do, once we have done that consultation in Government, is come back and talk to the Scrutiny Unit in Parliament, and this Committee if you are keen to talk about it, because in the end the trade-offs that we will end up talking about are about transparency for taxpayers versus these marginal costs of production.

Q67 Blake Stephenson: Are you looking at international comparisons? Are there other countries that differentiate? If so, do they do it well and are there lessons we could learn?

Conrad Smewing: We do look at other countries, and the NAO Report picks up on a couple of them. Several countries have essentially one tier, as we do: I think it is the same in the US and France. There are countries that have a two-tier system—like Australia, I think. Portugal has a three-tier system and New Zealand a four-tier system. The context for financial reporting in different countries can be very different. In particular, in those systems that have more tiers, the bottom tier is often doing just cash accounting, which obviously is easier. But it would be quite a big backwards step in the UK to move from accruals accounting back to cash



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accounting. In terms of the benefit from those different levels, the cost saving might not be as great as it is in those other countries. It is definitely worth looking at, but maybe we should not lift and shift wholesale.

Chair: Janet, did you want to come in?

Janet Hughes: I was going to say, in respect of the wider functions, that the guidance does say that we expect Departments and ALBs to apply it proportionately. However, the NAO Report and previous GIAA reports have pointed out that Departments are not yet fully consistent in how they interpret that. We have had feedback that people would like more guidance on how to be proportionate. We have very much taken that on board and will be considering it as we review the standards. Towards the end of last year, we asked the functions to look, first, at how we might ensure that the standards are applied in a proportionate way and are capable of being so applied and, secondly, how we could provide more guidance on how to be proportionate.

Beyond financial reporting, the reason we have not established a specific threshold and said, "Below that line, do it like this; above that line, do it like that," is that each case is different and has different risks. You might have a body that is very small in terms of money and full-time equivalent, but very big in terms of political salience or a particular other commercial or property risk. We want accounting officers to have the flexibility to determine for themselves, in a more nuanced way, how to be proportionate in their context. We think that it is much more about providing that guidance so that they can do that.

Q68 **Blake Stephenson:** That was very helpful, because you answered the question that I was going to ask. It seems that everyone is ahead of me, which is fantastic.

A final question from me: if you are, in a more informal way, allowing a proportionate case-by-case approach for these small bodies, how confident are you in the centre that you are getting the necessary data and that it is accurate, so that you can run the Government holistically and have confidence in everything that is being reported up?

Janet Hughes: The mechanism for that is through the continuous improvement frameworks, which I mentioned earlier. Each ALB is expected to have one of those and to take advice from the functions on developing them and improving. We have some sight of those. As I mentioned earlier, we did an assessment to see the proportion meeting a good standard across the functions and it was in the order of two thirds: I think 58% were up to "good".

In my team in the centre, we do not collect detailed data on every arm's length body. We are not set up to do that, and it is not the model that we have; it is important to be clear about that. There are other models available. You could have a central team tracking every single body across Government. We do not think that that would be proportionate or effective, because it is the Departments that decide to have the bodies



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and can make decisions about changing them and how they are set up. They are best placed to understand the sectors that they are interacting with and the work that they are doing. We expect principal accounting officers to be doing that work; the functions are here to see how that is working across the system.

- Q69 **Chair:** On the continuous improvement point, there are some things, no matter how small the body, that it would be sensible for your Department to press for—things like combating fraud, improving IT from analogue to digital and being less likely to suffer cyber-attack. How susceptible are these bodies? Presumably, the annual report will report on those 14 Government functions, of which digital is one. How susceptible are they to you saying—as I suspect may be the case in a lot of these small ALBs—that their digital function is not up to scratch? How susceptible are they to you saying, “Come on—I think you need to do better with your digital systems to improve efficiency”?

Janet Hughes: If it were simply me on my own, I would love to think I am highly influential, but I would probably not be the most influential voice in every single body deciding what its priorities are. Those priorities are set through things like the spend review—where Departments will say where their risks are and where they want to invest, particularly with things like legacy technology—and the way the Departments and their boards work.

