

Public Accounts Committee

Oral evidence: Government Balance Sheet, HC 485

Thursday 7 Jul 2016

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Members present: Meg Hillier (Chair); Mr Richard Bacon; Deidre Brock; Chris Evans; Mr Stewart Jackson; Nigel Mills; David Mowat; Stephen Phillips; John Pugh; Karin Smyth; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Nick Bateson, Director, National Audit Office and Marius Gallaher, Alternate Treasury Office of Accounts, HM Treasury, were in attendance.

Questions 1-155

Witnesses

I: Ian Bulmer, Head of Whole of Government Accounts, HM Treasury, Julian Kelly, Director General for Public Spending and Finance, HM Treasury, and Tom Scholar, Permanent Secretary, HM Treasury.

Examination of witnesses

Witnesses: Ian Bulmer, Julian Kelly and Tom Scholar.

Q1 Chair: Welcome to the Public Accounts Committee. Today we are looking at the Whole of Government Accounts and in particular three National Audit Office Reports looking at the Government's balance sheet: one on pensions; one on financial assets; and one on risks to the balance sheet. It is a particularly important time to be looking at this. This is something that the Committee has been looking at for a number of years and we know it has been a work in progress to get the Whole of Government Accounts together.

This is Mr Scholar's first time here as the new permanent secretary to the Treasury, so welcome to you. I think this is also the first time that the Treasury has been in front of a Select Committee since the vote to leave the European Union. Am I right? We will be keen to hear if you have any information about how that is affecting some of the things that we are discussing today.

We on this Committee think that the Whole of Government Accounts is a vital tool for Parliament to hold you, Mr Scholar, and your team and the Government generally to account. We want to keep pushing you to make it a useful and workable document; we think there is still room for improvement there. Before we kick off properly with our questioning—I will introduce the witnesses in a moment—would you like to say something about the role of the Treasury as a finance ministry and what the document and this work can help you to achieve?

I want to welcome Julian Kelly from the Treasury, who is the director general for public spending, and Ian Bulmer, who is the head of the Whole of Government Accounts and the man responsible for putting this document together at the Treasury. Our hashtag today is #govaccounts.

Mr Scholar, can you give us a flavour of how you, as the new permanent secretary, are going to be using this document and its work to play your role as a finance ministry across Government?

Tom Scholar: Thank you very much. It is good to be here with you this morning. The Treasury, of course, is first and foremost a finance ministry. Absolutely central to our role is the scrutiny of public finances and holding Departments to account for their decisions on spending, and their use and stewardship of the public money that they are entrusted with. Central to our mission is promoting the more effective and more efficient use of taxpayers' money, which of course is central to the mission of this Committee and the National Audit Office. I think that we share many of the same objectives. I know my predecessor often appeared in front of this Committee and worked closely with you, and I certainly hope to do the same.

As you say, this is a very significant moment for the public finances. We are midway through an extended period of consolidation following the financial crisis and the ensuing recession. Of course, the referendum result is expected to have a significant economic impact. The Chancellor said last week that we expect it to have a significant negative shock. We don't yet know and we don't yet have any data, but that will gradually become apparent in the months to come.

On the public finances side, I think that the central role of the Treasury during this period is to monitor very closely the economic developments; to get our best assessment of the impact of that on the public finances; and to be ready to provide the Chancellor with the advice that will be needed as we come to the autumn statement and as we get the forecast, including the fiscal forecast, from the Office for Budget Responsibility. That is the overall objective.

Within that, we are constantly trying to improve our scrutiny of the fiscal accounts and to improve the transparency or the presentation of that. I think the Whole of Government Accounts is a very important part of that. It has been widely welcomed as setting a new global benchmark in fiscal transparency. We have the International Monetary Fund visiting later this month to do an evaluation of our fiscal transparency, and I am sure it will find it a valuable tool. We also use it within the Treasury to inform our work with Departments on spending decisions, and we can certainly go through that in more detail, if that would be helpful.

We see this document as a tool of transparency and something that helps us with our work. I hope it helps you with your work. We know that other organisations use it. Obviously, the Office for Budget Responsibility uses it to inform its fiscal sustainability report. The Institute for Fiscal Studies uses it; I think it is getting considerable take-up.

For the future, we want to continue improving it. There are some important improvements this year but obviously there is more to do on that. In particular, I would focus on the timeliness of the report. We know there were delays for reasons we understand and can talk about, but in the future a more timely report is a more useful report. We will be working further on making it both simpler and easier to understand, and more user-friendly for the many people I hope will use it.

Chair: That's good. You pre-empt worries and questions we have about transparency and timeliness. We know when we looked at this before it was way behind. We are now only a year out of date, so we see it as work in progress. I also want to alert you to the fact that Parliament as a whole is very concerned about ensuring that there is better scrutiny in the House about Government spending.

There are moves you are probably aware of to ensure that we can do that better. One of the key tools for us will be getting hold of Government accounts and that, as you highlight, needs to be clearer and more transparent, and I hope available to the citizen auditor, too. I am going to leave my comments there for the moment and ask David Mowat to come

in on some of the bigger issues.

- Q2 David Mowat:** Good morning. I am new to the Committee and to these accounts, and I enjoyed reading them a lot. It is clearly a big technical achievement to produce these. As you said, Mr Scholar, we are one of the few countries to do it. You described the accounts in your opening remarks, Mr Scholar, as a Treasury tool. How much are they used as part of the conversation of Government? How much do Departments pay attention to the bits of this that are relevant to them, and for which their Minister or Secretary of State might be accountable?

Tom Scholar: Let me make some brief overarching comments and then, if I may, I will turn to Julian, our Director General for public spending, who can fill you in on more of the detail, including the experience of using these recently. To give one example, in the spending rounds we conducted last year, our spending teams, working with the finance directors and finance teams in each spending Department, used the Whole of Government Accounts data in a number of important areas, looking at: whether the Department was making adequate and justifiable provisions for liabilities that would arise in future; how good they were at managing contingent liabilities; how good they were at managing debtors; and also the use of assets. It helps us in our conversations with Departments and helps us to compare performance across Departments, which is another valuable performance tool.

- Q3 David Mowat:** The thing is that there is a huge amount of emphasis on the current deficit, the Chancellor's fiscal mandate and all that goes with that. Parliament gets reports on that and the press look at it all the time and everything else. Yet, what you are doing here is coming along with another way of looking at everything, which does not get anything like that amount of attention, because it is not cash. You are looking at liabilities into the future—things that will eventually turn into cash, as the NAO Report says, but are not cash. I just wonder whether we have got that right, and that when the Chancellor is standing up talking about fiscal mandates, public sector net debt and all of that type of thing, the impact on some of this is being lost.

Tom Scholar: Where this work really has its impact is in the quality of spending decisions that Departments are making and, through that, the quality and sustainability of the overall spending plans, which in turn obviously feed into the overall fiscal aggregates.

- Q4 David Mowat:** A Department is clearly accountable—maybe this is for you, Mr Kelly—for its budget and the cash-based reporting that it does to Treasury. I am sure there is lots of dialogue if that looks like it is going to be missed. But then, if you take the NDA and DECC, we can increase provisions into the future, which will eventually become cash, without all that pain in the current round. I wondered how that worked in terms of accountability.

Julian Kelly: It is worth saying just a brief word about the existing spending, estimates, accounting and budget framework. You asked at the start, "What is new in here for any individual Department?" Part of the



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answer is nothing, because any individual Department produces its own set of accounts and this is just a consolidation of all those.

What is new in here is the Government having a balance sheet and us in the Treasury being able to look at the whole balance sheet and think in particular about, much to the point that you were making, how resilient we are. Our core measure of resilience is net debt, which means, "What is the state of the Government's debt?" We think that is the right measure, but that doesn't capture things like some of our contingent liabilities or the risk of provisions.

