House of Commons

Public Accounts Committee

Oral evidence: Covid-19: Cost tracker update, HC 640

Wednesday 17 November 2021

Ordered by the House of Commons to be published on 17 November 2021.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Peter Grant; Antony Higginbotham; Craig Mackinlay; Nick Smith.

Gareth Davies, Comptroller and Auditor General, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 - 58

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Cat Little, Director-General Public Spending and Head of Government Finance Function, HM Treasury; Conrad Smewing, Director Public Spending, HM Treasury.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Overview of the UK Government's response to the COVID-19 pandemic (HC 366)

Examination of witnesses

Witnesses: Sir Tom Scholar, Cat Little and Conrad Smewing.

Q1 **Chair:** Welcome back to the Public Accounts Committee on Wednesday 17 November 2021. We are continuing our discussion with the Treasury, but this time we are looking at the Covid-19 cost tracker, which is a very useful tool that the National Audit Office has produced to help keep track of how much the taxpayer is spending through the Treasury and Whitehall on Covid measures.

I am welcoming back Sir Tom Scholar, Permanent Secretary, and Cat Little, the director-general for public spending, and then welcoming Conrad Smewing, who is the director for public spending at the Treasury. Welcome back to you.

First of all, I wanted to thank you for early sight of your Treasury minute response, but I have to ask you at the beginning, Sir Tom, why it is late. It was expected in September. We understand that the spending review was challenging you at the time. There is a little bit of leeway for you there, but then we were expecting it in November. Now it will not be formally published to the public until 8 December. Why?

Sir Tom Scholar: I would like, as I did in my letter last week, to apologise to the Committee for missing the deadline. As you know, Government responses to PAC reports are routinely brought together in a document called a Treasury minute. That minute was published on 8 November, and this response was due to be included in that minute. A couple of days later, we also published a separate minute that included progress reports on a number of other previous responses to PAC reports and recommendations. It so happened that the Treasury had in total nine responses to provide across those two minutes. As you will see from the timetable, that did coincide with the work on the Budget and, in fact, the announcement of the Budget and the spending review.

In this particular response, we felt the initial response to one of your recommendations, recommendation 4(b), which we may well discuss, was a bit partial and could be improved. Basically, in trying to do that we just ran out of time. I apologise for that. It was an error, and we will make sure it does not happen again. The Treasury has a very good record in providing these things on time, and we clearly slipped up on this occasion.

Q2 **Chair:** Yes, the Treasury and the Public Accounts Committee should have a shared agenda. We expect Departments to respond. We had to berate one of your colleagues—and I do not usually like to berate, but we did—this week for a series of slow responses. We do hope the Treasury will set an example on that.

Nevertheless, it was a very interesting response. You mentioned 4(b), so let us go straight to it. This is the one where you did not agree with our recommendation. Perhaps just to make it easy for people to follow, recommendation 4(b) said, "HM Treasury should review major Covid-related spending decisions to identify cases where decisions made during the pandemic have resulted in poor value for money". We said that the Treasury "should report its findings back to this Committee by the end of 2021, and use the lessons learnt to produce guidance to minimise the risk of this happening in the future".

You said you disagreed, and your main reason for doing that was that it was the role of the National Audit Office to look at value for money, not the Treasury. We appreciate that it is constitutionally important for the National Audit Office to have that independent role. There is work that the National Audit Office has already done on some of these Covid measures; bounce back loans come to mind. We produced a report today on the increase in DWP fraud and error, largely due to the pandemic.

These are issues that have highlighted the trade-offs made between speed and getting money out of the door, and value for money comes into that. What is the Treasury doing? Let us take bounce back loans. What is the Treasury doing with BEIS to learn the lessons from that? If you are looking at that with BEIS, surely you are looking at value for money. It seems to me that we may be speaking at slightly cross purposes in your response to our recommendation.

Sir Tom Scholar: That is possible, and so I welcome the opportunity to explain our thinking. May I just say a few words about the general position and then come back to bounce-back loans in a moment?

Chair: That would be very helpful, yes. We may bring in the C&AG as well.

Sir Tom Scholar: The reason we slightly struggled with this and in the end were delayed on it was that we agree with nearly everything you said in the recommendation. We had one disagreement on a fairly technical aspect, which I do not think will get in the way of what you are asking us to do. Because of the way in which, between the PAC and the Treasury, we have always dealt with these reports, we have to either accept or reject the recommendation. Technically it is a rejection, even though we agree with nearly everything.

To be clear, we agree that the Treasury should review major Covid-related spending decisions. We have done that and are doing that. We agree that we need to consider very carefully value for money. Again, we have done that and are doing that. We agree that we should be clear on identifying lessons and reporting them to Parliament and to this Committee. Again, we have done that and will go on doing it. The previous Chief Secretary wrote a letter in April, which we discussed here, on some of the initial lessons learned.

In a moment I will turn to Cat, who will be able to say a bit more about the lessons that we are drawing together already. What we should offer to do on that is to pull it all together into a further letter to you, which might come alongside the formal publication of this minute, giving more detail than we have so far been able to include.

Chair: You have agreed with nearly everything. Can you tell us—

Sir Tom Scholar: The one thing we do not agree with is that it is the role of the Treasury to make retrospective assessments of value for money of spending by other Departments. We look to two people to guarantee value for money. First, we look to Departments. It is their responsibility on an ongoing basis.

Chair: If we had substituted "HM Treasury" for "accounting officers"—

Sir Tom Scholar: Secondly, the NAO does the backward looking. Of course, the NAO is the body with the expertise, the statutory underpinning and the independence to do that in a completely authoritative way. This is something we need to explore. All three of us have discussed it recently.

Q3 **Chair:** When you say "all three of us", for the record that is Sir Tom Scholar, Cat Little and the Comptroller and Auditor General.

Sir Tom Scholar: Yes. We would like to get a clearer sense of the NAO's future work programme, because, as you said, it has already looked at a number of the big programmes. There is already some very valuable material there, but its work on this is not yet complete. We would like to get a sense of the likely timetable of its work and how that fits into all the things that we have already been doing, which Cat can talk about, and then draw out of that—I guess this will be in the early part of next year—a fuller lessons learned, which will take what the Chief Secretary wrote earlier in the year, update it with everything that has been added to it since then and then report back to the Committee.

Q4 **Chair:** That letter was from Stephen Barclay, of course, when he was Chief Secretary. The tone of that letter was very much that you were being quite tough on looking at the issues of spending and value for money. That is my reading of that letter. I am still a little puzzled, because I thought that, as accounting officers, you would be thinking about value for money all the way through. Take bounce back loans. What have you done since the report from the National Audit Office? I am not sure who wants to take that.

Cat Little: I can take that forward. I should say that we are constantly being very tough on reviewing value for money. We assess it before money is allocated. That is absolutely the job of my spending teams.

Chair: I am glad to hear it.

Cat Little: At the last hearing we talked about the CST letter, and I also mentioned the accounting officer lessons learned exercise that we went through. Since then we have also been doing an update to *Managing Public Money*, and we are about to do a refresh.

Q5 **Chair:** Just remind us of the timetable. I know it has been talked about.

Cat Little: That is going to be in December. We have been working on a refresh over the course of this year. With MPM, we want it—

Chair: MPM is *Managing Public Money*.