The Cabinet Office feeds into that through a number of mechanisms. First, we have a programme of intervention across the whole of Government under the productive and agile state banner. We are seeking an improvement in digital capability across the piece: we want to see one in 10 officials with digital capability, and we are looking for 16% administrative cost reductions in the back office to invest more in the frontline. We track that across the whole of Government, but we do so through the Departments; we do not go directly to each arm’s length body. The Cabinet Secretary has held meetings with every permanent secretary on their progress against the top priority measures that the Prime Minister has asked us to follow. My team support that and will be reporting on their arm’s length bodies through that process.

- Q70 **Chair:** Conrad, on the financial functions and my theme of trying to reduce the burden, with the FReM being updated twice a year and thinking about upgrading it, one thing that has caused problems across Government is the IFRS 16 leases. Leases are not a simple thing. I should declare that I am a chartered surveyor, and as a property person I know that it is not simple to value them. If the Office of the Registrar of Consultant Lobbyists had three or four properties, for example, it would have to get outside consultants in to value the leases, which would be costly and would cause delay. Can you think of any ways to make small bodies immune from some of the more onerous requirements?

Conrad Smewing: That is exactly one of the things that we are looking at in IFRS 16. In particular, there are quite a lot of intra-Government leases, including with the Government Property Agency, which is managing most



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of this property. We are looking at what information flows we could put in place or whether there are other ways of making it easier for bodies to meet that standard.

It is important to say that the standard has improved the transparency of financial reporting on leases. It has moved from a binary thing where you could get a lease just off balance sheet and that would essentially flatter your account. IFRS 16 has delivered a big improvement. The question is whether we can, in the way we are bedding it in, make it easier for the smaller bodies. Andrew, did you want to come in on IFRS 16?

Andrew Cartner: No, I completely agree.

Chair: All these things can make an improvement, but the question is whether the improvement is worth the burden. "Proportional" is really the word.

Conrad Smewing: Yes, and as I say, at the moment we are applying the same standard across all Government bodies. For the larger bodies, it is very clear that the benefit is worth the cost; there is a significant improvement in transparency and it is a better way of recording the liabilities. If the actual experience of small bodies when they are generating these things is that they are having to put a lot of time into IFRS 16 leases without a lot of benefit to them, and there is not a more operational way in which we can make it easier for them, that is exactly the kind of thing that we would put into a smaller bodies regime; we would disapply some of the requirements.

Q71 **Rupert Lowe:** I am finding it very enlightening to learn about these small Government bodies. Given that we are looking at only bodies that spent up to £30 million with up to 50 employees, I think it is fair to say that we are looking at the tip of the iceberg rather than the base of the iceberg, which is what sank the Titanic. I have now had the chance to look at a list of these bodies. I will pick four of them. I see we have the Climate Change Committee, the Equality and Human Rights Commission, the Office for Budget Responsibility—whose forecasts, in my experience, are always wrong—and, to cap it off, one called Wilton Park. I had never heard of them, but I had a look. They say that they "bring together experts" in "complex global challenges".

Before I get on to whether sustainable financial reporting is in place, I am prompted to ask: when does Parliament actually properly scrutinise all these bodies, and who holds them to account to ensure that money is not wasted for the public purse? I have been in Parliament for over 18 months now, and I have not really seen any discussion from the MPs who are elected by the people to represent them. I have not seen any issues like this come across my radar.

Who is checking that their salaries are right? Who is checking that their pensions are right? Who is checking that they are not wasting money? We have heard that one of them has chosen some accounting package that I have never heard of. Who is ensuring that it is backed by a solvent company and not an insolvent one? Who is actually protecting the

interests of the taxpayer here? Conrad and Andrew, I have met you guys before. It is probably a question for you, but Janet, if you have something you want to say, great.

Conrad Smewing: Shall I have a first go, and then Janet and Andrew can come in? First of all, on the universe of bodies, it is definitely the case that there is a large number of public sector bodies. It is a smaller number than it has been in the past. A series of initiatives from the centre of Government since 2010 have looked at whether all these bodies still need to exist and whether they can be merged into central Departments and have their number reduced. They made quite a lot of progress in cutting them, but there is still a number.

When the new Government came in, they instituted a review of each of the remaining bodies to ask whether their powers and decisions should still lie with them or whether they should be folded into the centre and, in addition, whether there was a real efficiency loss and a lot of cost duplication with these bodies. As a result of the start of that review, a number of relatively large arm's length bodies are being brought back into Government Departments; NHS England is the classic and largest example, but there are other examples.

