Public Accounts Committee

Oral evidence: Whole of Government Accounts 2012-13, HC 678

Wednesday 22 October 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon, Guto Bebb, Mr David Burrowes, Jackie Doyle-Price, Meg Hillier, Mr Stewart Jackson, Mr Anne McGuire, Austin Mitchell, John Pugh, Nick Smith,

Amyas Morse, Comptroller and Auditor General, National Audit Office, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Robert Cook, Audit Manager, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Sir Nicholas Macpherson, Permanent Secretary to the Treasury, Sharon White, WGA Accounting Officer and Second Permanent Secretary to the Treasury, Julian Kelly, Director, General Public Spending and Finance, Treasury and Ross Campbell, Deputy Director, Government Financial Reporting, Treasury, gave evidence.

Chair: Welcome, the powerhouse of the Treasury. I am going to start with some general questions and we'll see how we go. I will start by saying congratulations because the data are better, have been produced more quickly and address some of the qualifications issues, and we welcome that. Ross has probably done most of the work on it. We are looking forward to your meeting your target of 2015 for getting it all done within nine months. It is welcome progress and we share with you an interest in this document. I am told it is Julian Kelly's first appearance here before this very gentle Committee so I welcome him.

Mr Bacon: You can come as often as you want.

Q1 Chair: Sharon is probably the one for this question. I want to look at the overall picture. Debt is still the highest it has been since the 1960s. Yes?

Sharon White: Yes.

Q2 Chair: And it is going up. Yes?

Sharon White: Yes.

Q3 Chair: Total managed expenditure is higher than tax receipts. What is the gap—up or down?

Sharon White: The deficit—you probably saw the public finance numbers from yesterday—is about £100 billion a year on the national accounts basis and broadly the same if you look at the WGA equivalent of what we call direct spending. There is still a significant gap between—

Q4 Chair: Because I have such a short-term memory, how does that compare with where we were four years ago?

Sharon White: The deficit has come down by just over a third. Based on the OBR forecast from the Budget this year, it is expected to reduce from about 11% of GDP to about 5.5% of GDP by the end of the Parliament.

Q5 Mr Bacon: Just remind us: what is the total stock of debt now?

Sharon White: We are at about 80% of GNI.

Q6 Mr Bacon: In real money.

Sharon White: About £1.2 trillion.

Q7 Chair: £1.23 trillion, yes. Is growth lower than you thought?

Sharon White: Growth in the economy? As you know, the OBR revised up its forecast at the Budget and growth, so far, is running ahead for this year of those forecasts.

Q8 Chair: But if you go back to where you started the whole exercise in 2010, it is less than you expected. Would you take us back to that?

Sharon White: Yes, that is certainly true. You'll remember that there were two forecasts in 2010 after the election: the emergency Budget on 2 June and the Autumn Statement in 2010. Growth has been more sluggish than expected when the consolidation started four and a half years ago.

Q9 Chair: The final thing is tax receipts. Talk us through that a bit. They are lower than expected.

Sharon White: Yes. Tax receipts are at about 30% of GDP. It is quite interesting to look at tax receipts over the period of the financial crisis and, now, in the aftermath; they did not plunge during the financial crisis but hovered at around 37% or 38%. We have seen that continuation as a share of

GNI. You saw the public finance numbers yesterday. The question is the extent of the bounce-back in revenues, particularly of the big three—income tax, VAT and national insurance—as the economy is now, with a strong recovery under way.

Sir Nicholas Macpherson: The critical issue is the rise in wages across the economy. Wages and earnings are not rising rapidly. If average earnings are growing only at 1% or 1.25% a year, you will not get much growth in income tax receipts. Historically in a recovery, by this time you would be seeing rapid growth in earnings. On the plus side, there has been good growth in employment, but if a lot of those jobs are at the lower-paid end of the spectrum and the Government, for perfectly good reasons, have been raising the personal allowance for income tax, you will not get the so-called fiscal drag you got in previous recoveries.

Q10 Chair: On that point—I want to come on to a more general point on public expenditure—what has happened to tax credit expenditure?

Sharon White: Julian can pick this up as well, but tax credit expenditure has continued, as you know—

Q11 Chair: If wages are low, does that mean that the state is subsidising wages through tax credits more?

Sharon White: It has continued to rise in real terms.

Q12 Chair: Is the rise in real terms substantial?

Sir Nicholas Macpherson: I am sorry to correct you, Sharon, but total tax credit expenditure has been flat or falling—sorry, I am looking at it the wrong way around. Sharon is right. It is one of those confusing tables, where the most recent year is on the left-hand side and the oldest year is on the right-hand side, which conceptually I find difficult to deal with.

Mr Bacon: If you hold up your hand like this, you will see that it makes an L, so long as you are using your left hand.

Sir Nicholas Macpherson: To give you an insight, tax credits in 2010-11 were £29.4 billion, and rose to £29.9 billion in 2011-12. They then fell a bit in 2012-13 to £29.7 billion, but it looks like they have increased a bit to £30 billion now. They are pretty small movements, so it is broadly flat. They have been, I guess, picking up some of the slack at the lower end.

Q13 Chair: Okay. Given the rather depressing scenario of the overall context for public expenditure, we have also been through a pretty hefty cuts exercise, and I want to focus on that a bit to try to see the trends going forward. What proportion of the expenditure cuts exercise has come from wage freezes—I know there are other ways in which wages have gone up—and from benefit cuts, rather than from real cuts and savings out of services? How much has come out of changes in the benefits system, how much has come out of the general wage freeze across the public sector and how much has come out of cuts in services or cuts in the costs of services?

Sharon White: Perhaps I can give a bit of an overview, and then I am sure Julian will want to fill in more of the details. It is probably worth starting with what the scale of the reductions has been. At the end of the Parliament, we will have taken some £126 billion of consolidation or repair job. Some £100 billion of that is spending. If you compare us with a counter-factual where spending continued to rise in real terms through the Parliament, then broadly speaking we will be £100 billion down on that by the end of the Parliament.

Q14 Chair: And the £26 billion is inflation.

Sharon White: The £26 billion is tax. It is a £126 billion repair job, with £100 billion of that on the spending side and £26 billion on the tax side. With the £100 billion, as you have already indicated, the main levers have been pay restraint—initially a freeze and then a 1% cap—and efficiencies. All of us have seen a big push on back office reform and headcount cuts. Sitting in Whitehall, we have been part of two. On welfare, the Government have had a proposition to take through £20 billion of welfare cuts. Julian can talk a bit more on how that has panned out. On public services, as you know, the Government have made some political choices on which areas will bear the weight.

Q15 Chair: Let's hold that; we will come to that. Of the £100 billion, can you give us an idea of what percentage comes out of changes in benefits and what comes out of pay constraint?

Julian Kelly: Roughly £20 billion will be from the various welfare changes that this Government has made. Just pure pay restraint—restraint versus if you had given inflation-linked settlements—will add up to about £6 billion over the course. That is different from the change in the pay bill, which is then also from having efficiencies and other things, and adds up to a much bigger number. And that does not include local government: that is the impact on the public sector, civil service and services managed out of Whitehall, largely.

Q16 Nick Smith: That adds up to about £26 billion, so what about the other £74 billion?

Julian Kelly: Well, as I said, you would end up with a bigger number just from pure work force changes. I forget the precise number, but it is probably closer to £20 billion overall—we can go away and check that figure for you. You will then have—

Q17 Chair: What is that £20 billion?

Julian Kelly: That is the broader work force picture, but that is the number that I can go away and—

Sir Nicholas Macpherson: Does that include pensions?

Julian Kelly: No. So then you would have the pension changes—in particular, the increase in contributions—which probably adds another £5 billion and then you would run through the range of things that we have done, including changes to student loans and the changes within the Ministry of Defence, shrinking the size of the uniformed services. And then you would—

Q18 Chair: It would be helpful to see how that £100 billion divvies up. To take that crudely, it sounded to me like two thirds came from changes in public services.

Julian Kelly: If you take the welfare and the broad work force numbers I just gave, you are almost halfway there. Then you have got the other half of the £100 billion coming from the broader changes.

Q19 Nick Smith: Can we go back to the reference to the benefit savings? You talked about £20 billion, but are you on target for your savings, or are those targets not being reached?

Julian Kelly: In terms of reforms such as the recent freezing of benefit rates, the change in the taper on tax credits, taxed child benefit and those sorts of things, those are all going through. The reforms which are probably running more slowly are the changes to disability benefits, where we are probably not quite running in line. But then if you look at—

Q20 Nick Smith: But they are quite significant changes, aren't they?

Julian Kelly: A lot of those were, anyway, coming through into the next Parliament, but they are probably going slightly more slowly as compared with the initial forecast.

Q21 Mrs McGuire: They are not just not in line; if I read it correctly, there is actually an increase of 6.2% in disability living allowance. If I remember the debates correctly, was that not anticipated to be much lower by this point in the Parliament?

Julian Kelly: Sorry, on disability living—

Q22 Mrs McGuire: On disability living allowance—

Sharon White: This is the PIP report?

Q23 Mrs McGuire: Yes, the transfer from DLA to PIP. Obviously PIP is not in the accounts, because it was introduced outwith the period of these accounts. But the DLA spend has increased.

Sharon White: Can I pick up a couple of those points? As Julian says, on the welfare side there are a set of changes—you will know this from having been at DWP—that the implementation of which is relatively straightforward: you change an uprating and you change a taper. Those are pretty mechanistic changes.

What has been more complicated—you will remember this from your days of doing disability—is that, reforms such as employment support allowance, which is a run-through from the previous Government, and the conversion of disability allowance into PIP involve commissioning by the Department. There is obviously contracting with outside providers and, because these are lots of vulnerable people, you are policing and operating a gateway to reform. Those are very complicated changes to work through. As Julian says, because of the time lags they were always intended to be towards the back end of the Parliament, but they have faced more implementation challenges than we would have liked.