Cat Little: Sorry, for viewers, *Managing Public Money* is the absolute central guidance that we turn to. We do not want to change that on a regular basis, so we have made sure that we have been learning as we go. That will then have a reset.

The finance leadership group is doing a series of deep dives into areas that we think warrant all of our attention across Government. That has been informed partly by the work of the Treasury, partly by value for money reviews and partly by finance leaders across Government saying, "We really need to have a conversation about this". We have looked at forecasting the impact to the accounts, the assurance framework and fraud. The Treasury has also commissioned a cross-cutting review of all the Covid schemes through the Government Internal Audit Agency. We also have our one finance Covid guidance hub, which has been regularly updated for lessons learned.

To Tom's point, we have done a huge amount. It is just embedded in everything that we do. We recognise that it is probably timely that we give you a snapshot of what the common themes are and what has changed since we last had the Chief Secretary write, and then we can follow that up in due course with further work at the NAO.

Chair: That sounds a bit more positive than the response to the Treasury minute. I am going to ask the Comptroller and Auditor General if he would like to comment on this. We do rely on the National Audit Office to do a lot of value for money studies. Those are also important, but Departments and the Treasury are doing it as they go. I do not know if Gareth Davies, Comptroller and Auditor General, wants to come in.

Gareth Davies: To add to the comments from Sir Tom and Cat, our work on the acute phase of the pandemic, those initial schemes that had to be launched very quickly with little preparation, is largely complete. We can draw lessons from this trade-off of speed against control of public money and value for money. Our work programme in the next phase is on the backlogs in many public services, the recovery of fraudulent payments and so on. Those are longer term programmes, which will still take a few months or even longer than that to come up in our work programme. I would suggest that we tackle this in phases rather than trying to wait for everything to be complete. In effect, that is what we are already doing.

Chair: We will leave that one there for now. We were a bit puzzled, as you rightly picked up, as to why. We are also heartened that you think about Treasury minute responses, which is more than some Departments do.

I look to the Alternate Treasury Officer of Accounts to see whether he wants to say anything on that. Certainly, the standard of Treasury minutes is important. I do not know if you would like to say anything at this point, because it is an important point. This is the second time in a week that we have had to raise issues about the response to the accounts.

Marius Gallaher: I appreciate what you say, and we will take action as appropriate.

Q6 **Chair:** I have another couple of points before we move off from this response, because this response is quite helpful in picking up on some of these points. In our recommendation 2, we concluded that there was poor data, which is lessening the value of the cost tracker that the NAO has been pulling together. You are saying that it has improved. Can you give us an example of some data that has improved and how? As the second half of that, where are there still gaps or data issues?

Conrad Smewing: My team has been doing quite a lot of work with the NAO on the data gaps in the cost tracker from last time round. There has been a reasonable amount of progress. The number of measures where there has been no overall estimate of lifetime costs has gone down from about 33 last time round to 18. We also have a lot more data on spend to date. That has gone down from about 90 to about 40.

The ones where we are still missing estimated lifetime costs tend to be for quite good reasons. We have quite a lot of sympathy for the Departments having difficulties estimating those. These are things where it is really very difficult to consider that there is a direct cost, such as changes to the school inspection regime. That is one of the measures that have been implemented that probably do not have a cost. There are ones where it is really very difficult to split out Covid costs from business as usual costs. Those tend to be operational things. There are also elements of the loan schemes where either there were no applications or there is no information on write-offs. That is a few of the smaller schemes.

Q7 **Chair:** You say "no information on the write-offs". You throw that away there as a slight comment.

Conrad Smewing: There are a large number of loan schemes. The biggest ones do have data on write-offs and estimated costs. There are then some very niche ones. There was a scheme opened for lending to universities. It does not have any applications.

Chair: No one even applied in the first place.

Conrad Smewing: Yes, exactly. These are very small ones.

Chair: That is easy.

Conrad Smewing: There are one or two where we are still working with the Department to try to come up with an estimate. There is one in the Department for Education on mental health and welfare support services for students. We have made quite a lot of progress on that. We are comfortable with where we are.

Q8 **Chair:** Most of this is going to be covered in our general questions, but one of the key issues is when the Treasury will take charge of this. The NAO has been doing this really useful piece of work. The cost tracker highlights 374 measures that it has selected. The estimated lifetime cost as of September 2021, when this work was completed, is £370 billion. That is the cost of Covid in simple financial terms. When is the Treasury going to take charge of monitoring this, Mr Smewing?

Conrad Smewing: As the C&AG was just saying a moment ago, we are moving out of the acute phase and into ongoing business. This is a good point for us to move from the work we have been doing on the tracker around tracking these schemes, which are now largely closed with some exceptions on the loan schemes, which we can come to, to a phase where essentially we are controlling spend that is in response to Covid, for instance in the backlogs, but is increasingly difficult to distinguish from business as usual spending.

The big costs in the spending review settlements from 2022-23 onwards are the costs for the elective backlog in the NHS, the court backlog and things like that. We think it is sensible from 2022-23 to be managing and reviewing these costs along with the rest of the business as usual spending, because it is difficult to distinguish between the two of them. One exception to that is the broader cost to the economy, which is difficult for us and the NAO to capture in the tracker. That is something that the OBR deals with in its reports and estimates.

Q9 **Chair:** We are in danger of segueing into the wider issues here. Do you see the tracker itself having a value longer than the next year? You talked about 2022-23. You hinted that you would try to wrap it up into business as usual at that point. Does that mean the Treasury will never really produce the tracker after the NAO has finished doing it?

Conrad Smewing: We are not going to have a separate Covid ring-fence for expenditure for 2022-23 onwards, because the kind of expenditure that is still ongoing at that point is going to be very difficult to distinguish. Bringing the tracker to a close at the end of 2021-22 is probably the right thing to do.

Q10 **Peter Grant:** When you say the Treasury does not expect to be publishing or using ring-fenced allocations related to Covid, surely that does not mean that we do not think test and trace, the vaccination programme, et cetera, are still going to be in place. Could you explain what it is that will still be happening that is clearly Covid-related but that you have decided not to record as a separate financial burden?

Conrad Smewing: There are a range of costs that are still going to be ongoing from 2022-23 onwards. At one end of the spectrum are things like test and trace and vaccines, which are in the overall Department of Health budget. Then there are costs in the NHS for the backlogs and things like the cost of continued subsidies to the rail networks. There are definitely ongoing costs, some of which you could reasonably clearly identify, like test and trace and vaccines. The picture is increasingly partial, if you are just looking at the ones that you can clearly distinguish. That is our thinking.

Q11 **Peter Grant:** What happens if Covid does not do what you want it to do and comes back over the winter? How easily can you introduce the ring-fencing that we have just now?

Conrad Smewing: We need to continue to respond to changes in the pandemic. The approach that we have taken to spending in 2022-23 is to make some overall allocations to Departments but to keep that under review. It would be reasonably straightforward to continue to monitor that kind of spending on things like test and trace and vaccines, which are relatively easy to identify. We do intend to respond to what happens in the world, as we have done over the last year or so.

Q12 **Peter Grant:** In some areas there are substantial increased pressures on public services that have only started to appear just now. I am convinced that there is going to be a huge increase in demand for mental health services. From my post box in my constituency office, there are very clear signs that a lot of people are seriously struggling. How will we know that the health service is, first of all, being adequately resourced and, secondly, able to identify the costs as a result of issues such as mental health, which have not been obvious when people have been locked down, or the potential impacts of other long-term health conditions such as long Covid? Are you saying that there will not be any attempt to quantify the financial cost of these issues after the end of this financial year?