What this enables us to do—I think we are increasingly doing it, though I think we have quite a long way to go, as flagged in the NAO's accompanying Report on the balance sheet—is to think, outside of net debt, what other things could impact on this in due course and therefore what other risks we should be thinking about. That is where the OBR's fiscal sustainability report is really important in terms of public transparency because it begins to discuss that. Indeed, we have committed, through the OBR, to start producing a fiscal risk statement, which I think will do more of this analysis—we will help and support it on that—from next year, 2017.

With respect to Departments, the budgeting framework actually doesn't just encompass cash; it encompasses provisions and depreciation. We do think about the way we stack up broader liabilities, including not just capital expenditure but financial transactions like loans, equity investments and other things. All those things are incorporated within the estimates process. So Parliament votes limits on all those, Departments report all those to us and we manage them against those—

- Q5 **David Mowat:** Take my example—I will just pick one—of DECC and nuclear decommissioning provision. That provision can increase for all sorts of good reasons and if that was happening in a public company, that would affect the profit and loss and all the rest of it, and there would be a big fuss and everything else. But there will be no impact on cash and no impact on the Chancellor's fiscal mandate this year, and maybe not next year or the year after even. In the dialogue that you in Treasury have with DECC around that, do you take equally seriously that the provision has increased for nuclear decommissioning as you would if there was a big cash bust? My sense is that you don't, but maybe I am wrong.

Julian Kelly: The conversations that have gone on with DECC, and indeed DECC thinking about how it is reforming the Nuclear Decommissioning Authority and improving the management at Sellafield, are all about how in the short, medium and longer term, we more effectively, for example, manage—

- Q6 **David Mowat:** No, we know what it is all about and that is what they are trying to do. The point is that when it goes up a lot—

Julian Kelly: Those are serious discussions that we have with them. Part of the drive of the last couple of years has been to get a better



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understanding of what the longer term cost of cleaning up Sellafield is going to be. That is one of the reasons why the provision has materially increased in the last—

Chair: Sorry. I don't like cutting you off, Mr Kelly, but we do need slightly shorter answers.

Q7 **David Mowat:** What I was getting to is that you are telling me that this is being used as a tool within the Treasury. I am asking whether it could be used across Government more than it is being used now. Your answer is you think it is being used. Let's leave it at that.

Julian Kelly: Do I think it could be used more? Yes.

Q8 **David Mowat:** Let me just finalise my concern. Actually, we are very good at managing cash. We are very good at managing everything that rolls up to the fiscal mandate that the Chancellor has to report to Parliament, but there is all this stuff going round on the fringes of it and outside it, which is very material. Decisions are being made now that affect it, and they are not being managed to the same degree. We have in the NAO Report the pension liability going up by half a trillion pounds in the past four years. I know it is very hard to manage and all the rest of it, and I know the reasons for it, but it is a very significant factor in our country's financial viability, and it just does not get the attention. I wonder why that is and whether we could do more.

Julian Kelly: Briefly, let's just take pensions. Over the previous Parliament, we have done very significant reforms to public sector pensions exactly because of the future long-term cost. The legislation was put through in 2013. The indexation—

Q9 **David Mowat:** You have raised that. Let us go to figure 8 of the NAO Report on pensions—I think this is one of the three Reports—because I think that shows the point you are making. It is on page 29. You were making a point on the reforms that took place in the previous Parliament which, exactly as you have said, had an intention to manage this long-term issue. We can see that we did manage it between 2009 and 2010, because it went down, and that is the point that you make. My point, however, is that since then, for reasons that perhaps are sometimes hard to predict, it has gone up quite a lot. How much attention is that getting across Government?

Julian Kelly: A huge amount of attention. Built into the reforms that we did is a four-yearly process where we will consistently value all the pension schemes. We have introduced cost caps such that if the employer contribution as a result of those re-evaluations goes above a certain level, action has to be taken either to change the benefits or the employee contributions. It is why we linked the normal pension age to the state pension age. That was why we thought about the reforms—to introduce mechanisms with which these risks and costs can be managed in a way that is fair to the individual and the taxpayer.

Q10 **David Mowat:** That is a reassuring answer, but figure 8 does not imply

that it is going too well.

Julian Kelly: The issue partly here is that we have seen a change in the accounting discount rate upon which the accounting valuation is done. Basically, corporate bond yields have significantly reduced, so the discount rate is much lower and the valuation goes up. When we value it for policy purposes, we look at what we think is the long-term trend rate on economic growth, as with the OBR. That would give you a slightly different valuation, and that is the one that we are using for policy and decision making. We have rigorous processes for valuing these schemes, judging the risk and controlling cost.

- Q11 **David Mowat:** So your answer to me, if I can cut through it, is that the way the Whole of Government Accounts are produced is pension liability, which is to do with accounting standards and all the rest of it, but that is not the one that you choose to use to manage it in terms of your role in the Department. You have got another way of looking at it.

Julian Kelly: It is not the one that we use when we make the policy decision.

- Q12 **David Mowat:** Okay. Because if you were a private sector company and this was happening, you would not be allowed to pay dividends and all the rest of it. There would be all sorts of implications. It goes to the crux.

Julian Kelly: There is a debate to be had—by the way, I have it both with Amyas and his team, and with the Financial Reporting Advisory Board—about the appropriate discount rate. Personally, there is a bit of me that would still prefer, even for this purpose, to be transparent about what we are doing and to use the discount rate that we are using for policy purposes, which is basically the long-term trend rate of growth as judged by the OBR. In the end, whether this is fundable is not the return on corporate bonds; it is the long-term trend rate of growth in the economy and therefore the kind of taxes that pay for this. Therefore that is why we judge it to be the appropriate way of discounting future—

- Q13 **David Mowat:** The NAO Report on pensions at the start talks about 8% as the estimate of how much GDP will be needed to pay for that.

Julian Kelly: For public sector pensions, it is forecast to rise to about 2% of GDP, and then it falls as we get into the 2030s back to closer to somewhere just south of about 1.5% of GDP. So these reforms will reduce the cost—

- Q14 **David Mowat:** So you do not accept the 8% figure.

Julian Kelly: I think the 8% figure must include the basic state pension.

Nick Bateson: The 8% figure not only includes the state pension, but—

- Q15 **David Mowat:** So it has gone from 1.8% to 8%.

Your point, Mr Kelly, is that you are looking at this in a different way from how the accounts are produced and, with the way you look at it, you are kind of happy with how it is being managed.



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Julian Kelly: The NAO has made a really good point in its Report: how do we improve disclosure and information to explain these issues more simply and up front? That is something we must work on over the next year.

- Q16 **David Mowat:** To help with your answer, Tata Steel has a big issue with its pension fund being unfunded and it will be unfunded for the same liability about bond yields, so it is a similar issue, but it is not able to take the view you have taken to do it in a different way. Why is it valid for you to do that but not for other pension funds to do so? Why are the accounting standards wrong and you are right?

Julian Kelly: I guess the accounting standards are a slightly different view. The accounting standard is trying to establish what, if you had to liquidate this now, would be the exit price. If a company is trying to judge if it would be a going concern or not, it is what would be the exit price if the pension liability had to be sold now. That is not really the decision or the choice facing the Government, which is why I think there is a genuine debate to be had when you look at unfunded public sector pensions as to what the right discount rate should be for decision making. There is a question and a debate about whether you want to look at both, but for the decision making, it is why we use long-term economic trend growth.

- Q17 **David Mowat:** So your point is that the £1.5 trillion of unfunded pensions that has increased by half a trillion pounds in the last four years, as shown in these accounts, is interesting but not relevant to your job of managing this issue.

Julian Kelly: No, the key issues for us are what is going on with the size of our workforce, life expectancy—

- Q18 **David Mowat:** I understand that. Sorry. I just put it in a different way. The way you answered it is that £1.5 trillion of unfunded pensions is an interesting accounting thing, but not relevant to you.

Julian Kelly: Elements of it are absolutely relevant to us, but the discount rate is genuinely something that can confuse.

- Q19 **David Mowat:** So to that extent it is not useful.

Julian Kelly: Yes. For the decision, yes.