Q24 Chair: Okay. What proportion of total public expenditure did the two areas of protected expenditure—pensions and pensioner benefits—come to? Was it around 40%?

Julian Kelly: No. It is roughly just over one seventh—about £100 billion. I do not have the precise number in my head.

Sharon White: It partly depends on whether you are talking about pensions or pensioners, because the basic state pension plus is about £100 billion. If you are looking at public services as well—health is the most obvious area that has been ring-fenced with real-terms protection.

Q25 Chair: I was going to come to health.

Sharon White: A large proportion of the NHS budget goes to support the elderly, as do some of the disability benefits when people run from working age into pensions, as PIP will do.

Q26 Chair: We have a huge challenge. I was trying to find out the direct costs of pensioners, which there is a commitment to protect. This is about the cost of pensions and of pensioner benefits as a proportion of total expenditure.

Sharon White: As Julian says, if you only look at the cash that we give to pensioners as opposed to the services, it is about £1 in seven—about £100 billion.

Q27 Chair: Does that include the benefits bit—the fuel allowance, TV licences and all those sorts of thing?

Julian Kelly: Yes.

Q28 Chair: What about health?

Julian Kelly: Health is just over £100 billion in total for the Department of Health. That is the total health budget, of which about £14 billion goes on public health, training students and so on.

Chair: We looked at that.

Julian Kelly: In total, the Department of Health is just over £100 billion.

Sir Nicholas Macpherson: You then need to add on 20% for Wales, Scotland and Northern Ireland.

Sharon White: That is the Barnett formula.

Q29 Chair: Right. We will come to the Barnett formula later. We are probably talking about two to two and a half sevenths of total expenditure—let's say a third—which is committed as being protected.

Sharon White: Yes. The Government have also committed on schools and on overseas aid.

Q30 Chair: What does that take you to as a percentage of total Government expenditure?

Julian Kelly: It is just over £200 billion with the basic state pension and the NHS, and overseas aid and schools are about another £50 billion. So it is about £250 billion out of just over £700 billion.

Q31 Chair: When you look at what everyone wants to do, is it doable? I don't know what you end up cutting.

Sir Nicholas Macpherson: If you work in the Treasury, what you really want—this is an appeal to you—is for the main political parties in this country to make as few public spending commitments in the election as possible, to maximise the room for manoeuvre in the next spending review. I have been around long enough to know that you will not respond to that appeal.

Mrs McGuire: Why should we?

Mr Bacon: You never listen to us.

Q32 Mrs McGuire: It's what is on the tin. You are permanent secretary, regardless of which Government is in. That is the trick you have.

Sir Nicholas Macpherson: I have very happily served Governments of all persuasions, and it has been a great privilege. But in six months' time, my guess is that you will all have made even more commitments than you have already made, so you do have quite a big challenge.

Q33 Chair: Quite a big challenge? I think it's a non-doable challenge. To be honest, Nick, I don't want to get partisan, but the commitments are, on the whole, always on the margin. You are talking about £700 billion of public expenditure.

Sir Nicholas Macpherson: What I suppose I would say as an official is that no one has ever managed to cut health spending in real terms. They may have done by accident in the odd year.

Mr Bacon: 1976.

Sir Nicholas Macpherson: Exactly. Even if you are being ultra rigorous, you are running very hard to stand still in real terms on health. Pensions is an interesting one. There was a step change on the all-party approach to the basic state pension. It must have been at the very end of the Blair period. As a result of the famous Turner review of pensions, the then Labour Government decided to change its approach to uprating the basic state pension. The coalition Government came in and adopted the so-called triple lock. The result of that is that next April the basic state pension will go up by more than the current growth in average earnings. If you look at the basic public finance challenge there, if the earnings of people in work are rising more slowly than the increase in the pension, that means that the taxes, other things being equal, will grow only in line with earnings at about 1%. But you are then handing out to something like 11 million or 12 million people—it is not a massive amount, but it is growing in real terms.

What I found fascinating looking at these accounts in preparation for this exciting event, was that the total increase in social security benefits is more than accounted for by the increase in the basic state pension. That is a perfectly reasonable social choice to make. I am just a civil servant and I will do whatever you ask of me. But I suppose it gives you an insight into some of the public finance challenges, not least because the number of pensioners is rising. So not only is the number rising but the payment you are making to them is rising. Against that, successive Governments have made very sensible and far-sighted decisions about the age of retirement. So I will retire at 67, whereas my mother retired at 60. Sensible decisions have been taken in that space. I still think that, at a time when we have very big public spending challenges, the more big commitments are made, the more difficult our job will be. I am not asking for sympathy, I am just telling you how it is.

Q34 Chair: Okay. Nick wants to talk about pensions. What I really wanted to get to was a position where you look at all the figures going in the wrong direction. You look at the commitments and you look at what is left. Forget the marginal promises that come out of party conferences. You take that out of the equation. You have left yourself with a pretty undoable task, haven't you, unless you close down local government? I don't know what else you could do.

Sharon White: If you do public spending, you have to have a pretty optimistic personality. The main good news I take from this Parliament is that, despite apocalyptic statements—sorry, that is perhaps too loaded—despite some of the concerns I get in 2010—

Mr Bacon: No, apocalypse is pretty much there.

Sharon White: Despite the statements about what the impact would be in terms of public services, interestingly, on the spending side we have been overachieving.

Q35 Chair: No, but you have done it once and you are being asked to do the same ruddy thing again and it has not had the impact that you hoped it would have.

Sharon White: The fact that we will have had a Parliament in which the Government's spending plans were on track—indeed, we have been running ahead of plans—provides an important context and an important foundation for the next Parliament. Nick's points clearly hold: the less room for manoeuvre a new Government gives itself, based on political choices, the smaller the landscape there is in which to operate. The Government has achieved what it set out to achieve on the spending side.

Q36 Mr Bacon: The apocalypse I was referring to was what would have happened if we hadn't taken action, rather than the apocalypse in public spending, or the consequences of restraining public spending, which I think is what you were referring to. Surely the most interesting thing about what you have just said is that we have not seen this enormous decline in quality. In some cases, we have seen significant increases in quality, productivity and public approval, while expenditure has been constrained or even reduced. That is a profoundly interesting development—

Meg Hillier: Maybe in Norfolk.

Mr Bacon: I am not talking about in any particular place, and I am not saying that it is universal—I am not trying to make a political point, actually—but, looking at the totality of public spending, surely it is profoundly interesting that that phenomenon can occur.

Sir Nicholas Macpherson: To give a good example, the Chair quite rightly pointed out the role of wage restraint in the spending reductions, but, even with those wage restraints, for quite a lot of this period public sector wages have been rising more rapidly than private sector wages. That suggests to me that there is still scope for shifting the balance; the average public sector worker is still paid more than the average private sector worker.

Be assured that the Treasury strategy is not resting on wage cuts, but, consistent with Mr Bacon's comments, that does suggest that some of these things are perfectly sensible to do: they are not damaging our power to recruit and retain staff. So I still think that we can do more and we can do it without damaging public services.

Chair: Well, I am not sure that you can at the quantum we are talking about. We all agree that you can always do a bit more, but the challenge that we have set ourselves means that we have a huge mountain to climb.

Q37 Nick Smith: I want to pick up pensions again. I hear what you say about the increases in state pensions, but looking at the Report with reference to pension liabilities, how much they have increased in the past year and where they are going—everyone here is aware of what happened with the change from RPI to CPI and the reduction in Government expenditure on pensions as well as some other technical changes—is essentially, if not the biggest, one of the biggest-ticket items that we have to grapple with. You have made some important changes, but what are you doing in the Treasury and the Department to get a grip on this? What else have you got in your locker?

Sharon White: On the numbers—there is always the point to make at the WGA hearing that a chunk of this simply relates to the fact that we are using a smaller discount factor, but that does not affect your substantive point.

We have talked a bit about the labour market. One of the interesting features is that, ahead of the faster increase in the state pension age, you are seeing some of the fastest growth in employment among older workers. That is not all full-time—it is also a combination of self-employment and part-time work, as we have seen in other parts of the economy—but one of the avenues that we are clearly interested in is how we encourage more of the people who can work to remain in work for longer.

Q38 Nick Smith: Is that it, Sharon? Do you want us all to work at B&Q when we are pensioners?

Sharon White: There will be a set of choices for any new Government, just as this Government has taken steps both in the short term, with raising contribution rates—I witness that every April when I get my salary statement and first think that the Treasury accounts have made a mistake, but then realise that it is actually the changes following the Hutton reforms—and in the longer term, with changes made for the sustainability on the SPA. But there are clearly a set of options for any new Government that wants to tackle this liability.

Nick Smith: I am looking forward to being a postman when I am older—I quite like the idea of doing lots of walking and exercise—

Sharon White: I am looking forward to working when I am 90.

Q39 Nick Smith: There is something in your wider point, but what are you getting the Departments to do to try to address the big issue of pension liability, because it is massive? Your answer is interesting, but, come on, what is going on? Do you have the capacity and capability in the Treasury and the Departments to bring down the liability?

Sir Nicholas Macpherson: I think we do. The Government Actuary is rather critical in terms of ensuring that we are right on top of the long-term costs. As Sharon said, following the Hutton report, we have sought to cap the taxpayer's risk on all these pension schemes so that, if future actuarial calculations suggest that the long-term liability is rising, there will be effectively two options.

As Sharon said, following the Hutton report, we have sought to cap the taxpayer's risk on all these pension schemes so that, if future actuarial calculations suggest that the long-term liability is rising, there will be effectively two options: either the benefits of the scheme will have to be reduced or the members of the scheme will have to pay more in contributions. That is important.