Conrad Smewing: There are two questions in there. First of all, the provision of funding for the health service, which was set out in the spending review, includes extra funding for all the impacts on the health service as a result of the pandemic. That is both elective operations and increased investment in mental health. I expect the Department of Health and the NHS to set out their allocations there in due course.

On whether you can make an assessment of the costs to the health service specifically driven by Covid, that is an increasingly difficult thing to do. There will certainly be higher costs to the health service from more patients presenting for elective procedures, but it is very difficult to tell how much of that is as a result of depressed numbers of elective procedures in the pandemic and how much of that is just further demand coming through. That is probably a difficult thing to do.

Q13 **Peter Grant:** I appreciate that it is difficult, but it is potentially crucial for parliamentary scrutiny and for the holding to account of Government for the funding decisions they make. There will be arguments over the next couple of years—there are already arguments—about how much of that additional money is simply plugging gaps that were there before and how much is funding for additional pressures related to Covid.

It is never possible to get exact answers on these, but the quality of the decision-making and the quality of the parliamentary function is substantially weakened if we do not have even vague attempts at information in front of us that say, "This is how much we think Covid is costing the health service in 2022-23". If we do not even attempt to quantify that at the start of the year, nobody can be in a strong position to argue that the funding has increased, decreased or stayed the same.

Do you see what I am getting at? From a management point of view I can understand it; from our point of view, we are holding the Government to account. We might disagree on the politics of it, but, if we cannot even agree to what the baseline spending environment was, the quality of the debate gets substantially weakened.

Conrad Smewing: It would be possible to compare to the long-term plan budgets for the health service, which were set out prior to Covid for the first two years of the spending review. It is possible to see the amount of extra expenditure that is going on. You can do it at the level of overall funding. Getting below that level in the way the tracker attempts to do gets increasingly difficult.

Q14 **Chair:** You talk about it becoming business as usual. We had some good evidence from the Local Government Association. The chair of the resources board, Councillor Shaun Davies, highlighted the figures to us. In 2021, the cost pressures were very high and the loss in tax income was high, but the Government's grant funding and support were higher.

Let us just take lost tax income. In 2020-21, they reckon there is £2.2 billion in lost tax. Government compensation for lost sales fees and charges was £1.4 billion. That is in addition to Government grant funding of £9.6 billion. The Government compensation for lost tax income was £800 million. For 2021-22, they reckon they are going to lose £1.2 billion in tax income, but there is nothing from the Government to compensate them. They say that is a direct outfall of Covid. When and who makes the judgment about when it is a Covid-related loss or cost and when it is just business as usual? You can believe that there is a correlation between lost tax income and Covid that is rolling on into a second year.

Cat Little: Yes, absolutely. We have been working very closely with DLUHC colleagues on gathering data, as you know, and that data allows us to disaggregate quite a lot of what is going on in local government, so that we can take monthly decisions about shortfalls in funding. Looking back over the last two years in particular, the very latest monitoring data that we have suggests that we have been able to cover nearly all of the additional Covid pressures that are available. That is obviously an estimate at this point in time. We need to get to production of the accounts and for the full year this year to take place.

One thing we look at very closely is reserves and how we estimate what the knock-on impact on finances are for local authorities and to what extent they have to dip into reserves. We have seen reserves increase by about £1.5 billion in each of the past two years. This year, we estimate that there will be a use of reserves aggregated at about £1.3 billion across the whole of local government in England and Wales.

The challenge then is obviously for us and DLUHC to talk to authorities about where we can see authorities using reserves, what that tells us and what we need to do. As you know, there are escalation routes, depending on which authorities are most affected.

I completely recognise what you have described. I regularly speak to chief executives of a range of local authorities, as well as the LGA and other groups for local government. We are very closely monitoring it, as we always have done, but the SR has given them an extra £11 billion worth of grant funding to try to recognise some of the challenges and the knock-on impact that I think local authorities will see over the course of the next three years.

Q15 **Chair:** I am not going to start unpicking the detail lines of the spending review on local government, but you acknowledge there is a shortfall in 2021-22, and in 2022-23 you are no longer going to be seeing this as Covid. I worry about the wisdom of not tracking it as Covid impact. To be clear, Mr Smewing, you are saying that from the next financial year, not the one we are in but from April 2022, you will no longer be tracking Covid spending.

Conrad Smewing: We will not be tracking Covid spending in the tracker separately from business as usual spending.

Q16 **Chair:** Are you saying you are going to wind it down? Maybe I misunderstood.

Conrad Smewing: We are still in the middle of the 2021-22 financial year and it might well be worth one more round of the tracker for this year. From 2022-23 onwards, we are not separately ring-fencing it.

Q17 **Chair:** You will be monitoring it within Departments. If you are going to be monitoring it anyway, why not pull it together in a tracker? There is a bigger lesson here as well. Maybe in 50 or 100 years' time, who knows—God willing there will not be another pandemic, but history tells us that it is likely—somebody will dust off the shelf the excellent Covid tracker that the National Audit Office has produced. If you stop producing it, they are going to have to crawl through every set of accounts. Just practically, if you have the information, what is the challenge of pulling it into a separate tracker, even if it is going to be smaller? It will diminish over time, obviously.

Conrad Smewing: It is because the quality of the information you can actually produce estimates from deteriorates over time. There are some estimates of information that you would be reasonably comfortable with in

2021-22, for instance the extra local government support. You can see that that is in addition to a previous settlement you have made and take that as a good estimate. For the spending review years, you do not have the same baseline to compare to in many areas, except for in the health service, and you cannot easily identify, for instance with universal credit claimants, which of those are the result of extra jobs lost in the pandemic and which of those are the ongoing business as usual.

There are some areas of spending where it is possible to continue to track them. Writing off some of the loans might be an example of that, where it is useful to continue to update those figures. Attempting to do the whole tracker for 2022-23 financial year and onwards would probably be a bit too difficult.

Cat Little: We also would expect for us to be continuing with the financial reporting through departmental annual reports and accounts, as well as the whole of Government accounts.

Q18 **Chair:** There will be a line in the whole of Government accounts.

Cat Little: Absolutely, there will be at least a retrospective look back on the financial year in aggregate. It is not that we will not be reporting the overall cost spend for Covid at all.

Sir Tom Scholar: I would just like to be clear on what we mean by ring-fencing or not ring-fencing. It is not the case that there has ever been any kind of automaticity about funding for something that is identified as being pandemic-related. Not producing the tracker does not, in and of itself, have any impact on funding decisions. Also, of course, the funding decisions have already been taken for the next three years. Budgets are now set for three years.

Secondly, on ring-fencing specifically, during the pandemic, we made some very significant sums of money available at very short notice in conditions of enormous uncertainty. To make sure we had proper management of public finances, we ring-fenced that money, such that, if it was not spent, the Department was not then able to spend it on other things. This proved to be very valuable, for example in test and trace, where, as you very well know, the forecasts were a long way above what the spending was, so that money was not spent in the end.