I would say, however, that there are reasons for some of these small bodies to exist. A classic one is independence of advice from Ministers. You mentioned the Office for Budget Responsibility; whether or not it is more or less accurate than other forecasters, its independence is an important part of the framework that Parliament put in place to set it up. You therefore need an independent body there.

The last thing I would say on this, and then Janet might want to come in, is that it is not the case that the only way of saving money in this space is by abolishing the whole body. There are significant economies of scale from putting people on to shared services, which is what the shared services strategy is all about, and you can get a lot of the savings that you want from that.

Janet Hughes: I think the technical answer to your question is that the chief executive and accounting officer of an arm's length body are accountable for meeting the "Managing Public Money" requirements and other standards, and they are accountable for that through their principal accounting officer. The Secretary of State for a Department is responsible for what arm's length bodies they decide to have and how they are performing for the public, and they are accountable to Parliament through departmental Select Committees and all the normal channels of the House.

However, I think it is important to say that the current Government's view is that there is more to be done to make those arm's length bodies more accountable. What we have been doing through the arm's length body review piece of work that was announced last year by the then Chancellor of the Duchy of Lancaster, and was also referenced by the Prime Minister,

is looking at not just efficiency and duplication in the way that Conrad discussed, but accountability.

You have seen that the Ministry of Justice introduced its democratic lock across its arm's length bodies; we are interested to see whether that is a model that needs to be applied elsewhere. You will have seen the Prime Minister at the Liaison Committee talking about how, when he pulls the levers, the chain from that to the delivery on the ground is too long and not direct enough for his taste. That partly has to do with the relationship with arm's length bodies, so there is a real appetite to address that set of issues, and I think it would be regarded as a fair question. That is a continuation, actually, of previous Governments that have had a similar view, and that is why the number of bodies has been reduced since 2010 in the way that it has.

Andrew Cartner: Can I add two points? On the public scrutiny point that you mentioned, we have the estimates process, which will be voted on in Parliament. That will have, for each Department, a list of its activities and a list of its bodies and what funding has been approved for them to spend that year. That will be reported against in its annual report and accounts, and Select Committees will hold Departments to account for that.

You mentioned accounting systems. There is a shared services programme strategy, which is looking to move all Departments to five clusters. That is going to be with companies like Origo, Workday and SAP—it is big companies that will provide that service. Sitting underneath that, some bodies may use accounting software to take the information off those systems to produce their accounts, but that is more local software. For any significant system, that would be a major Government contract, and it tends to be a major, well-known supplier.

Rupert Lowe: That does not entirely tally with the pre-meeting we had with the Departments, but we can—

Andrew Cartner: We can take that away.

Q72 **Rupert Lowe:** We can pick that up later. Having had the pre-meeting, if I ran a business where I knew what my income was and I was just spending money—again, I think a lot of this is Government money being given to these various small quangos, as I call them—the question is about the sustainability of the financial reporting. Is it necessary to have the depth of financial reporting when we are looking at how they are spending the money? We are not looking at how they are generating the money. There is no turnover, as such; it is simply a handout from the taxpayer that they are then distributing.

Surely you can streamline the reporting to ensure that we do not waste money on professional fees or, as you say, shared services that could be better utilised. If you run a business, you have to make sure that you keep yourself very streamlined. I just question whether you aren't burdening these small bodies with far too much financial reporting, which you could make a lot simpler. That would benefit the taxpayer arguably in

two ways: you could simplify that reporting and you could cut the cost of generating the reports.

Conrad Smewing: I definitely agree with the principle. As I said at the beginning, one of the things that we do when we take private sector reporting standards and apply them to the public sector is think, "Is this suitable for the public sector or should we make some adjustments to take account of the fact that this is not operating in a commercial environment?" One example of what we do is in the valuation of assets, plant and equipment. I think we do that every five years with a sort of indexation, rather than forcing people to value every year, as happens in the private sector. We make those kinds of adjustments for the public sector context.