I am a great fan of Whole of Government Accounts, but it is always dangerous when you look at this very, very big pension liability calculation and you then look at the OBR's estimate of what the cost of public sector pensions will be as a proportion of GDP in 2060—I remember the Chair raising this point with me before—because it is not very much. It is one of the limitations of Whole of Government Accounts that you just get this very, very big number and it is very frightening. Part of it reflects the fact that long-term interest rates keep falling, so each time you are using a new discount rate that increases it more. I am not saying that we should not have addressed pensions—we clearly should do—and public sector pensions are still a lot more generous than in the private sector, but it is a perfectly reasonable social choice to give public sector workers better pensions if, on the whole, you are going to give them lower wages. But I think we did get to some point in the last decade when some public sector workers were doing rather well on both the wages and the pensions, and we need the private sector to pay for people like us, and therefore we have to be sensitive to costs.

Q40 Meg Hillier: Can I just chip in on the issue of pensions? Sharon White, you talked about staying working until you are 90. Great—maybe I'll see you there—but we are both in comfortable desk jobs: nice in the Treasury, warm, comfortable and, dare I say it, using your brain cells—

Sir Nicholas Macpherson: Desk sharing is not as comfortable as it was.

Q41 Meg Hillier: Good. I am glad to hear that you are desk sharing; I don't have a desk for half the time in Parliament. I am an MP, which is a nice little, cushy, comfortable job, and out and about in the constituency is about as physical as it gets. Apart from tramping the streets, as we all do, the serious point is that there are people up and down the country who are doing hard, physical jobs. Have you really taken into account the likelihood that they can actually seriously work productively into their late 60s and maybe their early 70s, which anyone younger than me will have to do? Some of them will die. In Glasgow, for example, they will die before they get to that point, so they will be cheap on your pension score, but they will not get any benefit. Have you got those projections, to take account of people who will not—

John Pugh: The death ratio.

Meg Hillier: Not the ones who die, but the ones who will not be able to work because they will not be physically able to carry on working, because they will cost in pensions. Have you done all of that maths?

Sharon White: Part of my commentary is what has happened in the labour market over the past two to three years. It has been very striking the degree to which the buoyancy that we have seen in employment has been driven to quite a significant degree by more people choosing to stay in work. Clearly, as you say, that will not be a choice that will be open to everyone, but the Government are very, very encouraging of more people staying in work.

Q42 Meg Hillier: But have you done any projections about the fall-off rate of people who will not be able to work because of physical challenges?

Chair: All the population stats show that people are living longer.

Meg Hillier: Living longer, but the age of disability stays the same, and health inequalities—

Sharon White: Exactly; what is interesting is that the degree of morbidity is the same, so the great positive phenomenon is that people are spending more of their older years in reasonable health. Is the Treasury doing projections that suggest that this liability is somehow magicked away by—

Meg Hillier: But the age of disability is broadly the same. It is going up a bit, but much slower than the age of death. There will be a group of people who are unable to work longer because of the physical challenges that they face. Have you factored that in? I am sure that your actuaries are very clever about this, but it would be reassuring for us to know that those people who cannot work into older life will be provided for and that there will not be another hole to fill which has to come from some other part of the benefits system. More of my constituents, and Richard's, may well come to my surgery, and we see the individual impact of what you seem to describe, Sir Nicholas, as fairly harmless reductions.

Q43 Nick Smith: Thank you for that answer, Sir Nick, but the two points that I wrote down were that benefits will have to be reduced and we will have to pay more. In a nutshell, that is really what we are saying.

Sir Nicholas Macpherson: In relation to public service pension schemes. This is nothing to do with the basic state pension, which we dealt with before.

Q44 Nick Smith: Tell us more. How will we have to do that? How will we pay more in and what benefits will be reduced?

Sir Nicholas Macpherson: We have just had a whole lot of actuarial revaluations; benefit rates have been set. As Sharon says, year by year our contributions as public sector workers have been going up. I am just saying that one of the Government's announcements as regards future revaluations is that if they reveal rising pensions costs, the state's contribution will be capped. There will be some scope at the margin for an increase in employer contribution. This is a Government decision. I am just explaining the Government's intent. Richard used to be in charge of this at the Treasury, so he may wish to comment.

Richard Brown: And also Parliament has legislated for it. The Public Service Pensions Act contains the provisions that relate to putting a cap on the cost of public service pensions.

Julian Kelly: It all depends how the future liability evolves. We have done the evaluations. In general, employer contributions as a result are slightly higher—1% or 2%. That is not because of the cost of the new schemes that we have put in place—those are actually cheaper; that's bringing contributions down—but because it reflects the fact that where we have done past valuations on the old scheme, people are living longer, earnings have grown faster, so we are almost recovering the past deficit. If we can pay that down and that stays reasonably steady, there is a chance that employer contributions could come down, as well as go up, at some future valuation. We just need to wait and see. The next one is in five years' time, when we will see where we are; but we have put in place a mechanism ultimately to control the cost to the taxpayer.

Q45 Mr Burrowes: In terms of the value of the Whole of Government Accounts, what is the level of fraud and error across Government at the moment?

Chair: You don't tell us.

Julian Kelly: I can tell you what it is. The benefits and tax—

Chair: We want to know it across Government.

Julian Kelly: I do not actually have that number at my fingertips. That is one of the things we are currently working on, both in the debt and the fraud and error sphere, but I do not have the aggregate number.

Q46 Mr Burrowes: Although it is not yet reported in the WGA, do you have a figure for that?

Julian Kelly: There are figures that are often quoted by others; I just don't have them at my fingertips.

Ross Campbell: They are estimates rather than hard figures, partly due to the nature of fraud and error.

Q47 Chair: Give us the estimates.

Ross Campbell: The estimates in HMRC are £2.2 billion and in DWP £2.4 billion for the year of these accounts. They are reasonably stable, year to year. Just looking at performance, they tend to be about the same.

Q48 Mr Burrowes: Any other Departments?

Ross Campbell: I don't have the figures for any other Departments. Certainly looking at this through the fraud, error and debt work, those two Departments represent the majority.

Q49 Mr Burrowes: You do not have those figures here, but do you have them?

Ross Campbell: We do have some figures.

Q50 Mr Burrowes: Can you give us all the figures you have?

Ross Campbell: Yes, I believe we can.

Q51 Chair: Has anybody behind you got them? You have known them for some time, because the NAO has been pushing you on this.

Sharon White: May I add a couple of things? As Ross said, the fraud, error and debt is concentrated, as we discussed at the previous hearing. It is DWP and HMRC, but also MOJ, because of the issues around court fines. One of the things that we are doing in response to the NAO Report—Julian and Stephen Kelly, the COO at the Cabinet Office, have written following the last hearing. We do not, as this conversation has revealed, have very good, systematic, comparable data across Departments. We have now written to all Departments with guidance based on all the metrics that the NAO recommended that we take—volume, age of debt and so on. So I hope that we will be in a better position in the next couple of months, but we do not yet have an aggregate picture, or a single number across government on a comparable basis. We will certainly provide you a note with the figures that we do have.

Q52 Mr Burrowes: Do you intend that all the figures will be included in the next WGA?

Sharon White: We may be a little late for 2013-14, but we will certainly take it with us for 2014-15.

Q53 Mr Burrowes: So by the time the WGA is published, will you also be able to publish all the figures across the Departments you have got?

Ross Campbell: We can certainly publish some of the figures. The estimates of fraud, error and debt that we get from the Departments tend to be a year in arrears. The Departments look back and review what happened. So if we are publishing the 2013-14 WGA, for example, the fraud, error and debt figures would relate to 2012-13. I see no reason why we could not look at them.

Q54 Mr Burrowes: What does that reveal to you? Is it an accounting issue or do some Departments not really know clearly the level of fraud and error in their Department?

Ross Campbell: I do not think it is an accounting issue per se. Some Departments are clearly more advanced. Others—certainly HMRC—are very on top of it.

Q55 Mr Burrowes: Do Departments not know clearly the amount of fraud and error?

Ross Campbell: By their very nature, fraud and error are sometimes difficult to detect and understand, so it is an estimating process.

Sir Amyas Morse: Some Departments have their accounts provisions on fraud and error qualified and others do not.

Q56 Mr Burrowes: There are always issues with estimates, but there is a proper accountancy process to establish the level of fraud and error, and what you are saying is that some Departments do not have that process in place.

Julian Kelly: Through the work on quarterly management information that the Minister for the Cabinet Office has put together, each Department now reports on a quarterly basis to the centre—to the Cabinet Office—an estimate of its fraud and error number. So numbers are there. I am not going to stand here and say that all of those have been audited and are an absolutely accurate view. Where it is material to the accounts, Departments are required to report it as part of the accounting standard, and the most obvious areas are the ones that we have just mentioned.

The centre, through ERG, is working with Departments to improve those data and make sure that we have a grip, and to identify those areas where we have issues. Let me give the example of work over the past two or three years to identify where suppliers have been paid twice, which has happened. A lot of work has been done to put in place systematic programmes to identify double payments and recover the money. So a lot of work is going on, and data are there. I do not want to sit here and say that if I added it all up, that would be the audited number and I could—

Q57 Mr Burrowes: You have mentioned three Departments for which you have reliable information. Is that where your focus of attention is in terms of tackling fraud and error from a Treasury point of view?

Julian Kelly: Certainly in terms of where the big numbers are—tax and welfare—yes. That is where it is. Those are material amounts of money. Work is going on elsewhere. It is not as if nothing is happening elsewhere, but the material numbers are in those areas.

Q58 Mr Burrowes: As a London Member of Parliament, may I ask whether you expect to be able to let me know the amount of public expenditure for London?