In the money that we are allocating for Covid-related, including, as Conrad was saying, backlogs across the public services, we are not ring-fencing a specific Covid element. We have looked at, say, the criminal justice system and said, "The court backlog is whatever it is". In the end, what matters from the point of view of the criminal justice system is dealing with the court backlog. What the source of the backlog is does not matter. What matters is dealing with it, so we have advised Ministers on how to fund the court system. The money is not ring-fenced in any Covid sense, so it actually gives Departments greater flexibility to deal with the circumstances and help fund public services, not less.

Q19 **Nick Smith:** I hear what you are saying, Sir Tom. My worry is that there may be a loss to scrutiny about losing the tracker. We have found it hugely helpful on this Committee to understand where the Government are spending money over this difficult time for our country. The public inquiry into the Government's handling of Covid will be starting in the spring or summer of next year. It is really important for that that there be a very good understanding of how money is being spent. I wanted to ensure that this body of great work—I genuinely think that—that has been produced will be kept in good shape for the future, for proper scrutiny and oversight about how the pandemic was handled.

Sir Tom Scholar: We should clearly take this away and look at it, in the light of what you have all said this afternoon. The cost tracker certainly has been helpful. We need to discuss what your future plans with it are, because that is also an important contribution to this.

In terms of answering, "What is the cost of Covid?", there are three elements to it. There is the direct public expenditure cost during the pandemic itself, which is what the cost tracker measures, very effectively.

Secondly, there are the ongoing costs in public services in years subsequent of things that would not otherwise have happened. As Conrad was saying, that is easy to measure today. It gets harder to measure as time goes by. Again, looking at the court system, you can say, "The backlog of cases was this much in March and it is now this much". In two or three years' time, many other things will have happened, so that gets harder to measure.

The third element, which is a very large element, is the indirect cost through the effect on the economy, jobs and businesses, and the effect on that back into the tax revenue. That is something that people will argue about. You cannot even, today, get a straight answer to the question, "What did the banking crisis cost?", because the ONS keeps revising back the data, people disagree as to what the impact on productivity was, and so forth.

The cost tracker, at some point, will be stable in terms of what the direct public expenditure impact in 2020-21 and 2021-22 was, but one important element of it that will continue to change, and that we will continue to monitor and report fully on, will be the cost of the various loan and grant schemes. Those will only be known over time. I am sure we will come to them, as we see the repayments and as HMRC pursues fraud and so forth. That element of what the NAO has been looking at will change. I agree that it will be very important for Parliament to have a good understanding of that. We will make sure that that happens.

All we are saying in terms of how we think about the future cost-tracking exercise is that it will just get harder and less meaningful over time to identify what the source of a particular pressure on public service is. It will not have any real world impact, because it will not change the funding decisions. I hope that is helpful.

Q20 **Chair:** There is a danger, though, that there is not some sort of central control. That is why I am a bit heartened by what Ms Little has said about it being recorded in the accounts. So often, you pick up the phone to any service, public or private, and you get the answerphone message saying, "Due to Covid measures, we cannot respond quickly" or whatever. It becomes an inbuilt issue. There are some real issues and sometimes it might be used as cover for financial challenges that may not be quite directly related to Covid. You can see where our concern is. There is a separation out. Ms Little, you seem to be indicating that you are also watching that. Am I summarising you correctly?

Cat Little: Absolutely, yes. There are so many areas where it gets so much harder to attribute directly to Covid. There was Mr Grant's question about mental health and the backlogs that the NAO will come to look at in future. There is a combination of different factors at play there and it gets harder and harder to attribute things directly to Covid as time goes on.

Q21 **Chair:** As Mr Grant highlighted, the loans and guarantees are ones that we can track, so bounce back loans and the 20-year loans for culture. Are you going to leave a note to your former self that, when we get to a certain point, those 20-year loans will be being paid back? I am certainly going to do that in my role.

Cat Little: We might still be here. As Tom said, of course we will continue to monitor those as long-term, distinct schemes that will continue to unwind over many years to come.

Q22 **Chair:** Will you be planning to sell off the loan books? Is that something in your thinking, Sir Tom? I think Ms Little has just passed it up the paygrade.

Sir Tom Scholar: The big money in the loans is in bounce back loans and, to a lesser extent, CBILS and CLBILS, where it is actually a guarantee. It is not a direct loan from the Government. It is private sector lenders that have made the advances, with a Government guarantee. That is a major fiscal risk and needs very active management. We can talk about what we have done to support that. In the spending review we allocated money to BEIS and the British Business Bank to support their efforts in doing that.

Chair: You highlight that in your letter.

Sir Tom Scholar: There is also big money in the CCFF—the something coronavirus financing facility, the Bank of England one.

Chair: I am glad you have the same problems as we do remembering which is which.

Sir Tom Scholar: The Bank of England operated a scheme, which is loans to large corporates by the Bank of England, operating under a Treasury guarantee. That is all due to be repaid in March and we are not expecting any losses there. There is a book of direct loans. It is relatively small compared to those.

Chair: That is why I asked.

Sir Tom Scholar: As we have done with loans that derive from the banking crisis 12 years ago, we always look at whether selling them is effective, compared to keeping them on the books and managing them. That would be part of that management of that exposure for—

Chair: It is Treasury asset management business as usual.

Sir Tom Scholar: Yes.

Q23 **Chair:** That is useful. That is a bit more news than we had had on that. Going back to the fiscal risks group, you mentioned it in the Treasury minute in response to us talking about fiscal trade-offs with the risks involved and you just mentioned that again. What is the fiscal risk group and who is on it?

Sir Tom Scholar: I will start. Conrad, I think you sit on it, so you might say more. It is an internal Treasury body that meets monthly to assess fiscal risks. It does that, taking information on latest economic developments and public spending developments, taking the monthly returns we get from the spending Departments, looking at the monthly public finance figures, which include receipts, taking any information from the Bank of England on financial stability issues. It tries to look right across any area that could have an impact on the fiscal position, produces a monthly report that gets sent to the management board and to Ministers, and is a very important building block of advice to the Chancellor on the annual Budget and other fiscal events.

Q24 **Chair:** Before I go to Mr Smewing about who is on it, it is a useful building block to give advice to the Chancellor. Is what it concludes in any way ever in the public domain? How transparent are its discussions and, I suppose, deliberations?

Sir Tom Scholar: It is an internal group that does analysis and monitoring and produces advice to Ministers. Its output is advice to Ministers.

Chair: The output ultimately is a ministerial decision.

Sir Tom Scholar: It comes through the Budget document, for example.

Chair: Mr Smewing, tell us about it and who sits on it.

Conrad Smewing: It is an internal Treasury group that has the public spending side of the Treasury, the receipts side and the central fiscal group.

Chair: It is just Treasury officials.

Conrad Smewing: It is an internal Treasury group, but I was going to say that we tend to work very closely with the OBR in its work for the fiscal risks report. A lot of the things that are on our agenda are also on the OBR's agenda. We share information quite a lot and it tends to be a very good way of producing a transparent and independent assessment of the sorts of risks we are considering. We tend to have similar agendas, but we are aimed at providing advice to Ministers on action that they should think about for different fiscal risks, whereas the OBR stream is aimed at the fiscal risks publication.

Q25 **Chair:** Basically, if we read the OBR's work, we will have a very clear idea of, hopefully, what you are discussing in the Treasury. Hopefully, you are both right. Do you ever find that there are issues that they raise as a risk that you have not, or vice versa?