- Q20 **Nigel Mills:** I am just trying to get my head around how figure 8 shows such an increase when I thought there had been various reforms that had slowed down that cost: moving to average salary rather than final salary, falling headcount and the reduction from RPI to CPI. You would instinctively think that from 2011-12 to 2014-15, it would tick up by inflation or by the unwinding of discount, but it seems to have shot up by £500 billion. Is there something in there that has caused that to go the opposite way from how one might have thought it would go?

Julian Kelly: The key issue—there are several things. No. 1, every year you add another year's worth of staff future commitments—

- Q21 **Nigel Mills:** But some people die, sadly, don't they?



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Julian Kelly: Sure, but in a world where the public sector has grown, even though it is now reducing, and people are living longer, at this point you would still expect it to be naturally growing. We would expect it to be growing at this point, but in addition one of the major changes that is going on that is difficult to isolate is the discount rate effect. That is probably worth—I will go back and check this—two thirds of that number or something like it. That is why, when you look at the future cash flow forecast, which the OBR produces, we anticipate it will shrink as a share of GDP in the future from a peak of about 2% to about 1.5% or 1.4%. From a Treasury perspective of whether we think this is sustainable, yes it is, because it is shrinking as a share of—

- Q22 **David Mowat:** What you are saying—this one is perhaps for Mr Bulmer—is that Mr Bulmer's accounts are not very useful in this regard, because the discount rate explodes this liability. This pension thing is by far and away the biggest issue in these accounts, but you are saying it is not a valid way of doing it, as far as you are concerned, because it is based on private sector accounting methods, and therefore the Whole of Government Accounts are really not valid, because this dwarfs all the other things. We talk about a deficit in the Whole of Government Accounts of £155 billion for this year. The points you are making on this inaccurate pension method dwarf that.

Julian Kelly: It doesn't mean the whole of these accounts are—

David Mowat: Actually, let Mr Bulmer answer the question. You have heard the answer Mr Kelly gave as to why your accounts are not useful in terms of managing unfunded pension liabilities. Would you accept that?

Ian Bulmer: I think Julian set out how he manages the fiscal impact of the pension liability. I think in terms of the Whole of Government Accounts, it is a fundamental principle that we do want to produce these accounts on the back of the accounting standards, and I am sure this Committee, if we were to then do something different on the pension liability, would be asking the question from the opposite way. In terms of WGA, I don't think that undermines this or means we shouldn't be doing the Whole of Government Accounts, because the actual value in the Whole of Government Accounts is precisely around some of this debate we are having—

- Q23 **David Mowat:** But Mr Kelly has just explained why the accounting standards are completely inapplicable to how he runs the Department, and therefore are not relevant to the decisions he is making day to day. Therefore, although the accounts themselves are based on those accounting standards, and this point dwarfs all the other numbers in the accounts, you are just shrugging your shoulders and saying, "Well, that's interesting, but that's just for all those accountants."

Tom Scholar: Perhaps I can step in here. I think the important thing here, for the quality of debate, scrutiny and decision making, is information and transparency, and an explanation of the basis on which decisions are made. You could—or somebody could—very well take the



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view that our approach to managing pension liabilities is not the best one and that we should be looking at different ways of doing it. That is a perfectly possible point of view. We now produce these accounts, publish them and discuss them with a lot of information and total transparency on why these numbers are what they are and why we do the policy choices that we do, and I think that improves the quality of scrutiny and debate.

- Q24 **David Mowat:** Fair enough, but you have one colleague on your left and one colleague on your right. One of them has produced some accounts that say that, based on accounting standards, there is a £1.5 trillion liability here, while the other one says, "Yes, but there are other aspects of Government that make that a non-relevant way of looking at it." Are you comfortable with that? Do you just think that is transparency and a debate that we should be having, and when the IMF comes to talk about it with you, is that what you will tell it?

Tom Scholar: I recall the last time I was in the Treasury, during the financial crisis of 2008-09, when we were quite heavily criticised—that was before Whole of Government Accounts were produced—for not making this information available and for not making these assessments on the basis of standard accounting practices. This was an important reform that we introduced precisely to respond to that, so I defend the reform and the use of the accounts.

I also defend the way in which, as a finance ministry, we have managed these fiscal risks. Julian has explained the policy choices that we have made and the information that we used to make them. They are regularly scrutinised here, by the IMF and by the OBR. Again, I come back to my earlier point: more information, but clarity on what the information is saying and what it is not saying, and on why there are differences in presentation and why the numbers change. There are many areas of the public finances in which this happens. This is a very important one. I think I am comfortable with that, because I think it leads to better debate and, ultimately, better decision making.

- Q25 **Nigel Mills:** I get all that and I understand it is down to a choice of discounting. While you have more people in the scheme, it is bound to keep going up, but it is just the scale of the increase. I think what we are told in paragraph 2.8 is that if we go from five years ago to 2014-15, there were some quite significant reductions coming through. I think it reduced by £105 billion from RPI coming down to CPI, and a couple of other things. Yet somehow the liability has gone up by 50% in effectively three years from 2011-12. That does not look like a dispute about discounting. That does not look like a dispute about discounting being 2.8% versus the trend growth rate versus whatever. It looks like something is just not right.

Julian Kelly: As I said, probably around two thirds of it is the discount rate. The discount rate was real terms plus around 2.5%, and it is now down to real terms plus 0.7% or something. If you are valuing a series of cash flows over 60 years and then bringing them back, that can make that sort of scale of difference.



Q26 Nigel Mills: Okay, but it seems strange that the Report does not say, "This is because of discounting." It basically says, "It's hard to know how much of the remaining £195 billion is down to change in the discount rate, as opposed to other assumptions."

Nick Bateson: The point of this is the transparency of what is going on within those numbers. There are a number of factors at play here. There are changes in the workforce, in accrual rates and in the retirement age. What we are calling for in the Report is just more clarity. It is a very complicated picture. There is a lot going on and there are lots of movements in the numbers, but getting that clarity is really important, because you can then really see what the underlying drivers are—what is really going on in workforce planning and so on.

Sir Amyas Morse: I would just add one thing. It is true that the accounting standards are mostly developed in the private sector, and at times we find a bit of discontinuity between the private and public sectors because of that. But going to the fundamentals, what they talk about is what it will cost to fund this liability, rather than assuming that the Government are a going concern that continue to fund this out of the economy. That is the difference really, at a fundamental level. I can understand the logic of saying, "Well, for policy purposes, we prefer to assume that the economy continues and is capable of meeting these liabilities and therefore that's the way to do it," so long as there are no substantial shifts in the scale of economic activity, because then what it would actually cost to fund these liabilities might suddenly start to matter a bit more, because they are real liabilities and, at the end of the day, you're going to have to pay them. I accept the argument, but it is important to understand that it is predicated on a relatively steady state. If something incredible happened to the economy—please let it not—and it suddenly lurched down in scale, you might get a lot more interested in what the actual funded cost of pensions was.

Q27 Nigel Mills: It was always said that the most nonsense number in any set of accounts was the pension number, because it flew around so much every year that you couldn't get any useful information out of it, but I suppose in my naivety I would have thought that if what is driving the reduced discount rate is effectively inflation and growth coming down, that also reduces the amount by which your liability increases every year, because these are all index-linked, aren't they? You can look at that and think, "God, if it's gone up by 50% in three years, is it going to go up by another 50% in the next three years?" We said we'd fixed public sector pension policy for 25 years, and that for a generation there wouldn't be any more changes in contribution rates or in the scheme's benefits, but if you look at that, you go, "Crikey, is that a promise we can really afford?" I suppose it is the use of this information that we are trying to get at. Does it suggest that we need a policy change?

Julian Kelly: That is where I come back to you. I think the acid test is our future forecast of cash flows and how that looks as a share of the economy? If that is growing as a share of the economy, it is going to give you a certain problem, but that is not our forecast. Our forecast is that it



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shrinks as a share of the economy. Clearly if the economy doesn't grow as fast, as the Comptroller and Auditor General just said, its share of the economy would rise again, which might—I cannot prejudge any future Government—cause you to have questions about affordability and sustainability, but that is not our current forecast.