Julian Kelly: I am trying to think whether we break down to regional numbers in PESA. I do not think it goes down to London; I think it goes to the south-east.

Sharon White: It is a good challenge, as we mature the WGA, to get to a position where we can do geographical breakdowns. So far, we have focused on timeliness and tackling the big outstanding qualifications. Ross may correct me, but on our list of desirables is, in time, to be able to provide the data on a geographical basis. That is probably not our first priority over the next one or two WGAs—

Q59 Mr Burrowes: What about on a national level at least? Or for England?

Julian Kelly: We already publish the Public Expenditure Statistical Analyses each year, which give a regional breakdown and will show you our public spending in total and by headline functions, such as health or security for the north-east, the south-east, Wales, Scotland, so we already produce a regional breakdown.

Sir Nicholas Macpherson: In the context of Scotland and the current debate about devolution and so on, it will be critical to get those estimates right.

Q60 Mr Bacon: Whether or not you have devolution, my Norfolk colleague, Norman Lamb, who is currently the Care Minister, is fond of saying—we have had various meetings about this in Norfolk—that in the county of Norfolk, there is at least £7 billion of public expenditure on various different things, and we know that if we could merely get social services, the police and the health service talking together more frequently in an organic and holistic way, we could squeeze a lot more out of that £7 billion. So when you, Sharon, said, "I don't think it's really likely to be one of our first priorities", I was thinking, "Perhaps if it were one of your high priorities, you would be able to get more out of the existing cake, and one of your big problems would not go away, but would diminish."

Sharon White: It is a good challenge, and as we start to think again about the Work programme for the WGA, we should definitely take that on board. On the substantive point about more collaboration of public services in localities, we are incredibly strongly supportive of and working closely with the LGA. We recently had a conversation between permanent secretaries and local authority chief executives on exactly that point, not least in the context of early intervention. Can you get to a position in which schools are more responsible for a broader set of interventions for under-fives that start to relieve pressure on the police and other much more expensive downstream services?

Q61 Mr Bacon: To go back to what Sir Nick said a minute ago about devolution, unfortunately the two are not separate; they are linked. But it is not merely a case of a carve-up of what powers get diffused to which levels of local authority. We have tried to get people to work together a lot. Five or six years ago, getting the Norfolk and Suffolk police to talk to each other about uniforms was impossible; they are now talking quite happily and regularly. Unless you have very visible political leadership that is accountable, sackable, and focused in the way that, for example, the Mayor of London focuses political attention, you are not going to get the political drive that you need locally in order to make it happen. It is too diffuse.

Sharon White: That comes through very strongly. Those of you who have seen Jim O'Neill's report today on the north will see that he makes a very strong point on governance being absolutely critical.

Chair: I want to come back to that point later, but first I want to go to Jackie, who wants to ask about another set of issues. Then we will hear from Austin and Nick.

Q62 Jackie Doyle-Price: To start with, Sir Nicholas, you have been very frank with the Committee about the difference in earnings between the public and private sector. Personally, I think that that is a serious structural flaw in our economy right now. To be honest, the collective political establishment is in total denial about it. If you speak to the people out there, the crossest people you will encounter are public sector workers, who are feeling that their pay is being unduly restrained and that they have had to pay more into their pension contributions. There is a serious education exercise to be done there, because of course the private sector employees are complaining less because they are just grateful to still be in a job. Most of them lost their final salary pension schemes a long time ago. We have obviously gone through a wave of public sector pension reforms that have limited the liabilities to some extent, but they are still growing. What is the next wave of work?

Sir Nicholas Macpherson: The formal position of the Government is that, having introduced those reforms, their main concern is quite likely to be to minimise the risk to the taxpayer of increased costs down the track. On the basis of the legislation that the Treasury Officer of Accounts alluded to, in a sense that is—I would not say it is sorted, but you are not going to have the same problems as in the past, of the taxpayer taking on the longevity risk of public sector workers and public service pensioners.

The big policy decision, I guess, at the next spending review will be around wages—what will the Government of the day's approach be to public sector wages? I will take my instruction on that point. The critical thing for the Treasury is to inform Government decisions by being able to point to long-term trends or particular issues with specific work forces. One of the frustrations that I have had as a public sector employer, as permanent secretary to the Treasury, is that the Treasury did the right thing 20 years ago and abolished annual increments, but quite large parts of the public sector, and even individual civil service employers, still had, or still have, annual increments. The great irony is that, because generally people want to enter into negotiations on these matters, people are being bought out of these arrangements.

To give a really good example, Treasury did the right thing and abolished increments in the Treasury, but the Department for Business, Innovation and Skills did not. Last year, or perhaps the year before that, to convince BIS workers to relinquish their increments, they got a bit of a bung. I find that very frustrating. Now, if you are in the Treasury, you just have to live with these things, but I do think that we should have a more coherent approach. I do not want to revert to the old days, when the Treasury sought to run pay policy in every single Department, but—

Q63 Jackie Doyle-Price: I think perhaps you should, to be honest, with that story.

Sir Nicholas Macpherson: Then you would have a slightly Soviet Russia model, where literally some person in the middle of Treasury determines every single pay and allowance. Perhaps that is the only way to control things. There is a trade-off. I believe in devolving these decisions, but it is frustrating in the Treasury when you devolve decisions and people do not take the right decisions.

Q64 Chair: You are talking about the civil service. Just thinking of local government, what proportion of public sector workers are on minimum wage, Nick, which is the other side? Do we know off hand?

Sir Nicholas Macpherson: We must have some figures—

Richard Brown: Not to hand.

Sir Nicholas Macpherson: We do not have the figures to hand. I am willing to go back and look.

Q65 Chair: Because it may be true about civil servants, but out among the care workers—

Julian Kelly: If my memory serves me right, of the directly employed, it is not that large a number. The sector where you probably have the largest number—I am looking at Richard to nod or at least to say, "No, you are just wrong", because he was the guy helping me with thinking about it—is the social care sector. That is the one where you start to see more—

Q66 Chair: We looked at it here and an extraordinary number, because of the way in which they were paid, were not even on the minimum wage. So a general pay policy also has to have regard to—

Sir Nicholas Macpherson: To be fair to this Government—which I should be, since I am employed by them—they did have a special policy at the lower end, under which the really low-paid were exempted from the freeze and the 1% cap. So there has been recognition of low pay in the system.

Q67 Jackie Doyle-Price: One of the things that we always worry about, as you know, is the degree to which senior management in public services look after themselves. According to the accounts, that is a reasonably good news story, because on page 47 it shows that there has actually been a reduction in the number of people being paid more than £100,000, which on the face of it seems like good news. But to what extent are Departments employing people off payroll? Those figures might be overstating a position and we might still have some people being paid generous amounts of money and perhaps not paying their fair share of tax.

Sir Nicholas Macpherson: First, on the high pay, I have been pleasantly surprised at how you can lower salaries and still attract good people. There are certain specialist areas, often around finance, IT and commercial skills, where it is occasionally difficult to recruit, but for the broad mass of the public sector, you can lower these packages.

On the issue of off-payroll, as you know, this is something in which the Treasury is taking very great interest—not least because it has been encouraged by you. We require Departments to report arrangements in their annual reports. We have fined Departments when they have clearly breached the rules—recently we fined the Land Registry £1 million. We have been through one round; there is about to be another round, as we review what is going on.

Sometimes there will be exceptional cases; in particular, if you need someone to come in for a couple of months, sometimes you might have to pay them more. But what I find very worrying are the cases where people seem to be on the payroll year after year after year. The Treasury will be taking a very close interest in that, won't it, Julian?

Julian Kelly: Yes. In fact, Amyas's team has provided the latest aggregate data, when you take the 2013-14 accounts. We happen to be in the middle not just of putting together the aggregate data, but of conversations with Departments to find out in more detail what is going on. In the next few weeks we were going to put out advice to our Ministers about the appropriate response when people have flagrantly breached the rules. Indeed, in some cases you have to work out whether they are being applied or followed through in the right way. We are sort of in the middle of that process now.

Q68 Jackie Doyle-Price: That is encouraging. I want to probe a bit further about what sits behind the fines. We have been told that DEFRA was fined £102,000 for an arm's length body and the Department for Transport was fined £398,000 in relation to two senior appointments at Directly Operated Railways—a nice way of putting it. There is some maturity about the point that sometimes it is an entirely legitimate way of employing someone to get a job done, but on those two occasions, what led you to think, "Actually, this was an abuse; we are going to fine the Department"?

Julian Kelly: At its simplest, they had not followed the guidance we have put out and we did not feel that the reason for that was reasonable, so it felt like the right thing to do.

Q69 Jackie Doyle-Price: How did you arrive at those figures?

Julian Kelly: There is a degree to which we made a judgment. The Chief Secretary, on our advice, made a judgment about either the seriousness or—what is the word I can use?—the degree to which it was an oversight, as opposed to a conscious decision that had been made. It was trying just to weigh that up. Broadly, it is roughly the cost of the salary or hires. That is how it works out.

Sir Nicholas Macpherson: My recollection is that there is some science to these numbers, to do with how much the individual was paid. We gross that up and they have to pay twice, effectively, for making this mistake. I think that concentrates minds.

Q70 Jackie Doyle-Price: It concentrates the Department's mind, to an extent, but as Stewart has said, it is not their money. But what about the employee? It says a lot. They are going to come in and do a job for the public sector, and really we should expect people who are taking taxpayers' money to be respectful of that and to have the ethos of public service. Frankly, they are all in it together in terms of abusing the rules, aren't they? To what extent did they get some punishment?