Conrad Smewing: All the big issues that we consider tend to be on their radar, the same as our radar. We often get things that we are reacting to on a faster timetable. They are thinking over a two-year period, because the big risks to public finances do not tend to move on that much over that period, whereas we might be responding to more rapidly evolving situations, as obviously we have been in the last couple of years.

Q26 **Chair:** Things like energy prices, fuel prices and fuel availability could be on that group's agenda.

Conrad Smewing: Anything that can affect the public finances or that could present a future fiscal risk is the sort of thing that could go on to the agenda of the group.

Q27 **Chair:** I am quite fascinated by this. Where do those people who are on it get their intelligence? Is this your team of Treasury eyes and ears out in every Department, picking up on issues? Who would have thought that CO_2 was such an important issue in pig farming? I speak as an inner city London MP. I think we have a pig on the city farm, so perhaps I am not the best expert on this, but that is not something that would have necessarily hit the radar of you good folk at the Treasury, I would have thought. How do you make sure it gets to you?

Conrad Smewing: We have quite a range of places that we can get information from. The public spending side of the group obviously funnels information from all the spending teams, who are talking constantly to the Departments, thinking about the risks they are facing. The tax side of the Treasury constantly talks to HMRC about how the tax take is evolving and how things are coming in on each individual tax head. The tax policy teams that also feed into that are also thinking about their individual taxes, which tends to bring in lots of different sectors of the economy. Then we have the central economic and fiscal teams, who are thinking about the macro impact and the macro risks, both to the economy and to the public finances.

Q28 **Chair:** Okay, so the CO_2 issue was on your agenda. How long does it take to feed up the line?

Conrad Smewing: I cannot remember whether we discussed the CO_2.

Q29 **Chair:** Even in this room, we were hearing a lot of evidence on that. Bringing that back to Covid, what percentage of your time is spent at the moment discussing the ongoing Covid-19 response? How much of that is in the risk group's remit?

Conrad Smewing: The majority of our time in the recent past has been focused on setting budgets in the spending review to take into account the impact of Covid on our central scenario for departmental public spending. That has been the big focus of the spending side of the Treasury. It is also obviously the case—and Tom and Cat might want to say more about this—that, for the Treasury in general, in thinking about the risks to the economic position, the evolution of the pandemic is very high in everyone's agenda there and the impact of that on both receipts and spending.

Sir Tom Scholar: Policymakers everywhere, in this country and other countries, finance ministries and central banks have all identified Covid as the major risk to the economic outlook and a risk that could go either way, depending on the evolution of the virus, the success of vaccine programmes and countries' abilities to return to normal economic activity. We need to think about not just the UK but other countries too, because what happens there also has an impact back on us. We certainly have Covid monitoring as a high priority, partly because of its impact on the economy and, ultimately, society, partly through the fiscal impact.

Q30 **Chair:** That brings us back to the discussion we were having before about the value of the cost tracker. I suppose this is to Ms Little really. On fraud and error across Government, what patterns are you seeing? The cost tracker highlights some of the risk areas. We are hearing that bounce back loans are not as risky as first thought, but I do not know how solidified that information is. What is your take on the risk of fraud and error as a result of Covid spending?

Cat Little: Since we were last here and since the dedicated hearing that I came to on fraud, quite a bit of information has now come to light. We have had the HMRC year-end accounts, as well as much more information from DWP. We are obviously anticipating BEIS producing its annual report and accounts. I think it is on 25 November.

For HMRC schemes, it has been quite interesting to look at the overall scheme write-off assessments and both the fraud assessments that are in there. For the three big ones in particular, so CJRS, Eat Out to Help Out and SEISS, our upfront estimates are broadly in line with the most likely scenarios that were published as part of the HMRC accounts. For example, for CJRS, we had an upfront fraud estimate of 5% to 10% and the same for Eat Out to Help Out. The most likely central estimates are now 8.7% and 8.5% respectively. That has helped us to validate some of the methodology that we used up front to estimate the level of fraud that was likely within those schemes. It has allowed us to have much more sophisticated assessments of the ranges that we are now looking at.

Some of the regular information that we were receiving from Departments allowed us to think about how we would invest in counter-fraud activities, in particular at the spending review. I will not repeat everything that we have just gone through in the SR, but certainly for HMRC, DWP and BEIS we have been able to target funding in a much more effective way to try to meet some of these risks and what we have seen through the latest data.

Q31 **Chair:** How much of this is that the horse has bolted and you will never get it back? How much is that investment actually going to return? Sorry, I cannot remember whether 8.7% that was CJRS or Eat Out to Help Out. Eat Out to Help Out was, presumably, smaller scale than CJRS, but that is quite a significant chunk of money for CJRS. Is it gone? Will this investment get it back? What are you getting pound for pound when you put money in?

Cat Little: As you know, we put a lot more of our investment in the detection and recovery side of our fraud activities. The recent investment in HMRC of the taxpayer taskforce is over 1,200 people dedicated to going and collecting this money. I would like to think, and our expectation is, that that investment has a significant return and we would see the most likely scenarios reduce over time. We do not yet have a good enough sense of what that would actually mean in pounds and pence, but we are monitoring it very regularly.

Q32 **Chair:** Let us say somebody has fraudulently claimed on the CJRS. That is the coronavirus job retention scheme. You have invested money to get some of that money back. If you have identified somebody who has claimed and you can recover the money, what is your tail or timeframe for getting that money back in?

Cat Little: I am afraid that is probably an operational question that I am not as close to as colleagues in HMRC would be.

Q33 **Chair:** Presumably, at the centre of the Treasury, you have lost that money, effectively. You have, until it comes back in. It is spent erroneously. If you can actually claim it back, that is money for the Exchequer. Do you have any timeframe? Is Mr Smewing nodding there?

Cat Little: Sorry to be a bit technical about it, but I suppose we do not write it off until we have pursued every single opportunity to recover it. In taxpayer and cash terms, the write-off does not happen until we have concluded it is a really bad debt.

Q34 **Chair:** You must have projections on what you might have to write off. Do you not have a tracker on that?

Sir Tom Scholar: I think I am right in saying that the OBR, as part of its forecast, has made an assessment for each year. It has made an overall assessment for what it thinks the total loss will be and then it has made a year-by-year assessment. To the extent that HMRC is more successful than that in getting some of the money back, that is a net inflow. If it struggles, obviously that is a net cost, but it is in the fiscal figures already.

Q35 **Chair:** For every pound that you invest, do you have an expected return, Ms Little?

Cat Little: I do not have that information yet. I think it is too early to be able to come up with that sort of pure equation.

Q36 **Peter Grant:** To follow up the point about write-offs, whether it is the write-off of loans or write-off of erroneous and fraudulent payments that cannot be pursued, I know it is a phrase that is often misunderstood. It is quite right that, when you are pursuing an individual debt, you do not write that off until it is clear that it is not worth pursuing any more, because you are never going to get the money back. Are you or other Departments making a provision in the annual accounts for the fact that there are £20 billion of loans outstanding and, realistically, £1 billion of that will not come back? At an anonymised level, if you like, are Departments providing for the fact that not all the loans they have on their books just now are likely to come back. I see Ms Little nodding.