- Q28 **David Mowat:** Two thoughts about that. Why couldn't that same logic be applied by the financial director of Shell to explain why it is very unfair that he has to have a reserve based on the method in figure 8, whereas you don't because you have a different way of looking at things? As the Comptroller and Auditor General said, these are accounting standards. They may have come out of the private sector, but they are not wholly inapplicable to the public sector. It seems a little odd that it could be just shrugged off so nonchalantly.

Julian Kelly: Sorry, I don't think our future liability is shrugged off nonchalantly. In the private sector, by the way, even the chief finance officers I talk to have exactly this kind of debate as well. They are running fully funded schemes. We are, by and large, running unfunded schemes, so in the end our schemes are backed by our ability to tax. I mean, that is what they're backed by.

- Q29 **David Mowat:** Is there any size in that growth—Mr Mills mentioned 50% in four years—that would at some point give you cause for thought, or would you just say, "Oh, it's all to discount rates, and what really matters is the cash flow number and therefore the growth," and therefore all this Whole of Government Accounts business, in terms of pensions at least, is just interesting but not important to you?

Julian Kelly: The underlying accounting, by the way, which gets to an estimation of the cash flows, is still really, really important. That is why these accounts are not—sorry, I forgot the word you used—a waste of time, because it's by getting all the underlying accounting right that we can do those sorts of estimates. However, if the cash flows were honestly increasing at this kind of rate, or if the impact on the economy and economic growth was such that I was genuinely having to discount it at a much lower rate, even for policy purposes, that kind of scale of increase would be concerning me.

- Q30 **David Mowat:** Okay. Just to finish, what I asked you was this. The £1.4 trillion has now happened—it has gone from £1 trillion to £1.4 trillion in the last four years. If it was £3 trillion, would all the logic that you're using and all the points that you're making still apply, and would you not be concerned that it would give you an issue?

Julian Kelly: If it was £3 trillion and therefore what had happened to bond yields was such to make it that, I'm assuming that something else extraordinary has happened to the economy such that I would be worried about it.

Tom Scholar: Just to add to that, if the number ballooned in that way, clearly that would then prompt a great deal of re-examination and soul searching about the other basis on which we look at it. And it would be not



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just us doing it; it would be the Office for Budget Responsibility, the IMF and the whole world. Again, I go back to this point that the information is valuable. We use it to rescrutinise what we are planning and doing anyway, and it may be telling us that we need to look again at some of those long-term sustainability issues.

- Q31 **David Mowat:** You say the IMF would look at it, but we are one of only four or five countries that do this at all, so presumably there are other countries that have got just this and maybe worse—they just don't know about it. So, in a way, at least you have got some numbers to have a discussion around.

Tom Scholar: Absolutely.

- Q32 **Chair:** I think we pick up what the NAO has said—hopefully you would agree—that there is still more work to be done to make these things even more transparent and useful.

Julian Kelly: There is still more work to be done to make these things more transparent and to provide some of the explanation that we've just gone through.

Chair: Exactly. What we want is that we can have this sort of discussion with a generalist group of MPs and maybe the citizens out there, and that this is not something that is so specialist that you have to dig away and have a lengthy conversation like we've just had. That is what we are aiming for, so hopefully you'll take that point away from that exchange.

- Q33 **Stephen Phillips:** Mr Scholar, it is your first outing since the result of the referendum, so you wouldn't expect us not to ask about it. Is the Treasury properly prepared to deal with the consequences of that vote?

Tom Scholar: Yes, I think we are. In the run-up to the referendum, we did a great deal of work on the possible alternatives to EU membership and their economic implications. As you know, we published that work, so there was a Cabinet Office paper that went through the various alternative models. There was then a long-term Treasury paper that made an analysis of the long-term costs and benefits of each, and then there was a further Treasury paper that looked at short-term implications.

- Q34 **Stephen Phillips:** Those were all prepared with the purpose of trying to ensure a particular result, weren't they?

Tom Scholar: Well, they were prepared for Government policy at the time—

- Q35 **Stephen Phillips:** You see, I am interested to hear you saying that there was a great deal of work that went on beforehand, because Mr Black, who I think is the director for Europe at the Treasury—

Tom Scholar: He is.

Stephen Phillips: When he appeared before this Committee in February, I asked him what strategic planning was going on in the Treasury in the event that there was a Brexit result in the referendum and he told me,



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"None".

Tom Scholar: Well, much of this work happened after that date, so the papers were published after that date. The other very important work that was done after that date was the financial stability contingency planning work, which we did, and continue to do, with the Bank of England. That work has proved to be extremely valuable over the last two weeks, when we have seen very significant volatility in the financial markets, and we will remain completely vigilant on that in the time ahead.

Q36 **Stephen Phillips:** The truth is, Mr Scholar, that the Treasury has been playing catch-up, hasn't it, because it was not expecting the result of the referendum?

Tom Scholar: Most of the world was not expecting the result of the referendum.

Q37 **Stephen Phillips:** So the answer to my question is yes, you have been playing catch-up because you were not expecting the result.

Tom Scholar: No, I don't think so, because we did a lot of work ahead of time to be ready for whatever result materialised.

Q38 **Stephen Phillips:** Just identify to me what that work was. I am not interested in exploring the result—whether it was the right result or the wrong result. I am interested in exploring whether civil servants were properly prepared to deal with a contingency, which was a possibility even if it was not thought to be a likelihood, that the country would vote to leave the European Union.

Tom Scholar: The first area, and the most immediate contingency, is financial stability. There were very sharp movements in markets immediately as the results were becoming known.

Q39 **Stephen Phillips:** You may have misunderstood my question. I am interested in the work that was done prior to the vote to prepare in the event that there was a vote to leave the European Union.

Tom Scholar: The first work that was done was financial stability contingency planning and making sure that measures and the support needed were there to deal with any market volatility. That work has proved very valuable and the response has been important.

Q40 **Stephen Phillips:** That was the first area. What was the nature of that work?

Tom Scholar: An extended and extensive period of discussion with the Bank of England and the Financial Conduct Authority to look at the possible market impacts, any vulnerability, either of particular firms or of particular markets, and any policy measures that should be put in place to avoid some kind of threat to financial stability.

Q41 **Stephen Phillips:** What was the next area of work that was done as strategic preparation in the event that there was such a result?



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Tom Scholar: The next area was the analysis of the economic implications of the possible alternative models to EU membership. The conclusions of that work—

Q42 **Stephen Phillips:** That is the work that was published.

Tom Scholar: Yes. Of course there is lots of further work underlying that.

Q43 **Stephen Phillips:** Some people say, "I am not going to make any point about it," in an attempt to scare people into voting remain.

Tom Scholar: In the context we are in now, in which it is clear that we will be leaving the European Union, we need to have a national debate and a national consensus on what our objectives are for that. What the Treasury document does is to look at the economics. Okay, there are other issues to consider as well, but on the economics—

Q44 **Stephen Phillips:** Again, that is not strategic planning for what happens in the event of the result that actually eventuated. It is actually, "This is what we think will happen," in an attempt to persuade people to vote remain, isn't it?

Tom Scholar: The Government did not produce an alternative desired end point for the relationship between the UK and the EU. That is something that the Government will need to do, and there is a great deal of work going on already to prepare for that. Once we have a new Prime Minister and a new Cabinet in place, we will have a—

Q45 **Stephen Phillips:** Just looking at what Mr Black said to me in February, I said, "There is no planning going on within the civil service as to what happens if Britain votes to leave the European Union, is there?" I received the response, "The work that we are doing is focused on ensuring that the EU budget, which we are part of as a member of the European Union, is structured and spent as wisely as it can be." Is that all that was going on?

Tom Scholar: As I said, I think most of this work started after that date. In particular the papers were published, I think, during the course of late April, early May. So that work—

Q46 **Stephen Phillips:** Were Ministers so sure of a remain result that they essentially instructed Treasury officials and civil servants not to do any work to prepare for Brexit?