Sir Nicholas Macpherson: I do think that it is the nature of the public sector that as you get further and further from the centre of Government, and you get into some of these spaces that are on the edges of the private and public sector, perhaps the Gladstonian obsession with propriety and good practice dissipates a bit.

Sharon White: But we do terminate contracts.

Jackie Doyle-Price: Right. That is what I wanted to hear.

Julian Kelly: And details have also been shared with Her Majesty's Revenue and Customs.

Q71 Mr Bacon: May I clarify that when you say you terminate contracts, you mean you terminate contracts when the arrangements have been inadequate?

Sharon White: Exactly. We do our review, and we have found about 200 so far for the 2013, 2014 process, and a similar number for 2012, 2013. If they do not provide sufficient assurance, we instruct the Department to end the contract.

Q72 Chair: I am going to up the temperature on this one. We have a load of stats here that I have no doubt the NAO has shared with you. This is just central Government: there are 1,000 people who have been there for over a year. This is not a couple of months to do the west coast mainline; there are 1,000 people. In 27% of cases you did not insert the ruddy clauses to say that they had to pay their PAYE and NICs, despite all the best efforts of this Committee; and in one in three, you have not got assurances as to income tax and national insurance obligations.

Then you look at the worst offenders—my favourite Department, the DWP—where only 15% of the people who are on these outrageous contracts for far too long have actually admitted to paying. DWP of all Departments—it really gets you, because they are the ones who are involved in benefits and entitlements. Only 15% have got assurances that they are paying national insurance and tax. This ain't on. We were very pleased with your response, but the performance does not fit the policy.

Sir Nicholas Macpherson: The NAO, as ever, has done some excellent work, but, as ever, there are some explanations for this. We may not be comparing like with like. One of my colleagues will now explain—

Q73 Chair: Nick, I do not accept that. Even if there is the odd figure that may be slightly wrong—it might be a bit oranges and lemons—overall, given the effort that we and the Chief Secretary put in, this is not good enough.

Sharon White: The one thing I would say—and both Ross and Julian may have more detail—is that we are in the middle of reviewing the numbers for 2013-14. As we continue to do the assurance, where we do find egregious examples where there is not a clear explanation, we will advise the Chief Secretary to apply fines and to apply termination.

Q74 Chair: You have done two, and there are 1,000.

Sharon White: We have not completed the review process. We do not have data yet from DFE or MOD. It is a really helpful first shot on 2013-14.

Sir Nicholas Macpherson: We feel inspired by Amyas's work. You will be glad to hear we are on the case with DWP.

Q75 Guto Bebb: Sir Nicholas, I want to go back to the bonus, because the story about the bonus and the pattern of business is quite interesting. Are any figures available for the payback period in terms of the decision to award a bonus, as you described it, to staff in BIS to move away from the annual increments? If that payback period was fairly reasonable, has that been shared with other Departments?

Sir Nicholas Macpherson: The Treasury agreed to it, albeit with some reluctance, because there is a payback. We would not have agreed to it unless it would give us—

Q76 Guto Bebb: What was the time scale?

Sharon White: Two years.

Q77 Guto Bebb: Has that been used as an example for other Departments?

Sir Nicholas Macpherson: Yes. Other Departments have come to us with suggestions that we have rejected, because the payback period was not quick enough, but it is Government policy to basically weed out the payment of annual increments—or, as it is known in the trade, progression pay—throughout the civil service. When you get to the health service, where progression pay is still very much built into the system, we have perhaps made less progress.

Sharon White: In health, like the police, we have taken a slightly different approach. They have retained progression pay, but tried to impose a tougher performance threshold in order to access those increments.

Q78 Mr Jackson: You alluded to the health service and had the view that you could not impose on all Departments this kind of Stalinist five-year tractor plan approach to paying remuneration. I have to say that it concerns me. I wonder how you see your role in the Treasury. Let's park the fact that the previous Government decided to generously fund the NHS; that is a policy decision and we all understand that. But when they said, "Actually, we're going to pay GPs 27% more and consultants 44% more," was there a point when the Rolls-Royce brains in the Treasury thought that might have a cumulative impact on public expenditure in the years to come? At what point do you say, "That's up to the Department of Health"? For instance, the former interim chief executive of my trust was earning over £400,000 for a four-day week. He told my local paper, the *Peterborough Evening Telegraph*, that he sometimes worked beyond 6 o'clock or was in before 9 am. I am rather cynical. Who has a red light that says, "This is pushing your luck a bit"?

Sir Nicholas Macpherson: I don't want to go over the private grief of what happened in the early 2000s with NHS pay. Suffice to say that there was an agreement to give the NHS a lot more money, which required the Department of Health to agree a pay deal with the Treasury. For various reasons which escape me, it was not agreed with the Treasury. That is a reflection of relations within the Government at that time. I think you perhaps had a Secretary of State whose relationship with the Treasury was not what it might have been.

When these things happen, you can repent at leisure first, but the critical thing is that you then do something about it. As far as I am concerned—I know that Sharon shares this view—pay must be a central plank of Treasury control. You raised the question of whether we should seek to control everything from the Treasury. There is a real tension here. On the one hand, you want to ensure that bits of the balloon do not pop out somewhere—you want to have some key central principles—but you also want to devolve some choice to managers of organisations to do what is right. Otherwise, you end up with an appalling one-size-fits-all policy. We do look very seriously at the pay bill. One of the beauties of Whole of Government Accounts is that the public sector pay bill is set out in black and white. The team which my good colleague Richard Brown used to run is all over this.

Q79 Mr Jackson: Except, Sir Nicholas, that you just said something to the effect of, "As we go to the margins of Government, we are not so keen on Gladstonian retrenchment," or something like that.

Sir Nicholas Macpherson: It is more about the ethics of those parts of the public sector. I would regard it as pretty much a resignation offence if I employed someone on my board off payroll—I would expect you to demand that I resign. The Treasury has to be completely above suspicion in these cases.

Chair: I think the Cabinet Office do too. They have not done very well according to this table.

Q80 Mr Jackson: Let me go back to those fringes, because that is what concerns me. It is still public money; your bailiwick is still the efficient management of public expenditure. What comes to mind, for instance, are some of the Executive agencies, but also university technical colleges and first-grade academies. I am just asking myself where the checks and balances are to relate the remuneration packages to what ordinary people—I hate that term—think is prudent and appropriate.

Sir Nicholas Macpherson: This is why accountability is incredibly important. It is also why the work of this Committee and reporting are incredibly important. The transparency of organisations having to report on their pay arrangements and having to certify that they have not entered into dodgy deals to attract people to work in their organisations is what makes the system work. Although the Chair is right to point out that there are still gaps on off-payroll employees, the fact that both our organisations have numbers and can go through it Department by Department is a reflection of the success of Treasury control combined with the accountability of accounting officers to the Treasury and to this Committee. That is really important. This system has survived for pretty much 100 years, and it is very effective. I am a great fan of transparency, and I am a massive fan of the improved reporting we have. We need to continue to work on that.

Q81 Jackie Doyle-Price: I want to go back to the table on page 47, on the number of civil servants earning more than £100,000, and how that number has come down—this is relevant to the off-payroll point as well. I suspect that the success in moving that figure is not replicated in the health service or local government. Equally, I suspect that the determination to clamp down on off-payroll arrangements is not replicated either. To what extent have you done any work on the effectiveness of local government and the NHS to get senior salaries down?

Sharon White: Richard may correct me, but we have been more focused on whether those broader bits of the public sector have taken the money out, as the spending reviews have said. We have been less focused on what the individual salary rates have been at senior levels, partly because—we had this conversation before—of our direct accountability. For local government, there is a reasonable degree of transparency on chief executive salaries. I have had some conversations with individuals who have moved from one part of the country to the next. They have done that and taken a salary cut. Cambridgeshire CE did something similar—even with some of those in post. Have we looked at the number systematically and compared it? I do not think we have.

Sir Nicholas Macpherson: Just to use the example of local government, I got into great trouble last time I appeared before this Committee, because I complained about my pay relative to local authority chief executives. I failed to realise that the next day I had to attend a conference with local authority chief executives, one of whom got so irate that they nearly hit me, so I will be careful what I say. There has been a good inquiry by the Communities and Local Government Committee into the remuneration of senior local government workers. It was published just last month, and I am told that Ministers, who have welcomed the report, will respond on 12 December. It is about transparency and people beginning to focus on these things.

I think health is more difficult. Partly because I am married to someone who is not very highly paid in the national health service, I looked at a few health trust accounts the other day. Some people within the system are still paid a lot, partly because some doctors get paid a lot and others think they should get equivalent sums. It is something that I hope we will look at. The Treasury will do its bit, but I always welcome the interest of this Committee in these issues.

Q82 John Pugh: I have to say, Sir Nicholas, that I played some part in that CLG report on chief executive salaries. Going back to your analysis of the problem in terms of public versus private, one thing that you did not mention, and that I thought you might, is that the traditional scenario of getting relatively low pay in the public sector and a good pension at the end has rather been compromised, because job security was part of the package, but it is rather less so now. In your analysis, do you bear in mind the fact that a lot of the blue collar and lower-paid jobs in the public sector have been TUPE-ed across, and most of the people now left in the public sector tend to be graduate employees, which contrasts with the private sector? In a sense, a comparison is being made, but it is not being made with all the factors taken into account, is it?

Julian Kelly: Some good analysis has been done by IFS, which is out in the public arena.

John Pugh: Yes, I have seen it.

Julian Kelly: That analysis takes account of exactly that: it controls for education level, gender—a whole series of them.

Q83 John Pugh: Yes, but the comparison is not so stark when you do that.