Cat Little: Yes is the answer. It is part of compliance with the accounting standards that, at the balance sheet date, they have to make that assessment. That is why the annual report and accounts process and the audit process are so important to us. All the accounting policies and assessments that Departments are taking are audited by the NAO and will be published subsequently in the ARAs—the annual report and accounts. We still have a couple of these to come, but so far we are seeing compliance from Departments.

Sir Tom Scholar: That information is then passed—we make sure that happens—to the OBR, which then makes its own assessment. It does not always take exactly the Department's assessment. It also tries to assess whether it thinks it is realistic, but it then feeds that into the fiscal forecast. The expected loss is both declared by Departments in their reports and accounts, and incorporated in the fiscal figures through the OBR.

Q37 **Peter Grant:** What is your most recent estimate as to how much of the loan guarantees will have to be paid out?

Sir Tom Scholar: This is in the cost tracker. This is based on the latest available data, which is now quite old, end of July. We will get more data in the BEIS accounts, to be published in a week or two. As of the end of July, taking the three schemes, bounce back loans, CBILS and CLBILS, where a total of £79.5 billion was guaranteed, the current expected loss across the three schemes is a figure of £21 billion. That number has come down, quite significantly, I think by £5 billion, since the previous iteration of the cost tracker.

The OBR, in its recent forecast, also revised it down. That is partly as the economy is recovering more strongly than expected. Some of the revision in the cost tracker is also based on some of the very early repayment data. At the beginning, there was no data to base that on. We will get a better figure in the BEIS accounts in a couple of weeks' time and in the NAO's report into bounce back loans, which it is publishing, I think, in December. That will also have access to all that data, so we will have a better, more up-to-date figure soon.

Peter Grant: At the moment across those three schemes, we are sitting with something around £20 billion. I think that was the figure.

Chair: It was £21 billion.

Q38 **Peter Grant:** Thank you. How long is it likely to take before we know what that figure eventually turns out to be? Presumably, as time goes on, more and more of the loans become due for payment and you then get a much clearer indication as to whether the loan is going to be repaid. How long is it likely to be before we know whether that £21 billion has actually been £21 billion, or whether the lenders have been able to get back in more than was expected?

Sir Tom Scholar: What you say is quite right. The fiscal exposure is through guarantees on loans to private sector lenders. The loans are due to be repaid over up to 10 years for bounce back loans and CBILS, and up to six years for CLBILS. The final figure obviously will not be known for that for 10 years or more, where there is action to pursue outstanding debts.

As the months and the years go by, the noise in the figures will reduce. I cannot say at what point. We would have to ask the British Business Bank. Maybe that is something—I do not know—that will be in the NAO report. Based on repayments to lenders, they must have confidence intervals, so that they are able to say, "Once you have had this many years' worth of data, you will have a high degree of confidence". The loans only started to be repaid in June of this year. We do not even have six months' data yet, so we are at an early stage.

Q39 **Peter Grant:** If the expected write-off figure turns out to be either overoptimistic or over-pessimistic, so that the Government get maybe a couple of billion pounds more in than they expected, or less than they expected, where does that difference show up in departmental accounts? Does it come back to the Treasury, or does it affect the spending figures of, in this case, BEIS, the sponsoring Department?

Sir Tom Scholar: In a cash sense, as I said earlier, the OBR has assumed a particular profile for repayment and, as part of that, a particular profile for losses, as part of its fiscal forecast. In a cash sense, if the loan book performs better than expected, more money comes into the Exchequer and, other things equal, borrowing is lower. If it is worse, borrowing is higher and the OBR will report on that every six months, when it does a forecast.

In an accounting sense, as Cat was saying earlier, in each annual report and accounts, the Department, in this case BEIS, needs to make a new assessment and presumably each year you make a comparison to the previous assessments. I am looking at the technical experts here, because this is a technical question.

Cat Little: It essentially shows on the balance sheet as a movement in provisions, which scores as AME rather than RDEL.

Chair: That is annually managed expenditure.

Cat Little: Sorry, it is annually managed expenditure, rather than through the I&E. Ultimately, there is not actually a benefit to either the Department or the Exchequer. It is that movement on the balance sheet that shows.

Q40 **Peter Grant:** I want, if I may, to come back briefly to the earlier discussion you had with the Chair on the Treasury minute response to a previous report. I am still not entirely clear on what it is you are saying. It is the response to recommendation 4(b). It still looks to me as if we know that there is a process that is gone through before any major commitment of funds, where an assessment is made. Do we think this gives value for money, where there is a formal process for that?

Your answer in the Treasury minute seems to suggest that there is no similar formal process by Government—not by the NAO or the comptroller, because they are not Government—to look back on it afterwards and to ask, "Did we get our assumptions right? Are there lessons we need to learn for next time?" That was what the recommendation was about. Can I clarify whether that is a process that you would usually expect to do? If not, is it a process you intend to introduce?

Sir Tom Scholar: It may be that we misunderstood or read something into the recommendation that was not intended. We thought that what you were asking us to do was to undertake a full formal audit of all Covid-related spending and then reach a value for money judgment on all those programmes. We do not do that. Especially when approaching new funding decisions, we certainly review previous decisions and the previous experience of spending by Departments. When we do that, we incorporate into that all the NAO's work.

For example, in looking at funding decisions in the spending review on test and trace or vaccines, to give two obvious examples, our spending team definitely reviewed all the experience over the preceding 18 months in order to give the most robust advice on what would be the effective level of funding for the year ahead.

If that is what you meant, we completely agree with what you said and, in effect, we have given the wrong response. We do not disagree; we agree. This is part of the reason for the delay. We spent a long time debating this. We did not want to say we agreed with it if you were then expecting some formal audit that we were not intending to undertake. When you see what we report to you, as I said, probably in the early part of next year, I think you will feel that it is what you were looking for and what you want. I certainly hope it is.

Q41 **Chair:** If I could say something very simply, someone could just pick up the telephone if you are not sure. I can see a conclave in the Treasury having an endless debate about exactly what the Public Accounts Committee meant. If you do not think we are clear, give us a call.

Sir Tom Scholar: It is what we do best. We love trying to interpret the Public Accounts Committee.

Chair: That is what I am slightly worried about, Sir Tom. There might be better uses of your time, Cat Little's time and Mr Smewing's time than wondering what exactly we meant. If a word is not clear, we are always happy to clarify.

Q42 **Peter Grant:** Make sure you only make one phone call, because if you phone two of us you might get two different answers.

If we look again at the various business support schemes, particularly the business loans, we do not think there is going to be another worldwide pandemic any time soon. We hope not. There could be. It is not difficult to envisage other circumstances where the Government might feel that some kind of emergency loan guarantee scheme for businesses was necessary, either UK-wide or for an area affected by a significant natural disaster, for example.

The model of the kind of emergency support that was given to businesses may well need to be called on again sometime in the next five or 10 years. Are you doing something to make sure that whoever is in these three places in five years' time has whatever they need to look at what did not work and what we would have done differently, if there is a similar need for a scheme to be put together very quickly?

In your earlier answer, Sir Tom—and, again, it might be because you are speaking within the context of a lot of decisions being taken within a fairly short time of each other—you seemed to imply that you would look at what had happened last time when you were thinking about doing it next time. If the next time is in 10 years' time, it is too late to look back, because all the people who have done it have moved on. Are you going to make sure that any lessons that are there to be learned from all the business loan guarantee schemes, for example, are set down in a way that, even if nobody who worked on them at the time is still at the Treasury, whoever is taking their place will be able to look at and say, "Do not do it this way because they tried that in 2020 and it did not work"?