Tom Scholar: The Prime Minister confirmed at several points that the civil service was not, as a whole, preparing. Unlike in a general election, where the civil service, by convention, prepares thoroughly for each possible eventuality, this was not a general election and the Prime Minister was clear that we were—

Q47 **Stephen Phillips:** That is not quite as clear as it could be, Mr Scholar. What I think you are really saying is that because the Government's position was to remain a member of the European Union, no significant work went on to prepare for the eventuality of the United Kingdom leaving the European Union.



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Tom Scholar: I don't think that is right, because the documents that I referred to that the Government published to inform debate in the run-up to the referendum—

- Q48 **Stephen Phillips:** Yes, but that was the purpose of them. They were to inform debate, as you would say, but actually they weren't preparing strategically to deal with the result of a Brexit vote.

Tom Scholar: I think they were preparing for that. As I said earlier, what we as a country now need to do, and what the Government need to do, is to formulate an objective for the desired end state of the UK's relationship with the EU. There are some clear trade-offs in that. What the Treasury document did—admittedly only talking about the economic side of things—was to make the economic case for openness and closeness of economic connections.

There is then a question of how that can be reconciled with other objectives that the Government may have. I think the Treasury has already provided a huge amount of analysis on which that judgment can be based. We are now doing further work on that, and I am completely confident that when the new Prime Minister asks for advice, she or he will get that advice, including from the Treasury.

- Q49 **Stephen Phillips:** One final question, although you may just have answered it. Are you adequately resourced to do that which now needs to be done?

Tom Scholar: On that question, there is a civil service-wide exercise, which was put in place last week, to ask that question precisely. We are part of that as well. I think it is clear that in some areas, we will need new people and new skills. The most obvious is trade negotiators, since clearly, as a Government, we have not been negotiating our own trade deals for the last 40 years. There is an urgent exercise under way now to identify and answer precisely that question.

- Q50 **Chair:** Mr Scholar, before I bring in Ms Smyth, I wonder if you have a message for the British public. It has been two weeks since the vote. There has been huge volatility in shares and the pound, which has just gone to an all-time low against the dollar. What is your message to British citizens out there, some of whom may be nervous about what is coming? You have talked a lot about a new Prime Minister, but that is a little way off. In the meantime, what is your message to the British public?

Tom Scholar: I think my message would be to repeat what the Chancellor said a few days ago, which is that the UK economy is in a position of strength. We have been one of the fastest-growing major economies in recent years. We have employment at record high levels and inflation under control. It is an economy that is fundamentally strong. That said, the consensus of forecasters expects the consequence of the referendum result to be a significant negative shock. That is also the Treasury's expectation.



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Ultimately, we will see. It will take some time to be able to reach a final assessment, so we need to be prepared for that, and we are prepared for that. As I said earlier, we will be ready as a finance ministry with advice on any kind of policy response that would be needed, but I go back to the underlying fundamental strength of the British economy, which I think is very important.

- Q51 **Karin Smyth:** Picking up on Mr Phillips's points, I think you're saying that there was some planning for a Brexit vote and some thinking about what that means. Does that extend across all Departments?

Tom Scholar: I can't speak for all Departments. I know that my previous Department, the Cabinet Office, and my colleagues in the Foreign Office were thinking through these things, and we published documents on them. The Foreign Office published a paper on the mechanics of withdrawal from the European Union, and the Cabinet Office on alternatives to membership. That was the vehicle through which we were able to think through these issues.

- Q52 **Karin Smyth:** But in terms of the Treasury—in terms of the financial implications as they would fall on all Departments—did your work in the Treasury extend financially to all the other Departments?

Tom Scholar: The Treasury has responsibility on EU finances. We have thoroughly thought through that issue, and it will be a central part of the exit negotiations. We are also now engaged and working with Departments to think through the alternatives for future policy in areas that currently depend on EU funding: agricultural support, research—

- Q53 **Karin Smyth:** I am not particularly thinking about EU funding; I am thinking about how those Departments operate. Yesterday, in a health debate, I asked Health Ministers how much they had thought about the implications of Brexit for the Department of Health's budget, particularly in terms of staffing, procurement and medicines. There does not seem to have been much detailed thinking or the use of a risk register to think about what the risks might be. Do you think that is fair—that the Department of Health, for example, would not have looked financially at the implications of Brexit on staffing, medicines and procurement to that level of detail?

Tom Scholar: I am not able to speak for what work it has or has not done.

- Q54 **Karin Smyth:** It is the financial viability of the Department, isn't it?

Tom Scholar: Yes. Two things here, and then I will say what I would expect the Department to do. The first thing is that the process of leaving is not instant. It takes some time, so the Department of Health and other Departments will have time to ensure that they are ready when the moment comes, but I would expect them to be in a position as of now that they can provide an accurate and timely assessment of the impact on their Department and on the national health service, which may include some view on the objectives that the UK should be pursuing in the negotiation. For example, we know there are a number of EU nationals currently



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working in the health service. I would imagine that in their future staffing plans they would need to take a view as to where in the future they would get those staff from, and that would be something I think they would want to feed into the process of formulating an objective for the Government as a whole.

- Q55 **Karin Smyth:** I do not want to see a risk register, but you would expect them to have contingency plans for that at this stage.

Tom Scholar: As I say, the process of withdrawal will take some time and up until the moment at which the UK leaves the EU, we remain a full member—

- Q56 **Karin Smyth:** We knew it was a possibility, so you would expect to see it now, wouldn't you?

Tom Scholar: Yes, but all I am saying is that the process will take some time. In the meantime, to take the example you have given of EU nationals working in the health service, up until the moment the UK leaves, those EU nationals retain their free movement rights, so they will be able to carry on living and working here. What happens after that point is something that will be negotiated during that time, which will take some time. The Health Department will have a little time—not a lot—to think through all that, but what I would expect in a well-run Department would be that it would now have available immediately the information on how many staff in that category there are and the expectations for the future so that it can make well-informed decisions.

- Q57 **Mr Bacon:** Mr Scholar, the Governor of the Bank of England said that contraction of the economy was a distinct possibility and there might be a materially lower growth path. Is it possible that there could be an expansion of the economy following Brexit, once things have settled down?

Tom Scholar: I am sure that once we have got through the transition, the economy will continue to grow, because it is an economy, as I said earlier, with very strong fundamentals and that will not change. The medium-term growth prospects will be very heavily influenced by what future relationship we end up having with the EU, and in that Treasury document I referred to, we tried to give some assessment of that. The transition then will depend, I think, very heavily on market sentiment and investor sentiment, looking at the process of the negotiation.

- Q58 **Mr Bacon:** Of course—I understand that. I am just saying it has been suggested that contraction or a materially lower growth path is a possibility and I am asking if a higher growth path is also a possibility.

Tom Scholar: It is a possibility.

- Q59 **Mr Bacon:** It is—a higher growth path is a possibility. Okay, thank you. What is the level of your confidence in the information and statistics you have available to make these decisions?



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Tom Scholar: On economic statistics in general? As you know, the Treasury has had various reviews of that in recent years to improve the quality of statistics. As we know, economic statistics are backward-looking and appear with lags, so you are learning what happened recently in the economy and they are subject to revision.

Q60 **Mr Bacon:** I was not really asking you if you had had a review about it. I was asking you what your level of confidence is now.

Tom Scholar: It is higher now than it was before the review of Sir Charles Bean. Also, I think this is the view of the IMF: the UK is considered to have a strong regime of statistics.

Q61 **Mr Bacon:** The IMF hasn't always got it right, has it? Could you tell us what stops us cancelling the gilts owned by the Bank of England? We own both sides of the balance sheet in those cases.

Tom Scholar: Under the quantitative easing programme, you mean?

Q62 **Mr Bacon:** Yes. We own both sides of it. You could draw a line through both sides and they would disappear. What stops us doing that?