Julian Kelly: Actually, when you do that, it still tends to say that lower-paid people in the public sector are better paid than their equivalents in the private sector. That picture varies a bit by region, but it is broadly true, although it is clearly less true in the south-east than in the rest of the country. As you go up the scale, you reach a point where people in the public sector are paid considerably less than those in the private sector. When you look at the wage distribution, public to private sector, it is much broader in the private sector than in the public sector. In fact, in the public sector, the wage distribution has narrowed considerably more than it has in the private sector over the past four or five years.

Chair: Some of us think that that is a good thing.

Q84 Meg Hillier: I have a question about academies, which are now part of Government, of course. I am hearing locally that the trend that was happening with local authority chief executives is also beginning to happen with academy heads: salaries are just growing and growing for some of them, particularly the super-heads. Are you going to be doing anything about that, Sir Nicholas?

Sir Nicholas Macpherson: It is always worrying—the Treasury always takes quite a close interest if we think that, within a sector, different organisations are just bidding up wages. You occasionally get people in the railways bidding up wages. It is something on which we need to focus, and it ties in with one of Amyas's qualifications. I know that this is a tricky ideological issue, but one challenge is to get better data and reporting from academies.

Q85 Meg Hillier: You discussed accountability earlier. On the issue of how much head teachers are paid, who is ultimately accountable?

Sharon White: They will be accountable to their local—

Q86 Meg Hillier: Governing body?

Sharon White: Yes. What is interesting on academies, and is now true of non-academies as well, is that because there is now more discretion on pay, not only at the level of the head, but throughout the school—it is one of the changes that the Government have introduced—we are now trying to collect data to see the degree to which individual schools are taking account of the freedoms and flexibilities. All the anecdotes suggest that, other than at the head level, most schools are simply mapping on to the previous pay structures—you will know that locally.

Q87 Meg Hillier: What can you do once you have those data? Can the Treasury apply any pressure?

Sharon White: As Nick says, if we see strong evidence of bidding up and of a big pay premium in the academy sector compared with the rest of the maintained sector, we will obviously want to have a conversation with the Department for Education about that. There might be issues on the transparency side. Some of it may be justified—if you are a super-head and have three or four schools in your bailiwick, that may be less of a worrying issue than someone taking a big in-job pay rise. Having the data will give us stronger options.

Q88 Chair: One final question on pay transparency, which goes back to what the WGA covers. Take a sector such as universities, which are seen as private sector institutions, but funded mainly—probably entirely; I don't know the percentage—through the taxpayer, through either the student loan system or the research grant system. There are huge salaries at vice-chancellor level, given the nature of the institutions they are running. No control at all, no WGA, no transparency, Nick. That is not really acceptable, is it?

Sir Nicholas Macpherson: This boundary issue between the private and public sectors is really difficult. If organisations are outside the public sector boundary, it is quite difficult to seek to control them and, if you do, you bring them into the public sector. You will no doubt be pleased that we have got Network Rail coming in from next year.

Q89 Nick Smith: Come on, Sir Nick. You are filling me with anguish here and you know that this argument is absolutely right. The people in these bodies are filling their boots and we must get a grip because what is happening at the highest levels in these large higher education institutions is terrible. They are overpaid, so what are you going to do about it?

Sir Nicholas Macpherson: At the very highest level, I do not think that they necessarily are, because there they are competing with Harvard and suchlike. My worry is, what always happens—you see this in the private sector among FTSE directors—

Q90 Chair: But it is not about those competing with Harvard—that is obscene, but I can understand it. Vice-chancellors' salaries, just like equivalent NHS salaries, are very, very high for the nature of the institution they are governing and they are primarily funded through the taxpayer.

Sir Nicholas Macpherson: I tend to agree with you.

Q91 Mr Jackson: What are you going to do about it, then? This is what we get all the time: lots of reporting, accountability and feedback. There is lots of carrot, but where is the stick?

Sir Nicholas Macpherson: As I have been trying to point out, our first priority is to put our own house in order. We have gone through a number of issues which we are going to be very focused on in the run-up to the next spending review. I will go away and reflect on what, if anything, we can do about the university sector.

Sir Amyas Morse: Just one thought on that. We have been having discussions with Serco etc., and there is obviously a new view of customer power emerging on the part of the public sector, where you are a primary funder. We are starting to expect codes of conduct and behaviour and quality of internal control in private sector contractors. That may have some lessons for this space as well.

Sir Nicholas Macpherson: Yes, definitely.

Q92 Austin Mitchell: I want to start with the decline in tax receipts. Income tax receipts are below predicted levels and that clearly worries the OBR. I do not suppose that the Treasury, with its usual omniscience, is worried, but it should be.

The OBR gives us various reasons why that is happening. One is austerity, which will continue: it will be austerity-lite from our side or austerity-harsh from the other side. Despite the

Daily Mail's efforts to turn the trade unions into hate objects, they are broken reeds. Many more people will go into self-employment and then slowly go bankrupt at their own expense, rather than at public expense. Lots of jobs—most jobs—are on low pay and zero-hours contracts. That continuous decline will carry on, so what will stop it?

Mr Jackson: Most jobs are not zero-hours contracts, Austin; that is just rubbish. I am sorry, you put that on the public record as a fact, but most jobs are not zero-hours contracts—or part time, or particularly low paid.

Sir Nicholas Macpherson: There are big global forces at work in the increasingly integrated global economy which are pushing down wages in the low-skilled sector. Britain is not unique, by any means—as I say, these are big forces. The big challenge is to get productivity in this country up. It may reflect the financial crisis, it may reflect other forces, but productivity since the financial crisis in 2007 has grown very slowly.

In the long run in this country, wages tend to relate to the growth of the productivity of the work force. Successive Governments have done lots of things with the intention of increasing productivity, but I do not see how we are going to get wages up without that improvement in productivity. I live in hope. The economy has picked up and employment is still growing very rapidly.

Q93 Chair: There are potential problems in the eurozone.

Sir Nicholas Macpherson: Indeed. As we get into the autumn, things look slightly less good than they did a few weeks ago. It is still early days, but I think this is one of the biggest challenges this economy faces.

Q94 Austin Mitchell: In other words, you don't see it end unless we can get productivity up? There is no sign of us getting productivity up.

Sir Nicholas Macpherson: My friends in the OBR keep forecasting that wages are about to start picking up and that productivity is about to pick up, but with each forecast, they tend to be slightly disappointed. I think most of the challenges this country faces reflect the issue that you have brought up.

Occasionally, I toy with the Marxist argument that actually this is nothing to do with markets; it is to do with the monopoly power of an increasingly concentrated capitalist system. Because the Treasury likes to think the unthinkable, I have challenged our economists: is the labour share of the economy somehow in terminal decline because the class war has been fought and the capitalists won? I am sorry to say—actually, I don't know if I am sorry to say—that the evidence does not bear that out. It is something structural; it is to do with the capitalist model in the developed world faced by countries that can compete and produce goods cheaply on the back of low wages. We will see.

Q95 Austin Mitchell: You've got me very worried. Here you are, the brains of the country, and we are declining into a low-wage economy. Low wages, higher inflation than wages, squeezing living standards, demand therefore falling—we are going to go on declining into a low-wage economy and there is nothing to stop it, unless there is a big stimulus boost to the economy, which there won't be from Labour now I'm retiring because I seem to be the only voice urging it. What is going to stop it?

Sir Nicholas Macpherson: I am very sorry to hear you are retiring because it won't be the same without you.

On the plus side, there are some positive signs. Inflation has come down far more than expected through this autumn, petrol prices are falling, oil prices are falling and I think it is quite possible that in the coming months that you will start to see real wages, especially in the private sector, beginning to rise. I don't know whether that will be sustained, but my friends in the OBR are forecasting a pick-up in real living standards.

Q96 Austin Mitchell: I don't see that that is an answer.

Sir Nicholas Macpherson: Can I just try one other answer?

Austin Mitchell: Another shot.

Sir Nicholas Macpherson: Unemployment has been falling for a long time. It is getting down to a level where you would expect wages to start rising. As I say, if you take the Marxist view, that is not inevitable. You will not be surprised that I hold a traditional Treasury view.

Q97 Austin Mitchell: What's pushing them up?

Sir Nicholas Macpherson: Demand versus supply.

Chair: Very basic economics.

Austin Mitchell: We have got immigrants coming in from eastern Europe who might hold them down. If there isn't going to be a substantial increase in the Government's income in this way, because taxes are going to be depressed, and there is an increase in the Government's net liability, as shown by the Whole of Government Accounts, by £400 billion from 2009-10 to the present day—it has increased to £1,630 billion—when can we expect the Government's liability to come down?

Sir Nicholas Macpherson: I think that through the next Parliament we should reach a point at which the Government's debt as a percentage of national income begins to fall. That seems quite important if we are to stabilise the public finances. We are making progress on deficit reduction. There is more to do, but I am confident that we will get there.

Q98 Austin Mitchell: If the Government's net liability is increasing in that kind of fashion and tax receipts are generally not going to increase, how do you fix proposals for long-term expenditure? There is HS2, which will be a most fabulously expensive thing and which reaches Leeds in 2030, by which stage I don't think I shall be here—*[Interruption.]* Quite honestly, I don't think that I will be catching it. How do you fit huge expenditure like that into that kind of expectation?

Sir Nicholas Macpherson: Partly because we don't get totally mesmerised by the liability figure that includes pensions, because what the pensions estimate doesn't take into account is the fact that—

Q99 Austin Mitchell: What use is it if not to mesmerise us?

Sir Nicholas Macpherson: Amyas would not approve, but we could discount future revenues that the state has the power to tax. We could discount those revenues and come up with a massive discounted asset. However, your fundamental point is absolutely right. You do have to have a framework to consider investment. We have an Office for Budget Responsibility which does do long-term sustainability forecasts as well as short-term ones. I am confident that the Government can afford to invest in the coming period. If the choice of Government is to go with HS2, it will account for quite a large amount of the capital envelope, but to govern is to choose, as someone once said.