Sir Tom Scholar: We are absolutely doing that. If I gave the impression that we would just leave it and come back to it next time, I misspoke in that case. We are certainly doing that. By way of illustration, in designing these schemes we were able to draw on the experience of the banking crisis of 2007 to 2009. That was particularly useful for designing the CCFF, which the Bank of England operated, CBILS and CLBILS, because there was a relevant precedent. I think it was called the enterprise guarantee scheme. That was the template for CBILS.

The area where we did not have anything to draw on was bounce back loans, because we suddenly had a situation where a large number of small businesses, many of which had never borrowed money before and had no established relationship with a lender, were suddenly seeking, in effect, immediate support. There is a huge amount to learn from that episode.

Similarly, HMRC—and I am sure it has told you this directly—has learned a great deal from the design of the furlough scheme and the self-employed scheme. The tax system is constantly innovating. For example, as it is looking at extending Making Tax Digital, one thing it will be looking at there is how to incorporate information that will give it greater options in the future, which it did not have at this point.

Both the principal Departments, BEIS and HMRC, but very much with us involved, will make sure that that is all drawn together, recorded and then available for future use as needed.

Q43 **Chair:** I wanted to touch on contingent liabilities, because obviously we have had a number. We are informed about those as they come through. Some of them will have long tails, but how are you going to crystallise the risk to the Exchequer that those liabilities could be called upon? There is a well-worn route for Departments to do this. Are you confident that that has held up during Covid?

Sir Tom Scholar: We are setting up a new unit to look specifically at the management of contingent liabilities. This was something, as you will remember, that came out of the balance sheet review and has now been funded through the Spending Review. That will be both challenging Departments and advising them, as they come forward with proposals for contingent liabilities, but also looking at the management of them over time. It is in the nature of contingent liabilities that many of them have decades-long exposure and many of them never crystallise. In some cases, there is management action that you can take to reduce the risk.

Cat Little: The establishment of that new group is absolutely critical. It is recognition that we need someone who is going to be monitoring, advising and looking at mitigations particularly.

Q44 **Chair:** Has that arisen particularly because of Covid?

Cat Little: No, it came out of the balance sheet review, as Tom said, and a recognition over the last three years in particular of the increasing number of contingent liabilities and the need for us to get better at managing it.

Q45 **Chair:** I am probably the only person who sees them all, apart from you guys and the Chancellor.

Cat Little: Yes, absolutely. We see business cases on a daily basis. There are thousands of them that come through.

Q46 **Chair:** Sometimes the liability is taken on in order to reduce the cost of a contract. There is a sort of quid pro quo. Is that going to be part of this group’s work?

Cat Little: That is part of the approval of contingent liabilities up front. Departments have to send to us a case for why we should take on board the risk, whether it is remote or near. There is a contingent liability checklist that covers off all the sorts of questions that you would expect us to want to be assured of. That is the upfront bit. The idea is that, while spending teams will do regular checks on the assumptions we made, we need to have this central, very specialist group that can look at cross-cutting themes and issues across the whole of Government.

Q47 **Chair:** What will be the output of that? Will any of that be in the public domain or could we, as a Committee, request a copy? Even if it is not in the public domain, we would love to see what is going on in that group.

Cat Little: I do not think there is any intention at the moment to produce any sort of report, but I will certainly take on board your request. We have only just recruited the director leading that team.

Q48 **Chair:** It is worth flagging. We can discuss the terms on which we would see it. Even on reading room terms, it is quite useful, because there are not many bits of the system that look at contingent liabilities across the piece. There is the National Audit Office, I guess Ministers in your Department and some of us on this Committee. That is probably it, apart from you as officials.

Cat Little: We will certainly take that away.

Q49 **Chair:** It would be helpful to do that. One interesting issue in Covid has been different Departments' ability to forecast costs. Going back to local government, it has been very good. Treasury officials there have been able to work up pretty closely the costs. Do you have a sin list of Departments that have been perhaps less good at forecasting costs? Would you like to perhaps start with a Department that has done a particularly good job on this? Then we can perhaps tempt you into naming and shaming. Start with the positive.

Cat Little: I certainly do not have a sin list. It is no surprise that we have had bigger variations between supplementary estimates and the year-end outturns for Departments that have had very intensive Covid spend. In particular the Department of Health and Social Care, BEIS and MHCLG, now DLUHC, probably have the biggest variations. Forecasting, regardless of Covid, is one of our obsessions, for very good reasons, as you appreciate more than most. We recently established a dedicated group, which Conrad chairs, so he might want to say a bit about this, looking at all forecast lessons learned from Covid but also as part of our normal assessment of forecasting accuracy in Government.

I think this Committee is aware that, at the six-month point, I commission from all chief financial officers an assessment of their forecasting accuracy, as part of their month 6 report on OSCAR. It is critical for us in thinking about how we then approach the supplementary estimates. It might be worth talking a little bit about some of what we are doing and the issues we have found. I am sure Conrad will want to add to this. I would chunk the issues into processes, people and standards. I will give you a flavour of the things we are looking at.

From a process perspective, we found that Departments do not have a consistent way of assessing financial risk and opportunities. We have very sophisticated models, using Monte Carlo scenarios, for a number of our programmes and projects. When you aggregate it up at departmental level, how that is taken into account in decision-making and when you score changes to your forecast is done differently. That is because there are different risk appetites across the system. We think that there is a need to have consistent guidance and a best-practice approach to how we articulate it.

The other thing that I am quite obsessed about at the moment is basic budget profiling. As soon as you come out of an SR process, it is over to Departments to profile budgets, set budgets and be realistic about how they expect money to be profiled over the future period. We still see very lazy profiling, where people just take budgets, divide them by 12 and allocate the money. Of course, that is going to generate variances to forecast. If your budget is not profiled correctly at the start, you are not using good decision-making information throughout the financial period. There are some examples of processes.

When it comes to people, far too often finance is given the responsibility of forecasting and actually best practice is for businesses to own it, and for people who are at the front end of scenarios and policy assumptions to make sure they are owning and contributing to forecasting and the decisions underneath it. We think we need to do more on training who is accountable and how governance operates.

Q50 **Chair:** That is outside the finance function, you mean.

Cat Little: The finance function has to be the centre of excellence for it, but I need programme managers and SROs to take the responsibility and to make decisions to allow us to forecast accurately. That does not always happen consistently or well.

Q51 **Chair:** If you like, we could give you a library of examples of how that does not always work.

Cat Little: We could share quite a long list between us. Standards and MI really matter. One of the things we have done this year is implement a new MI pack for all boards across Government, which is the standard financial management information we expect every board to use. That includes a forecasting accuracy standard. We expect Departments to be within 1% on cash, RDEL and CDEL between the six-month period and the outturn.

We have a ranking that we share as part of our year-end assessments. For cash forecasting, we penalise anyone who is in the bottom quartile. I have been personally penalised and my money was given to the highest-ranking Department to punish for poor cash forecasting. We put a huge amount of emphasis on this. I do not like to think of it as people who are not good at it and people who are. Particularly from Covid, we have had a number of Departments that have been dealing with very challenging circumstances.