As I say, we are actively looking at what more we could do. I do think, though, that it is worth getting the proportionality in both senses here. Take a change that you made to reporting standards that reduced compliance costs for small bodies in the private sector by £100. There are about 5.6 million small businesses in the private sector, so you would save £560 million. In the public sector, the NAO has identified 48 bodies, so the same reduction in transparency and work would save you £4,800.

Q73 **Rupert Lowe:** It is similar to a small company not needing an audit.

Conrad Smewing: Yes. It is because there are so many more organisations in the private sector. Broadly speaking, the private sector has a very large number of very small bodies. The public sector has a small number of very large bodies, so you already have this difference in proportion that you need to think about. To your starting point—they just need to be accounting for the expenditure—that is a good reason why we have this quite high standard of financial reporting in the public sector: because they are always spending someone else's money. They are always spending taxpayers' money, whereas small businesses in the private sector are often spending only their own resources.

Q74 **Rupert Lowe:** Well, they are generating their own money. They are not just spending.

Conrad Smewing: Exactly, and that is one of the arguments for having a high and consistent standard of reporting in the public sector: that all public bodies that are spending public money should be reporting on the remuneration of senior members of the body—that kind of thing. That is what the annual reports are doing.

Rupert Lowe: Because we know, Conrad, that it is easier to spend other people's money than your own, very often. No more questions from me, Chair—you will get bored of me.

Q75 **Chair:** I will never get bored of you, Rupert.

This would be useful for the record, Conrad. We talked about proportional systems for these smaller bodies, and some ideas of what that would look like in practice. You have given us some clues about that—IFRS 16 is one of them—but what would a proportional system look like?



Conrad Smewing: I suppose I have come up with a few other examples of the sorts of things you would look at. IFRS 16 is in the financial reporting element of it. Maybe you could apply that in a different way. In the performance reporting, we are looking at where there is duplication—some things that are in the annual report and are also available elsewhere in another publication. There is duplication and then there are things that do not change very much from year to year but nevertheless end up being reproduced each year in the annual report and accounts, like the purpose of the body—that kind of thing.

When you get into these sorts of examples, though, it does start to throw up the cost-benefit consideration. I think one of the things that is duplicative in annual reports and accounts is that there is a requirement for a table that sets out how much money was voted in the estimate and what the out-turn is against that. You can get that from other Government bodies, but it is not that expensive to reproduce in the annual report and accounts, and you can imagine that users might want to see it all there in one place. That is an example of where you might want to weigh up other ways. You could certainly shrink down the length of the annual reports and accounts by removing the sort of information that does not change very much from year to year, but again, it does not cost very much to repeat it.

Q76 Chair: I will bring in Janet in a minute. This Committee is dealing not just with numbers but resources—the human resources—that are required to produce all these requirements. They are trying to do that as well as their day-to-day job, so if you could reduce the burden on them, they would be able to do their day-to-day job more efficiently.

Conrad Smewing: Exactly. What we would be tempted to talk about in the financial reporting space is reducing the burden on the, in some cases, very small number of people working in finance in that organisation. Again, we have to look at the trade-off with what we lose.

Janet Hughes: I want to add to that point. Proportionality is a question not just of what it is that you are required to do but of how it gets done. There are some really good examples of good practice across Government, where it is not each body on its own having to come up with the expertise, but the Departments doing it centrally and supporting those bodies, or they are clustering together in groups to do it. The idea of shared services, which I know you were discussing with the earlier witnesses, is to provide a bit more of a platform for a more efficient and proportionate approach.

If you are a tiny body, it does not make sense for you to try to have all the internal capability to do absolutely everything you will ever need to do; that is not going to be efficient. It would be much better for you to club up with others that are doing similar things, and make use of their platforms and expertise. That is indeed what happens in practice, but not yet to the extent we would like to see. We think that there are serious savings to be made at a whole-of-Government scale through shared services, and small bodies will be a proportion of that.

Q77 Sarah Green: To follow up, when changes are introduced to financial

reporting requirements, how do you test whether they are suitable for bodies of different sizes? Do you test and assess, or is that not a consideration?

Andrew Cartner: We currently have a one-size-fits-all system, but whenever we have introduced new changes to the financial reporting manual, we consult across Government, and we use different approaches for doing that. We check with Departments and arm's length bodies. We talked about the Finance Function earlier, and we have forums like the ALB forum, the finance leadership group and the finance foundations group, so we would do a lot of consultation.