Tom Scholar: Casting my mind back, we have deliberately kept these two exercises separate, not least to ensure the confidence of investors in the gilts market. One thing that we have built up—the Debt Management Office has built it up over many years—has been a reputation in the market for predictability and consistency over time. That reduced funding costs in a very significant way. When the QE programme was launched, it was the strong advice of the Debt Management Office that that was something we should keep. So the QE programme has always been treated as a separate thing for that reason, because it ultimately is the best thing for our funding costs.

Q63 **Mr Bacon:** Do you have a plan to increase the capital of the Bank of England?

Tom Scholar: I am not aware of any such plan.

Q64 **Mr Bacon:** Sterling has been volatile—it has been mentioned before. Do you accept that that is partly because regulators require banks to keep more capital so that they do not make markets to the same extent that they used to? In other words, part of sterling's volatility is a direct consequence of the way banks are regulated.

Tom Scholar: I don't think that can be a factor in volatility in the last two weeks. There has been a trend globally of regulation in the way that you suggest, but that would not have affected sterling any more than any other currency.

Q65 **Mr Bacon:** Last question: do you think it is possible that sterling was slightly overvalued for a variety of reasons, from people wanting not to be overcommitted to the eurozone to the stagnation in Japan and what is happening in the US in relation to debt management a few years ago,



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and that sterling had become a bit of a haven?

Tom Scholar: I would not make any comment on whether sterling is overvalued or undervalued. I think that is a matter of market decisions. I would not make an assessment of that.

- Q66 **John Pugh:** If we escape the big imponderables for a moment, we can go back to the subject of the discussion: the Whole of Government Accounts. I wonder whether there is a trade-off between—we talked about the use of these accounts—clarity and utility and accounting standards. I say that because, along with Sir Edward Leigh, who was Chair of the Public Accounts Committee, we did a Report with the co-operation of the Treasury and financial scrutiny by Parliament. I was acutely aware that tons and tons of data is churned out by the Treasury about the accounts. People cannot complain about absence of data. They might complain about accuracy of data, but certainly there is plenty of it. The financial literacy of the House of Commons has not improved massively. My guess is it will not improve massively as a result of any clearing up of the Whole of Government Accounts. Is there a need for an idiot's guide version of this that has some authority?

Tom Scholar: That is an interesting thought. As I said at the beginning, one of our objectives in further improving these is to make them simpler and easier to understand and therefore easier for people to use.

- Q67 **John Pugh:** But you acknowledge there is a trade-off between what an accountant finds easy to understand, such as what Mr Mills and Joe Public do.

Tom Scholar: Indeed. Something we can certainly consider for the accounts next year is whether to include a summary that draws out the key messages or directs people to the main features in language that is less technical.

- Q68 **John Pugh:** May I pick up on the language point? The language across the public sector seems to me, from simple observation, not as standardised as it might be. Terms like provisions and reserves and so on are used in different ways within different sectors a little bit. For example, if you can understand a local authority balance sheet, you cannot necessarily understand an NHS balance sheet. Is there a need for some consolidatory language here?

Tom Scholar: I would turn to my colleague, Julian, on this point.

Julian Kelly: I would concur. I don't think there needs to be a trade-off between proper accounting standards and understanding, by the way. I think we have more work to do, and I include the WGA and other Government departmental accounts. We have actually set up a programme of trying to simplify and streamline the accounts. To be honest with you, I think we are sort of in the foothills. I just think we have got more work to do. I am just being completely straightforward about that.

The different sectors—local government, NHS foundation trusts—are held to slightly different accounting standards. The Whole of Government



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Accounts is an attempt to try to bring that together. I think that is a good challenge. Can we do anything else? I should take that away and think about it rather than just giving you a straightforward answer, but I generally find how we explain the numbers in ways people can understand, no matter what the accounting standard, is critical.

- Q69 **John Pugh:** Let me give you a parallel. It is an interesting parallel, anyway. When the local authority budgets were under appreciable pressures—local authorities, of course, cannot run a deficit—time and again the Secretary of State at the Department for Communities and Local Government used to draw attention to the reserves of local authorities. In a sense he was inviting them to dip into them, even though CIPFA said 84% were earmarked and so on. In terms of that advice being given by a member of the Government, I am trying to think what the equivalent would be within central Government? Would an invitation to raid provisions be a similar technique? Would you support that sort of advice being given?

Julian Kelly: Local authorities do run reserves that they can draw on; central Government Departments don't. That is a straightforward difference.

- Q70 **John Pugh:** So you could not trim provisions in the local authority budget in order to fund current expenditure, for example?

Julian Kelly: Accounting judgments can always be made when trying to balance local government accounts. That is why you want them to be audited, to make sure the accounting judgments are fair and reasonable and people aren't playing the sorts of games you've just described. That is why the work the NAO do on Government accounts is also absolutely critical. With respect to local government reserves, the interesting fact is they roughly doubled in size over the previous Parliament. Each local authority needs to look at its funding situation and decide, given its forecast, what it needs to do.

- Q71 **John Pugh:** A lot of them record uncertainties about their future funding. I think 14% of them, according to a CIPFA survey, are actually increasing their reserves because of uncertainties ahead. In terms of potential Treasury management that you would be offering to any Department of Government, would you not regard that as a wise thing?

Julian Kelly: It is why the devolution of business rates agenda is a really key policy objective, because if you return local government to the position where it is largely self-funded and very much has its future destiny within its control, to a large degree, our hope is they can work with greater certainty because they are less dependent upon decisions by central Government on grants. That is one of the reasons why we have tried to show an increasing profile in spend around things like social care, particularly towards the back end of this Parliament, so that, at least in the next couple of years, local authorities can make some decisions with a little bit of greater certainty about how they manage their finances.

- Q72 **John Pugh:** But you are satisfied that the same Treasury management



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rules you employ yourself, internally, are advocated for local government as well, and there aren't two standards of judgment being applied?

Julian Kelly: Yes.

- Q73 **John Pugh:** Okay. With regard to provisions, that is cash in hand isn't it? It is real money in the Government's account isn't it? It counts within expenditure?

Julian Kelly: It counts within our total expenditure framework, yes.

- Q74 **John Pugh:** Why does it not feature in the fiscal mandate?

Julian Kelly: Because net borrowing and net debt are what I will call accruals measures—it is cash plus accruals—but it doesn't count provisions because we are trying to judge whether we are broadly balancing the cash in and out year to year. It is why Whole of Government Accounts and things are important, because it is about bringing to attention the kinds of risks around the central policy objective and thinking into the longer term.

- Q75 **John Pugh:** So it is not simply anomalous; there is a rationale for it not being included in the fiscal rules.

Julian Kelly: No.

- Q76 **John Pugh:** Sorry?

Julian Kelly: No. It is not anomalous.

- Q77 **John Pugh:** May I talk briefly about the disconnect between the various Departments and the Treasury's contingencies, if I can put it like that, and in particular about clinical negligence? When Ministers say that NHS spending is kept at current levels or guaranteed or whatever, is the figure for clinical negligence not a feature of that?

Julian Kelly: Yes.

- Q78 **John Pugh:** It is?

Julian Kelly: It is part of the Department of Health's total budget.

- Q79 **John Pugh:** It doesn't exist outside the budget.

Julian Kelly: It doesn't exist outside the Department of Health's budget, no.

- Q80 **John Pugh:** So there is a real driver in the Health Department to get that figure down.

Julian Kelly: There is a real drive to make sure it only goes on the right cases. The NHS Litigation Authority defends cases robustly. There is a real drive to look at how we use the information from it to feed back to trusts so they can improve the quality of care, which is ultimately the issue. The Department thinks about where it puts investment to improve services—for example, maternity services, where the large bulk of clinical negligence claims is—so that it can drive down that cost in the future. We are about to consult on fixed fees for certain legal costs, because for low-value



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claims, the legal fees are roughly three times the actual compensation claims. You have to think about what is proportionate.

- Q81 **John Pugh:** There are whole series of initiatives. I think the bulk of this is obstetrics, and obviously the Secretary of State for Health will make decisions about obstetric departments. Some of it is due to what variability there is with regard to legal aid access, some of it is due to the efficiency of the litigation process, and some of it is to do with hospital management as well, but you are actually saying there is a definite driver within the Department of Health to get this down, because it means real disposable money for them; it doesn't just simply exist.