I know we have talked about test and trace before, but we have never done it before. Policy was changing. Last year they assumed that there would be huge demand in January and February. Then we went into lockdown and, guess what, the demand was much lower. Departments have done a very good job generally, given those circumstances, but we have a lot to do on forecasting generally. Sorry, Conrad, you should add something.

Conrad Smewing: I do not have much to add to that answer. I suppose it is worth giving a little bit of a flavour of the discussions at the forecasting subgroup on people's particular experiences with forecasting Covid.

Q52 **Chair:** I am just wondering at the number of different groups in the Treasury. It is so exciting. There is the risk group, the forecasting group and the contingent liabilities group. I do not know what you do all day except go to groups.

Conrad Smewing: Lots of Departments had quite common experiences as reasons for them getting their forecasts wrong over the period. The biggest one by far obviously was just the world turning out differently than you could have possibly expected at the time. Cat has given the biggest example: the test and trace demand for asymptomatic testing in schools. That is obviously very different if the schools are locked down than if they are not.

Where things could definitely have been improved and should be improved in future are things like people's risk appetites or where they are pitching their forecasts. A lot of people were making reasonable worst case assessments of how much money would be spent, rather than median forecasts. That is understandable. That could have been improved with better communication on what exactly we were trying to use these forecasts to do. We are looking for a best estimate separate to the planning process.

Another common theme was that, the more layers in the chain of forecasting, the more arm's-length bodies and other bodies were involved, the more difficult it was to make sure that everyone was on the same page of the level of risk, whether you have a median forecast or not. All that was quite common across Departments. As Cat was saying, there is lots that we can do to try to improve here and have been trying to do for a while.

Q53 **Chair:** Going back to what Mr Smith was saying, how are you going to build this in? When the three of you are not here and we are not here, where is the corporate memory to make sure that this sort of thing is right? It is challenging, but we were clear from the beginning as a Committee that we wanted to keep watching the money. We know that it is very easy for things to go awry because it is all very challenging.

We can think of Departments where everything they do is challenging, exciting or vital to the nation in whatever form. They therefore use that as an excuse to perhaps do this slightly alarming, as Cat Little said, basic budget profiling that is so basic that they do not really get that right. That is still happening in Government. How are you going to make sure that people know what has worked and what could be done better?

Sir Tom Scholar: The reason that we set up these groups, processes and dedicated teams is precisely to make sure that things that need to happen do not depend on any individual. They are just part of what that team or that group does.

Q54 **Chair:** How are you going to embed that in Departments? It is easy for you to say that at the Treasury and the man or woman from the Treasury comes along and tells a Department what to do. They do not always receive it as well as they should do.

Cat Little: A lot of this comes back to standards. The finance standard for Government has just been updated. We are on our second iteration. We would expect for the forecasting standard to be baked into that. Accounting officers and senior finance leaders have to comply with the finance standard, in accordance with the direction we give to accounting officers. We are also looking at producing a forecasting toolkit. The forecasting group is a task and finish group, so it will write up all its results.

The other thing I did not mention earlier is that we have, on our OneFinance virtual learning platform, which around 10,000 members of the finance function are currently registered on, a Covid dedicated guidance hub, a blog page and a lessons learned page. That is where we capture everything that we have found throughout the whole of the period. We share it on that online platform.

Q55 **Chair:** I am slightly worried about online platforms. You think about PFIs and everything being on CD-ROMs. People did not even have machines to read CD-ROMs on. That is perhaps a debate for another day about where we will ever find this information when none of us is here in 50 years' time. Perhaps we will have paper copies. We are nearly at the end here. UKGI has a contingent liabilities team. You have a contingent liabilities group, I think it was. How do they work together?

Cat Little: We are talking about the same group.

Chair: It is the same group.

Cat Little: Yes. UKGI is obviously part of the Treasury family. It is the same group, but we work very closely together.

Q56 **Chair:** It is the same thing. Finally from me, unless any other colleagues have anything else to add, we have found the cost tracker very useful. I hope the public have too. There has been a very good exercise in being able to monitor money. From the beginning, as a Committee, we were determined to do that and we were really pleased that the NAO came up with this model. Without wanting to diminish the NAO's achievement in delivering this, it is not that difficult. It has complexities. Will you be using this sort of model in future to track spending on other unusual areas of spending?

Sir Tom Scholar: That is something we are still looking at. I think we have undertaken to write to you about that by the end of the year, which we will do. We also want to talk more to the National Audit Office about it. Covid is a good example of an enormous shock to the country, the economy and the public finances where it is—I would not say straightforward—easier than in some other cases to identify particular public spending implications of it. It is amenable to this treatment.

Others are much less so. The example I gave earlier was the banking crisis of 12 years ago or so, which was also an enormous shock. It was much more difficult in that case to attribute particular fiscal pressures to that cause.

Q57 **Chair:** This is about allocated cash, allocated taxpayers' money. That is the key point here, is it not?

Sir Tom Scholar: Indeed so, but, in the case of the banking crisis, there was both lost tax revenue and additional public spending. Trying to disentangle precisely what was due to that and what was due to something else is certainly difficult.

We need to have a really careful think about this. I think you raised the case particularly of your recommendation of net zero. On the one hand, yes, public spending is an important part of supporting transition to a net-zero economy and achieving the Government's commitments there. On the other, it is only part of the whole story. Most items of spending will be partly achieving a net-zero objective but partly achieving some other objective too.

The question, which is partly an audit and assurance question, is attributing the money to one or the other. We need to work out the best way to be accountable and to give a clear sense of what is being spent on what, in a way that is meaningful and helpful, rather than partial. That is what we are trying to get our heads around.

Q58 **Chair:** I appreciate, especially in the Treasury, you will get tied in knots about definitions on so on. As you say, it is partly what you do. From the point of view of the public, this Committee and Parliament, we are looking for transparency about how much money has been put out there, even though it is—as I always stress to anyone I am talking to about it—not audited. It is cash out the door. It is allocated money. Some of it may not get spent, as we have seen in some examples. That has been a particularly useful exercise for us.

It is an extraordinary situation, but it is not going to be the only one that we are going to face. There are going to be other short-term, smaller issues. That is where the cost tracker visibility of spending has been particularly useful. You look at it in departmental accounts, but it takes a certain sort of person to have an interest in doing that.

From the point of view of taxpayer transparency, Sir Tom, is the answer more weighted towards possibly doing this than not, given that you are never going to quite give us the straight answer on this, I fear, at this point? We wait for the response at the end of the year of course.

Sir Tom Scholar: We have promised you a letter, which we will send. We have taken a very clear message from the hearing this afternoon on the Covid tracker in particular, but I can see you have it in your head on other issues too.

Chair: In the end, my personal view is that it helps Parliament, Government and the taxpayer if we are open from the beginning about what is being allocated. Then people can keep track. As we saw from the early stages of the pandemic, when there is not transparency there are questions raised, fairly or unfairly, about whether something is being done properly. Even if it is being done properly, it begs questions. You are seeing from the Committee that this is a Committee view: the more transparency, the better.

Can I thank you very much for your time and for the work the Treasury has done supporting the National Audit Office on this? We look forward to keeping the discussion about Covid spending ongoing, whether it is in the cost tracker or in departmental accounts. We will be keeping our beady eye on it, with the support of our colleagues at the National Audit Office. Thank you very much indeed for your time. The transcript of this session will be up on the website uncorrected in the next couple of days.