Q100 Austin Mitchell: It does look a bit difficult to fit unfunded tax cuts into that scenario as well.

Sir Nicholas Macpherson: I do not recognise unfunded tax cuts.

Sir Amyas Morse: I just have a couple of thoughts in response to what you were so eloquently saying. First, the good thing is that you do have the power to drive higher productivity in the public sector, because that is directly under your influence. In order to do that, I guess that we would have to know the difference between efficiency gains and whether we are starting not to deliver services. We would have to have better information that might allow us to know the difference. That is one point.

I appreciate not getting fixated on accumulated pension liabilities and am very glad that you don't want to capitalise future income. However, I would be interested to know whether we are ever likely to have a triple A credit rating again anytime soon or have a balance sheet that might attract such a rating. What are the prospects? When might that be possible, because that is a rather more tangible objective measure of the financial state of the balance sheet?

Sir Nicholas Macpherson: The ratings agencies move in mysterious ways and do not always get things right, but I would expect us to get back to a triple A regime.

Q101 Nick Smith: By when?

Sir Nicholas Macpherson: I have absolutely no idea. It will depend on decisions in the future. The one thing that this country has always shown an ability to do is that it has never defaulted on its debt. In that regard, it is pretty much unique. It funded the Napoleonic wars and the first world war. We have been through the odd crisis in 1967, 1976 and 1992. In the end, we always pull back from the brink and do sensible things with public finances.

Q102 Chair: Often inflation in those situations.

Sir Nicholas Macpherson: There's not much inflation around this time.

Q103 Chair: Quite. In the past, inflation has saved us.

Sir Nicholas Macpherson: No. Inflation made the debt run up in the second world war very easy to deal with. We didn't have inflation in the 19th century, so it took a lot longer to sort out the public finances. I don't think this will be an era when we will have much inflation, so it will be much harder work because inflation is the ultimate con and it will take time. I hope that all the political class and most of the bureaucrats are committed to sorting this out.

Q104 Nick Smith: May I add my support to the request from Mr Burrowes and Mr Bacon that we have the whole-of-government accounts by nation and region? Sir Nick, you talked about the importance of transparency and accountability, and I think that will help. In the round, as the Chair says, all-government accounts are getting much better, but I think that would be a useful addition to the quiver.

I have three quite technical queries, having scanned the document earlier. First, what is happening with nuclear decommissioning at Sellafield? There is something funny going on with a big increase in "other". It could just be that there is better analysis of what the costs are there, but there is a chunky increase. Is it an increase we will see just this year, or will further risk analysis and costing mean that it will go up further in later years?

Secondly, a technical query is that there has been a reduction in the value of the student loan book. Some £2.5 billion is a chunky amount of money. We have discussed it in the Committee previously. Will that happen again in future years?

Thirdly, this is a wholly technical point. I just don't get it, so perhaps you will let me know a bit more. On page 15, there is a big reduction under something called "Other impairment of assets". In three years, it has gone down from £47.5 billion to £16.3 billion under revenue. Again, that is a big slide and I wondered what it was. I just want to understand it.

Ross Campbell: On the last point, that is because there was a lower impairment need against the valuation of the publicly-owned banks. It relates entirely to the shareholding in RBS and Lloyd's. They were doing better than expected.

Sharon White: Shall I pick up student loans first and the conversation we have been having about low wage growth and the labour market? The impairment is almost entirely due to the fact that wage growth has been lower than we expected, so the point at which repayment starts to be triggered, the fact that fewer people are triggering that threshold and the bunching of jobs lower down the earnings distribution has meant that we have taken that hit. Whether we will be back here in a year's time with the same or a similar impairment depends very much on what happens with wage growth over the 2013-14 period.

Q105 Chair: What is your current assessment of how much of the student loan debt you will write off? Last time we looked at it, it was just over 40% and I read somewhere that it had risen to 45%. Is that right?

Sharon White: The number in my head is about 40%.

Julian Kelly: In 2013-14 another provision is taken on student loans. It is in the business accounts already so when we come here you will see that. I think we are slightly north of 40%.

Q106 Chair: I literally read it in the papers recently and I thought, "Blimey, has it gone up to 45%?"

Sharon White: The IPPR has done a recent estimate. That may be the number.

Julian Kelly: Give or take, that is roughly right. There will be another breakdown next year. This is because in 2013-14 BIS changed its methodology, partly to ensure that it properly captured the stuff shown. I hope that you will not see it again in 2014-15, but there is 2013-14.

Q107 Nick Smith: Sellafield.

Sharon White: I visited Sellafield.

Chair: So did we.

Sharon White: I got there late and they said, "The PAC's had a hearing here, recently," and felt very ill for the week after. The thing that really strikes you is just how uncertain it all is.

Meg Hillier: Very uncertain.

Sharon White: A lot of—*[Interruption.]* Exactly. A lot of it is that they are trying to make a bigger effort on the legacy side, but who knows what the number is, in a way, because you do not know what you are going to get when you start digging around? We are doing some work, interestingly, with the Nuclear Decommissioning Authority to see whether there are more efficient ways to do this, but can we predict whether the number is going to stabilise or is going to continue to grow as we get a better handle on what is in there? I think it is very hard for anybody to do it.

Q108 Chair: The interesting thing with Sellafield—I do not think the number grows because they get a better understanding. If I thought they had a better understanding and that led to the number growing, I would have some confidence we were tackling the problem. I do not know where you get that. I have nothing—we have had two or three hearings with people at Sellafield.

I do not know whether we are seeing them again before the election—I cannot remember; but you never get that feeling. They just feel they can add a bit more—a few billion here, and a few billion here. You just feel there is no control even over process. It does not matter if you have got no control over numbers at the end; you can understand, you have no idea what is in those silos—but there is no control over process, even to get to a sensible number in a sensible time frame.

Sharon White: There are two things. The thing that struck me, partly, is the programme they have got with Magnox. Partly they are getting more hard data reports in these ginormous scary silos, but your point about whether they are doing this in the most efficient way possible, or whether they have been in a psychology that, "These things ought to be dug out, and we will get the money to do that," is certainly true, and it is one of the reasons why we are now doing some joint work with the NDA to see whether actually there is a more efficient way of going about this. *[Interruption.]*

Q109 Chair: Have you? Is it before the election that we are—

Sir Amyas Morse: Not sure about that. We are definitely looking at it again.

Q110 Nick Smith: I just hate the idea of budget lines with "other" in brackets, and nearly 8 billion quid in a year. It really strikes you as being poor.

Sharon White: It is also a good challenge for us as to whether we can make the reporting of that more transparent for this current round.

Ross Campbell: I think from an accounting perspective we have got to have a reasonable basis of estimation to include the provision in the accounts, and where we have a high degree of uncertainty we cannot essentially put a figure in the books that the auditors will sign off.

Q111 John Pugh: Two questions, one to Sir Nick and one to Sharon. Sir Nick, in your comments you refer to your friends at the OBR. Do I detect limited confidence in some of their predictive capacity?

Sir Nicholas Macpherson: No. Forecasting is very difficult. I breathed a sigh of relief the day the Treasury no longer had to do the macro-economic forecast. They are better—and actually a lot of their forecasts reflect historic Treasury problems, that it is very difficult to spot turning points. Successive Governments have tended to overestimate how much revenue comes in, and I think it is fair to say that the OBR have continued to overestimate how much revenue will come in; but the great thing about the OBR is that they are genuinely unbiased.

That is why I was very disappointed when the First Minister of Scotland kept claiming that the OBR's forecast of the North sea revenues was somehow excessively pessimistic. They are not—they really aren't. Getting money off the North sea, from here on, is going to be increasingly difficult.

Q112 John Pugh: I asked the House of Commons Library to give me a list of predictions made 10 years before 2009, and which bodies had made them and who had been the most successful—that is, including think-tanks, IFS and so on. Would you like to guess who was the most successful?

Sir Nicholas Macpherson: On what?

John Pugh: Predicting the main economic indicators year from year up to 2009.

Sir Nicholas Macpherson: I am hoping you are going to say the Treasury.

Q113 John Pugh: It was.

Sir Nicholas Macpherson: The Treasury had a very good run, forecasting. The problem is when things go wrong.

Q114 John Pugh: 2009 was a bit of a black spot, yes.

Sir Nicholas Macpherson: You get a sort of turning point; but we were never very good at doing the public finances. We were brilliant on growth, but we always were just a little too optimistic about how economic activity translated into taxes. What I will say to anybody who is prepared to listen: the last time there was persistent pessimism by the Treasury on tax revenues was the 1996 to 1999 period. Since then, we have had the occasional year when revenues have surprised on the up side, but we have never had extended periods, and that is telling us something about getting in revenue in a global, integrated economy. I know that the Chair of this Committee has taken a close personal interest in this issue, and it is very hard indeed.

Q115 John Pugh: Sharon, I have to say that Whole of Government Accounts is not something that Members of this place speak constantly about; it is a slightly anorak topic. However, the idea is to put more data out there, so that people can use it more intelligently and make interesting observations and the like. Can you point out in what way you would like them to be more transparent and more useful, if there is any way that they could be, at the moment? And could you pick on an instance of such work that has been presented and then influenced any decision or action during the current spending round?

Sharon White: Durham university is currently doing a piece of work on uses of Whole of Government Accounts around the world, which I thought would be quite a minority interest.

Q116 John Pugh: Could you send us a copy?

Sharon White: In the Whole of Government Accounts in the 2013 spending round, which we had last summer, we absolutely looked at the balance sheet, particularly on the assets front. One of the issues we were concerned about, for example for the MOD, is the degree to which we could commercialise some of its intangible assets. Some of you will know that we set a target for asset sales—quite a tough target—over the next few years, which was very much informed by the balance sheet work.