Julian Kelly: Yes. That is absolutely right.

- Q82 **John Pugh:** Thank you. Similarly, in the case of nuclear commissioning, the people who are commissioning nuclear power stations are acutely aware that ultimately there is going to be a big contingency or liability for that, and that is factored into their decision-making process and it will hurt their Department as much as anything.

Julian Kelly: Yes, the more you spend on nuclear decommissioning in the long run, the less you have to spend on other things.

- Q83 **John Pugh:** Okay. So it isn't just the fiscal risk group that worries about this; the Departments have to worry about it?

Julian Kelly: No, Departments worry about their own individual balance sheets, and our conversation with them is that the Treasury is asking the intelligent searching question.

- Q84 **John Pugh:** I was just trying to clarify whether the provisions are all on their balance sheets.

Julian Kelly: Yes, they are all on their balance sheets. They are in their budgets.

- Q85 **John Pugh:** Okay. Finally, in terms of the categories of various sorts of liability—contingent liability, remote contingent liability and so on—is there any movement of items between categories? I was thinking particularly of the EU loans of £9 billion, which I think are put down as a remote contingent liability. Are they still a remote contingent liability?

Julian Kelly: Yes. I think this is the EIB callable capital. I think we actually moved it from being a straight contingent liability to being a remote contingent liability.

- Q86 **Chair:** Even now?

Julian Kelly: It is still a remote contingent liability.

- Q87 **John Pugh:** But getting closer.

Julian Kelly: Our relationship with the EIB will clearly be a subject for discussion.

- Q88 **John Pugh:** This is my last question. I want to draw attention to



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guarantees, which are something else again. There is a diagram on this—it is figure 10—that basically shows that there is very little of the guarantee ever called in, if I can put it like that. I am just wondering whether you see any policy implications of that. If I was a Minister and I was wishing to do anything about anything, really, I would be issuing guarantees all over the place, on the grounds that looking at that profile, very little seems to happen as a result. Are the Treasury mulling over what guarantees are doing in terms of policy?

Julian Kelly: Yes. We look at them in terms of what their policy impact is; we look at them in terms of—

- Q89 **John Pugh:** But they're a safe bet from your point of view, aren't they? You're not going to sweat because a Minister issues a guarantee on this basis.

Julian Kelly: When we advise Ministers about whether to enter into guarantees, we look at what the risk is and what the fee is that should be charged appropriate to the risk—we apply normal value-for-money tests. We think about the risks and what is manageable.

- Q90 **Chair:** Mr Kelly, earlier you said very candidly that there is more work to be done and things that could be improved. I want to tease that out a bit more. If we take 2020 as a target, say, what will you be doing differently in the Whole of Government Accounts to make it a more useful document? Maybe Mr Bulmer will want to come in on this as well. It has made progress, and I have acknowledged that, but there are still some gaps, as we have been highlighting.

Julian Kelly: The things we have said before that we are thinking about are: can we start to produce some of this information on a summary basis by Departments so that, without rehearsing all of the detail in departmental accounts, you can at least get some reversion. It is not a straightforward exercise—

Chair: This is the sort of discussion that our sister Committee, PACAC, is having, I think with you.

Julian Kelly: —so, can we do that? Actually, the things raised in the NAO documents about how we explain some of what is going on in the balance sheet and some of the risks. I think this will align with the work we will be doing with the OBR on the fiscal risk statement, as I think I said before.

There is a question which has been asked, which we have said we will at least consider, which is: can we publish some of this information on a regional breakdown? We do publish regional spending data in public expenditure statistics, so we will see if at least there is anything that we might add to that.

- Q91 **Chair:** When do you think you could do that by? We have got devolution legislation due to go through the House in the autumn and mayors due to be elected next year. Will it be done in time for that? Is that possible?



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Julian Kelly: Honestly, I doubt it will be done in time for that. It is partly a question of prioritisation and actually what people would find most helpful. Personally, I would prefer to focus on how we explain what is going on in the balance sheet—

- Q92 **Chair:** I am just getting an idea. We could have mayors elected next year and I must say there is enormous interest across the House, among all parties, and members here are concerned about how they will follow the money that goes from Whitehall down to their local areas.

Julian Kelly: As I said, we publish regional data in public expenditure statistics, so we do already publish that data largely.

- Q93 **Chair:** Do you think you could do that? You are leaving it hanging there whether you could do that better—would that be fair to say?

Julian Kelly: We are always up for looking at how we do it better.

- Q94 **Chair:** When you say about prioritisation, we recognise that everything cannot happen at once, but this is pretty important. This legislation is imminent—we have got lots of changes, so who knows, but it is certainly scheduled to go through in the autumn—with new mayors in place next May. When will they have the information they need about regional spending in enough granular detail that it will be useful to them?

Julian Kelly: I honestly hope they have already got it now. We are doing—again, it began under the last Government—a process of trying to align when we announce funding settlements for people like the police, local authorities and various other local services, so that local authorities and mayors can see in the round the funding coming into their area.

- Q95 **Chair:** But that is easy when you have got an institution that has been established such as a police authority or a fire authority—of course, the Home Office is responsible for both—but, for example, you have got health being devolved. It is the new devolutions where it is particularly important that we follow the money. Members across the House and at a local level people are concerned. When will there be information, and is the Whole of Government Accounts the right place to do it?

Julian Kelly: That is a good question. Rather than giving you a half-thought-through answer, why don't we take that away and think about it and come back?

Chair: Okay. I just highlight to you that we have got a conference on this next Tuesday, where we will be discussing issues around devolution. No doubt this will come up again, so if we can have an answer, that would be very helpful.

- Q96 **Nigel Mills:** One of the things that comes out of this is how important it is that we have a proper finance ministry function that has this information and can produce it, and that it can be reliable and we can all trust it. Do you think that is consistent with being part of a Treasury that carries out a lot of very important and different policy functions and that at times is quite political in the way Government is run? Is there an argument for



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wanting to get the finance ministry element of that separated so that perhaps it is not dragged into some of those other discussions and activities?

Tom Scholar: Let me answer that. The provision of information and statistics is and should be a technical matter, not a political matter. Most statistics are produced independently, but each Government Department has to produce its own accounts. That is central to running a Department, and I think it is right for the Treasury to be producing the accounts that we are considering today. I think it is precisely to inform better policy making, as we were discussing earlier, that it makes sense to keep that function—the team doing the Whole of Government Accounts closely with the public spending teams that are then using that information.

Q97 **Nigel Mills:** An important role is managing the public finances effectively, understanding what impact policy changes will have and tracking to see that everything is being done properly. It is hard to square that, though, when you have a Treasury that at various points in the year is making highly political decisions and highly political announcements. Quite rightly, the Chancellor wants to have his set-piece days, but I sense that that is not really consistent with proper financial management. I don't think you would see many private sector organisations trying to blend those two activities. Indeed, many other countries would choose to have a separate finance ministry that is distinct from the economic planning ministry and from all the Treasury's other activities. Do you sense that we might get better focus on and higher regard for this work if it was clearly in a stand-alone, non-political Department, rather than in perhaps the most political one?

Tom Scholar: There is the very important doctrine of ministerial accountability. It is sometimes said that in a private company you would not have the finance function distributed across all the different product lines, or whatever the analogy would be; you would have a central thing—so shouldn't we do that in the British Government? I think the answer to that is that, since Ministers are accountable to Parliament for their Departments and the policy performance or delivery performance of their Departments, they also need to be responsible for the finances. Finance responsibility going closely with policy and service delivery responsibility is right.

Actually, we have a more effective financial management function across Government precisely because it sits in the same building and the same Department as the policy decisions. The Treasury is an important Department, working with others. Julian may wish to elaborate, but precisely because we have those strong relationships with each and every finance directorate it makes us better able on other issues like skills and capability. The quality of financial management puts us in a good position to have that debate. I don't think that is a political debate at all; I think in practice the two can be kept quite separate and are kept quite separate. We can be advising the Chancellor on the Budget or the spending review, or whatever, at the same time as trying to drive up financial management performance across Departments.