More formally, we have the Financial Reporting Advisory Board, to which we would present any proposals or changes for financial reporting in Government, and get their view and opinion on that. We would take that into account, but when we agree on the final standard, it is going to be consistent.

Conrad briefly mentioned TCFD earlier, which I think we talked about at a previous hearing on whole of Government accounts. That is where we are putting disclosures in annual reporting accounts about environmental impacts on departmental strategy, what governance is in place, and risks and metrics. Through part of the consultation process, we set the threshold at £500 million, so it was only the large Departments and large bodies that had to disclose that, because we felt that that was where the immediate biggest impact was. That is a flavour of the consultation that we would do.

Q78 **Sarah Green:** You referred to it as a "one size fits all" regime. Have you ever explored, or are you exploring, having a separate regime for smaller bodies, or is that not on the cards?

Andrew Cartner: I think Conrad said earlier, following the NAO Report, which is helpful, that we are going to look at that. We are going to do a review of that and consider what could be done, so we are open to that and we are going to have a look at the possibilities there, and think about balancing the trade-offs associated with it.

Q79 **Sarah Green:** I am keen to understand what role the Treasury has in the support for smaller bodies. What support do you provide to those smaller bodies? I read in the Report that you make yourselves available if somebody asks you for support, but what does that look like in reverse? How do you make yourselves available, or is that not a role that you perform?

Conrad Smewing: We can talk about the Government Finance Function.

Andrew Cartner: The support for bodies comes in three forms. You asked about the Treasury, and every body in the list that we have been looking at has an account manager in the Treasury reporting team. You are right—that is more of a point of contact for them to contact us, but it is there.

We have also done some work to put a central Government assurance directory online, which brings together all the functional standards and



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requirements that bodies need to meet in Government—that is all in one place. It has had good feedback, and it is helpful for people. In terms of the Treasury as the Department, that is the support that we provide, but there is also the Government Finance Function, which I talked about before. We have a technical accounting centre of excellence that Departments and bodies can access for support if they have a complex accounting issue. We have all the different forums that I talked about earlier where best practice and ideas can be shared.

The final point I would make is that support is also available from Departments—the sponsor teams and expertise in Departments. I have worked in central Departments before and we have offered support, guidance and so on to bodies. There is a whole raft of support for Departments.

Q80 Mr Betts: Continuing on the issue of smaller bodies, how often do you go to them and ask them what they think is appropriate in terms of financial functional standards?

Conrad Smewing: For the financial reporting standards, as Andrew was laying out, whenever we make a change, we consult across Whitehall, which would include some representatives from smaller bodies. It would be the case that when one did a refresh of a whole functional standard, that is the point at which you would again consult probably not all the smaller bodies, but some examples, because people will tend to have similar issues with the same things. That is the regular kind of involvement. As I said earlier, particularly on financial reporting, we have a survey out to everyone asking for their—

Q81 Mr Betts: How often do you consult?

Conrad Smewing: Whenever the FReM is changed we would do that kind of consultation.

Andrew Cartner: We also have the user and preparer advisory group, which meets several times a year.

Conrad Smewing: It is quite an ongoing thing.

Q82 Mr Betts: What significant changes have you made in response to the views of smaller bodies?

Conrad Smewing: Andrew mentioned the TCFD disclosures where it is quite an onerous thing. We have got a lot of feedback saying, “Is this really worth it for the smaller bodies?” so we applied the £500 million threshold for that. That is an example. We have had quite a lot of feedback on the IFRS 16 implementation, and that is one of the reasons why we are looking at that as well.

Q83 Mr Betts: I suppose the Treasury does not really like revolution, does it? It prefers the little, marginal, incremental tweaks here and there. Would it not be appropriate to say, “A lot of this stuff that smaller bodies have been asked to do is not really appropriate at all”? If you just get rid of it, no one is going to suffer, public accountability is not going to suffer, and the



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public is going to be no less the wiser at the end of this. Just change it comprehensively.

Conrad Smewing: I will not comment on what the Treasury in general does or does not like. It is the right question to ask: are there significant changes that could take a lot of responsibility off these bodies, and what would be the benefit of doing that?