We have talked a lot about the OBR already. It is interesting—for those of you who are also squirrelly nerdlings who read such things as the fiscal sustainability report—the degree to which the WGA data, particularly that now we have a run of years, is beginning to inform its longer-term analysis.

We still have a bit of a challenge with our spending teams. There is very interesting work that Julian is leading on the financial management and on trying to upgrade our own internal skills. People are beginning to understand why it is not only about tomorrow's spending issue, but anticipating an issue that might come and hit their successors, or their successors' successors. One of the important tests for me is that a number of our very bright officials are now training to be accountants, so that they will have more of a sense of how they can read and use data such as this.

Ross Campbell: It's not just the published WGA that is of use to us; it is also the fact that we gather an enormous amount of information—

Q117 John Pugh: But the Treasury always has, really. It is being in the public domain, in the form that it is, that makes the difference.

Ross Campbell: And certainly we have been disseminating that among spending teams, and we have an awful lot of inquiry and query, so we are becoming far more integrated into the thinking of central Treasury.

Sir Nicholas Macpherson: If I had to highlight my favourite two things that have focused my mind since we started publishing it, it is nuclear decommissioning and NHS litigation. They are both really challenging issues—

Q118 Chair: And student loans.

Sir Nicholas Macpherson: Student loans, too—we can add those, at third; and pension liabilities fourth.

Q119 Chair: Can I ask a final question, which is about the Barnett formula? The Barnett formula gives 20% more to Scotland than England—£10,200, as opposed to £8,500—and all the political parties are now committed to implementing that. But the interesting thing for me, which all political parties are also committed to, is the tax-raising powers in Scotland. If, with this more generous settlement, the Scottish Government decide to increase expenditure by raising taxes, that counts against the public expenditure limits, doesn't it?

Sir Nicholas Macpherson: You've hit on one of the biggest challenges to making a new devolution settlement stick, which is the broader framework that underpins it. This is of absolute critical importance. If we get it wrong, you could end up destabilising the relationship between the countries of this great Union. But if you get it right, you could reach a new sustainable settlement. It is all to do with the interactions between taxing and spending, and whether you still have a Barnett framework, which I assume you do.

To take the simplest example, let us say that a tax is fully devolved, and let us say that the rest of the United Kingdom decides to increase income tax to pay for more spending on health. If income tax were fully devolved, the income tax in the country where it is devolved—let us say, for example, Scotland—would be completely unaffected. However, if you have still got a Barnett formula, the increased spending on the health service—other things being equal, which is a big assumption—would feed through into more money going to Scotland. That is clearly not going to be something that is going to work. Finding a sensible framework where you get the right sort of answers conceptually is going to be absolutely essential and also quite difficult.

Q120 Chair: That is really helpful, and I know it is difficult, but I was asking a different question. They start off with a formula that gives them a benefit in terms of expenditure per person over the rest of England, and they then have powers to raise taxes in the Scottish Parliament, right? I am simplifying this, but that is what I understand the settlement to be. They decide to do that, so it is not the UK deciding that there will be another 1p or 2p for the health service; Scotland decide to raise 1p or 2p for the Scottish health service—

Sir Nicholas Macpherson: Which they could have done at any time since—

Mrs McGuire: Any time in the past 15 years.

Chair: Or maybe 3p, because there was a cap.

Mrs McGuire: It's plus or minus, because they had the power to reduce taxation, as well as increase it, by 3p, but they never did.

Chair: But what they then raise counts against our UK public expenditure limit. So if we, the UK, are trying to control and reduce expenditure—which, going back to the very beginning of the thing, we are going to have a right old challenge trying to do—they get a double plus from their taxing and from the Barnett formula, and England has to find a further reduction if we are to meet the expenditure limit.

Sir Nicholas Macpherson: This is the flipside of what I was saying earlier. It relates to how your public finance regime works for the country as a whole. If Britain sets an overall spending limit and allows an individual component of the country to tax more and spend more, and the overall spending limit is unchanged, that is indeed the logic. It is quite a big assumption, because if they are taxing more, why shouldn't they spend more? Because it's not going to affect the overall public finance; it's not going to affect the deficit. But your general point is absolutely right. You have got to think all these things through. It is important for us as officials to serve up sensible options, but it is even more important that Parliament really tests and understands whatever new regime is brought forward.

Q121 Mrs McGuire: Are there examples from other countries where there is such devolution? I do not know if there is a direct correlation between the independent states in the United States of America and the federal overview of the economy, or maybe there are examples in Germany.

Sir Nicholas Macpherson: Germany, Canada, the US—we are looking at all those things. The way we have done this up until now has always been slightly anomalous. We gave this massive block grant to Scotland, and everyone disputes whether that was right or wrong. The Welsh and the Northern Irish have views too. What was odd about the very centralised approach to revenue collection in this country was how, here in London, Westminster took all the tax. We then gave out the money, but the Scottish Government had total freedom in how to spend it without having to raise any revenue to pay for it. I think that is quite unusual, internationally.

Q122 Mrs McGuire: The plus or minus 3p was seen as an attempt to deal with that issue, because that was the major flaw in the 1979 devolution proposals. Forgive me, Margaret, for going on about this, but it has been a long time. You only have until 30 November to sort it out, so are you well on the road to working it through?

Sir Nicholas Macpherson: We are working round the clock.

Q123 Mrs McGuire: We look forward to St Andrew's day.

Sir Nicholas Macpherson: It is not just Scotland. Another good example is Northern Ireland, which always had the right to set different social security rates, but until very recently, when that started being disputed, it never has done.

Q124 Mr Jackson: There is no analogy with any other country. The United States is a federal system; we are not. We are still a unitary state with partial devolution. We have had this bizarre situation since 1978 where we build in a per capita disadvantage to my constituents and other English MPs, but an advantage to the Scots. Joel Barnett himself has completely resiled from it, and says that it is now unsustainable in terms of fairness and equity.

Sir Nicholas Macpherson: This is something which Lord Smith, aided by some very good commissioners from all your parties, is seeking to address.

Mrs McGuire: We have the best devolution in the British way; it is asymmetrical.

Q125 Chair: Sir Nicholas, you will be pleased to know that we now pursue our recommendations from previous reports to ensure that we keep you on your toes. Had you been told that we would raise this?

Sir Nicholas Macpherson: Yes.

Q126 Chair: Okay. We were pretty fed up with your response to our very reasonable report on infrastructure investment, and I say that in a slightly facetious way. When we looked at infrastructure investment, the impact on energy bills was huge. It was the NAO's work which brought that out—an 18% rise in energy bills before we start talking about the cost of gas or oil. We said that if you are going to do this capital investment, it seems pretty sensible to know what it means to ordinary people paying their energy bills. You have said that you can't calculate it, but I can't for the life of me see why. You can give us a good guesstimate but you turn down our recommendation. We are very upset.

Sir Nicholas Macpherson: John Kingman wrote you a long letter, which I have in front of me, explaining ahead of the meeting why we would not go down that route. This is also a policy decision taken by the Government.

Q127 Chair: A policy decision to not look at the long-term affordability of capital investment—I can't believe that.

Sir Nicholas Macpherson: What we did agree was that the UK Regulators Network, which is all the regulators getting together, will look at affordability pressures across sectors. I understand that they are publishing their first paper on this issue later this year, so you will be able to look at that. If you are still dissatisfied, you can no doubt come back to us, but I think that the regulators leading it is sensible.

Q128 Chair: I want to be clear. Are you telling us that Ministers have given you an instruction not to look at the long-term affordability of capital investment?

Nick Smith: You said that it was policy.

Chair: Are Ministers telling you not to look at the long-term affordability?

Sir Nicholas Macpherson: We advise, Ministers decide; but this is a policy issue.

Q129 Chair: But is that what you are telling me? We understand that it is a policy issue to decide to invest £300 billion, but—

Sir Nicholas Macpherson: It is also an administrative issue. I could read out the many arguments that we applied at the time, but you would probably get annoyed with that.

Q130 Chair: I just want a yes or no. Did Ministers say you are not to look at the long-term affordability of their decision?

Sir Nicholas Macpherson: No, I do not think they did. The Treasury concluded that this would not be a useful way of looking at this issue.

Chair: Do you want to come in, Amyas?

Sir Amyas Morse: I understand that the Treasury does not like being given tasks through reporting. I can understand that. The Committee had a chance to discuss this. Certainly from the NAO point of view, we can understand that the regulators have a useful job to do here; but I think I am quoting you, Sir Nick, when I say that a key role of the Treasury is being able to inform Government of long-term trends. It is a bit tough to expect the regulators to know what the long-term possible direction of Government policy decisions is going to be, which may have infrastructure implications. So to be out of it altogether does seem unreasonable.

That is not to say that you should not be talking to the regulators and have them interpret what this means in regulatory terms, but it is an aggregation. In order to understand the effect of the cost of living—after all, that is what DECC does at the moment; they do it now: they estimate what the effect of their policies may be on the cost of energy bills long-term—we always said, in what we thought was a reasonably modest proposal, that that should be extended to other areas, so that there was an aggregated cost. It is the aggregation exercise that probably needs a bit of over-arching sponsorship and an overview of what the likely overall thrust of Government policy will be. It is difficult to find anyone else who might be able to do that better than yourself.

Sir Nicholas Macpherson: Well, that is a point of view.

Sir Amyas Morse: Is it not a reasonable point of view?

Sir Nicholas Macpherson: We are currently not inclined to take up your suggestion.

Chair: Right. Let us pause to reflect.

Sir Nicholas Macpherson: I am sorry to end on such a negative note.

Chair: So am I. We will think about it. Thank you very much.