I return to my point that we are talking about 48 bodies here—we are not talking about hundreds of thousands of bodies. There would be a benefit to taking those bodies out of that, and it would probably save some public money—maybe not as much, because there are other ways of saving the money, including the shared services, and you would lose something in the comprehensiveness and the fact that all the bodies are doing the same reporting. That is the trade-off you have to make, but to the point about where you should put the threshold, we want to come with some proposals of what we could do and discuss with Parliament, this Committee and others, about where you want to put the line.

Q84 **Mr Betts:** Will you look at some radical options, not just the tweaking?

Conrad Smewing: We can certainly look at radical options.

Chair: “Look at” them!

Conrad Smewing: As I say, if you are prepared to make the trade-off and you say, “We’re not interested in as much information about what these smaller bodies are spending their money on and how they are being governed,” then you could reduce the—

Q85 **Mr Betts:** Have you thought about putting some options forward so that those who might make the decision at the end of the day can see what the different options are?

Conrad Smewing: The stage we are at now is going out asking people, “Where are you finding this onerous and where does it feel disproportionate to you?” We will pull that back together, and we will say, “Therefore, here are the options where you can draw the line.”

Q86 **Mr Betts:** I suppose what I am trying to get at is this: are we going to get two options where one is a little tweak, and one is a slightly smaller tweak?

Conrad Smewing: We can present the options in whatever way the Committee would find most useful.

Q87 **Mr Betts:** It is probably a little bit more dramatic than how you are first thinking about it, in terms of exactly what it would mean if a lot less onus was put on these bodies to do all the things that they are currently being asked to do.

Conrad Smewing: We absolutely can do that, yes.

Andrew Cartner: I would just add that I agree with Conrad, and we can do that. I think it would be interesting for the Committee to see the trade-



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offs that are there. One of the ones that we have not really talked about is the whole of Government accounts. Obviously, we have a consistent comparative framework with all of these, so everything currently flows up to the whole of Government accounts, which we have talked about in previous hearings. We need to think about the impact on that as well.

Q88 **Chair:** Conrad, thinking in terms of our report, how long will it take the Treasury to come up with those options?

Conrad Smewing: I am looking at Andrew here, but we need to get the results of the survey in and do some consultation on that. Maybe six months? I don't know.

Andrew Cartner: We have called it the 2026 review into this, so the sort of timeline that Conrad talked about seems reasonable here.

Q89 **Chair:** Let's put this in the context of what the NAO Report actually says: over the last five years, the annual reports and accounts have got 30% longer and taken 30% more time to produce; external and internal audits are each 30% more expensive in the last five years. The burden has grown considerably in the last five years. Surely we could come up with options to wind some of this back.

Conrad Smewing: I think we can come up with options that will wind some of this back. As I say, it will come at some costs in other dimensions. On the 30% figure in the NAO Report, that is obviously one way of measuring the expansion of these things. I would be a bit cautious about making a direct link to it costing 30% more to produce annual reports and taking 30% longer. A lot of that change is not actually in word count; it is introducing more figures, charts and tables to help users to understand the data that is already there. Again, it is not as straightforward as that number might imply.

Andrew Cartner: Can I just add two points to that? There are other drivers to the amount of work that goes into annual reports and accounts, beyond just the financial reporting framework and the standards that we set.

There are other things are referenced in the Report; obviously, there is the increasing scrutiny of audit, driven by changes from the Financial Reporting Council. Audits will be held to a much higher standard, and they will need to be done in more detail, as a result of which bodies and Departments will be doing much more thorough disclosures and spending more time on that, because they know that they are going to be audited in more detail. That drives some of the work.

Obviously, from different reports and different Committees, there are sensible recommendations such as putting efficiency savings in annual reports and accounts, which drives some of burden of work that needs to be done within Departments as well. I think it is important to recognise that there are different drivers of what goes into that work.

Chair: Sarah, did you want to come in on this section?



Q90 Sarah Green: I wanted to ask you a question, Janet, if I may. Are small bodies raising any concerns with you about their ability to comply with functional standards? If they are, what are you doing to address them?

Janet Hughes: I would say that overwhelmingly the issues raised with me—both directly and through things that we do to engage with civil service and public sector colleagues, such as Civil Service Live and the people survey—are not to do with compliance with standards from an audit perspective, but to do with the process of decision making. If you are trying to deliver something in Government, whether you are in an arm's length body or anywhere else, there is an absolute plethora of people queuing up to tell you, "You'd better shave off this risk, or this risk, or this risk"—one at a time, in sequence.

That is the set of issues that we have been trying to address through Project Reset, where the Treasury is delegating a lot more decision making to Departments. However, that is just the beginning of the story, because what we want to see, end to end, is much better and faster delivery across the whole of Government. Part of that is getting the bureaucracy out of the way.

To give you an example, in his speech last week the Chief Secretary to the Prime Minister mentioned the state going faster and fixing things. HMRC has a major transformation programme that will generate an extra £7.5 billion in tax revenues, and it was going to have up to 40 central approval points to deliver that programme. It was concerned, quite understandably, that that would slow it down, stifle innovation and make it difficult for it to exercise the responsibility and accountability that it has been given. We engaged together, through the Treasury, the Cabinet Office and the functions in HMRC, and we reduced that to two approval points. The reason it was two and not one is because HMRC was not quite ready to do all of them, but we have done the first one.

What we tried to do was to create a completely different sense of Government being one whole team to get behind this piece of work, with all the functions leaning in to help where needed. To your question earlier about whether we proactively offer help, in this instance, that is what we are doing. We are saying, "Well, you could do with a bit of extra commercial help here, or a bit of extra digital input there." Actually, we finished the first approval meeting early, because of that change in engagement. That is what we want to see everywhere, and it will particularly benefit smaller organisations where these requirements and decision-making processes are bigger as a proportion of their total amount of available capability.

It is important to say that people have been sitting in my chair and saying things like that for a very long time. The Fulton report in 1968 said that the civil service was not connected enough to citizens, was too siloed and was not making effective use of capability. That is not because everyone before me was lazy or stupid; it is because it is difficult and complex, and it is going to take us some time. HMRC was intended to be a trailblazer to



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show what can be done and how we can change, and now we have to do it over the rest of Government, including for small bodies.

If I may say so, I think this Report is helpful in prompting us to think. We are usually drawn to the top 10 biggest ALBs that spend 90% of the money and have 90% of the staff, but you are quite right to flag to us that we ought to ask as a test, "Well, hang on. What about those small organisations?". It sure is miserable, if you are in one of them, if we do not think about you. That is a fair test, and we certainly will apply that as we revise the standards and guidance in the light of reset.

Q91 Chair: Just a couple of questions from me. The sort of sums that we are talking about here would not even feature in the whole of Government accounts, so the loss of detail and possible transparency by simplifying all these procedures would have pretty little material effect, wouldn't it?

Conrad Smewing: I agree; if we set the threshold at £30 million of turnover, that is not very big in the whole of Government accounts scheme of things. We are also talking about quite small sums in terms of savings, particularly the additional savings you would make, given the fact that you have the shared services strategy already; a lot of this stuff is already being done pretty efficiently and economies of scale are already being exploited. As I say, we want to go away and look at it, and we wish to look at the costs as well as the benefits.

Q92 Chair: One of the things that we surely ought to look at is better targeting. The more stuff you put in to an annual report or a set of accounts that is not really necessary, the more that could mask what is really important—what the public and Parliament really need to know about. There is more than just saving money at stake. I have already talked about the human resources of doing these things, but we want to make these things more understandable, as we say repeatedly with the whole of Government accounts.

Conrad Smewing: I really agree with you, and I think that is one of the things on which we will be taking a lead from both the Scrutiny Unit and this Committee. As Andrew alluded to earlier, quite a lot of things that are added into annual reports and accounts are added as a result of recommendations, including from other parliamentary Committees. It is important to take that and say, "Hang on. What is the overall point of these annual reports and accounts? Has there been a bit of mission creep here?" I think that is something that we would look to the Committee to help us with.

Chair: Unless colleagues have any further questions, can I thank all three of you very much? It has been an interesting session today, and I think there is lots to think about from both sides. We will consider this and make a report with recommendations in due course. The uncorrected version of the transcript will be available in the next few days. Again, many thanks for coming to see us this afternoon.