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Julian Kelly: Even in countries where they have split effectively the spending ministry from the broader finance and economic ministry, the spending decision is still a political decision. It doesn't obviate the politics; it's just a different management structure.

Q98 **Nigel Mills:** Exactly—that is absolutely right. I just wonder whether we would all have more confidence and more focus on the financial controls if they weren't sucked into some of the political decisions. We have created a whole load of fiscal rules, some of which some people might think were done very politically to set traps for after the election—spending limits and welfare limits that don't bear much relation to good financial management. Indeed, I think we've pretty much started ignoring them all and no one's really noticed.

I suppose since '97, other than for about two and a half years, we have had the most political person in the Government being the person who runs the Treasury. That doesn't necessarily breed confidence in financial management, financial information and financial data, or in how things are being run. I wonder whether it would feel more effective and we might all be more convinced by it if there was more of a distinction.

Julian Kelly: Isn't that why we think things like the independent Office for Budget Responsibility, independent economic and fiscal forecasts, independent judgments on whether we have or have not met the fiscal rules and independent analysis of the sensitivity of various institutions are important institutions?

Tom Scholar: May I just add to that? The setting of the rules themselves goes right to the heart of the major political choices that the Government makes. I appreciate that this is not what you are saying, but that clearly is not a technical matter. If the matters that are technical—financial capability, planning and performance—are taken out and put somewhere else, I think they would suffer as a result.

John Pugh: In your defence, it has to be said that your economic forecasts to the Treasury have been at least as good as, if not far superior to, those made by the OBR. You have no vested interest in getting the figures wrong because you have to deal with them afterwards.

Sir Amyas Morse: I just want to say that these are very good examples of an economics ministry at work; none of them is an example of financial management. What I would really love is a more developed, more sophisticated approach to financial management in Government. I think there is quite a long way to go there. Instead of being in the foothills of having a single departmental plan, we could be a lot further forward. Frankly, I understand the political process and ministerial accountability, but a lot of the actual business of Government is quite long term. A lot of the projects, programmes and activities are actually long term and require more sophisticated management than they get in many cases at the moment. There is a point there that is a bit different, and you do sometimes feel that that is not the side of the Treasury's activity that gets most emphasis.



Q99 **Chair:** Mr Scholar, that is a fair point. What is your response?

Tom Scholar: I agree that there is more to do there. There are various things that we are doing to try to improve on that. For example, the OBR's fiscal sustainability report looks at long-term trends and tries to draw out any cause for concern or areas for attention. Another example would be the Major Projects Authority, which now looks precisely at long-term projects of the sort you are describing. We have much more transparency now around its reporting, and greater scrutiny.

I agree with the objective that you set out. To achieve that, we need to continue to develop these tools to improve the quality of long-term decision making, and—this relates to Mr Mills' point—to ensure that, when political decisions are being made around spending reviews or Budgets, the potential impact on long-term financial planning and management is considered and integrated into that decision.

Q100 **Chair:** To pick up on that point, do you think there is an era of multi-year budgets for Departments looming? The annual accounting at the end of the year means that often Departments will spend money very quickly at that point, because they can't carry it over. There is a tension between long-term planning and the way that Departments have to stick to annual accounting.

Tom Scholar: We account annually but we do plan multi-year and we do incorporate within those plans flexibility to avoid—

Q101 **Chair:** Absolutely, and I appreciate that that is what happens. I have been a Minister in a Department, and I know that there is often a scrabble at the end of the year. People say, "There's a bit of spare money—what can we spend it on?" I hope that you would acknowledge that there can be bad decisions made as that money is spent, rather than being given back to the Treasury, or there is a panic about spending something that needs to be spent, but for some reason there is a lag. Obviously, they come and try to negotiate with the Treasury on that, but it can make for some very perverse decisions. Or do you think that was a lone experience for me as a Minister? I doubt it, though. Do you want to say anything about that, Mr Scholar? Mr Kelly?

Tom Scholar: Julian will elaborate, but we do incorporate exactly into our plans flexibility to move money across years. We do things on an accruals basis and so on, precisely to try to avoid that kind of problem.

Q102 **Chair:** Do you think you always get it right?

Julian Kelly: I would hate to say that we always get it right, because then someone will find the one thing we didn't get right. This is something we work really hard on actually. We have put a lot of effort into improving our forecasting across Government Departments so that we can make decisions earlier about where we are going to be at the end of the year and how we manage the flows.

Where we gave complete carte blanche for flexing between years, what is really interesting is that the spending pattern in Departments and the



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nature of underspends didn't change. When we had complete flexibility, which we had for at least 10 years, it didn't change the behaviour. I think what we need is really good financial management and good forecasting that allows people properly to understand what is going on—that isn't just about stuff slipping and, lo and behold, at the end of the year they find that they have got some money. We can then have good, early conversations between ourselves and Departments about where there is flexibility and how we use it. I think that will drive better decision making, better financial management and better value for the taxpayer.

Chair: I wonder whether the Comptroller and Auditor General wants to make any comment on that.

Sir Amyas Morse: That will only really happen when Departments start planning seriously for more than one year, and they are being asked to do that. Interestingly, when you look at these plans at the moment, they are very sparse on detail after the first 12 months, and most of the actions planned are supposed to happen pretty early, so I would say we are very much at the beginning of a process that it is desirable to move forward, but it has quite a long way to go before people seriously think about a longer period.

Julian Kelly: And I think the Departments are at different stages of maturity, but I don't disagree with either the general view or what we are trying to achieve.

Q103 **Chair:** Do you think that there is an issue with capability within parts of the civil service? We talked a lot here about project management and financial planning, so below the level of director general, for example, do we yet have the skills through the system to make sure that they have—you used this word, Mr Kelly—the maturity to have these conversations without fear, to go to the Treasury early and talk about potential long-term planning?

Julian Kelly: I actually think we have some really capable officials in the finance function. We are working really hard to improve it—

Q104 **Chair:** But outside the finance function, I suppose, is my point; it is not just the finance function.

Julian Kelly: But the thing I was going to say is that—I think it is the same point that the Comptroller and Auditor General is making—it is about instilling discipline in the system, so that it isn't just about the people; it is about just getting the discipline in the system in place so that it is not just the finance folk, but the people running major operations or agencies. It is about the expectation that you have to do it, and we are going to come around and really check. And one of the big things we are doing over July, August and September is precisely going through with each Department and saying, "Now, I want to see your four-year plan, and I want to see it at some level of detail, and you are going to explain to me how it links." It is about just getting that discipline in, year in, year out.

Q105 **Mr Jackson:** Notwithstanding what Mr Phillips and Mr Mills have said,



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with which I largely agree, I think it has got to be said that in the post-Brexit period, which is only two weeks, the Treasury has been quite fleet of foot in terms of reduction of reserve ratios, monetary loosening and so on, and obviously working with the Governor of the Bank of England. But my observation, as far as it goes, is that I think the reputation of the Treasury has probably taken a knock as a result of the whole debate around Brexit for various reasons.

May I just focus on a specific tax change that is perhaps a microcosm of how you are working in the post-Brexit period? You will know that in the week beginning 13 June, admittedly in the purdah period, the Chancellor, as part of the Remain campaign, gave an undertaking that there would be tax rises and budget cuts, and yet this week there was an announcement that corporation tax would be significantly reduced. I guess what I am asking is this: what qualitative and quantitative analysis have you made about that particular tax change, informed by the wider economic circumstances, and specifically the change to 50% corporation tax?

Tom Scholar: First I will mention the context and then the specific issue. The context is that, as I said earlier, we expect and others expect the referendum result to cause a significant negative economic shock, and as a consequence, as the Chancellor said last week, it looks unlikely that the 2019-20 fiscal target will be met, so an important part of our work now is to prepare for the autumn statement, by which time we will have a clearer sense of where the economy is headed and a new fiscal forecast from the Office for Budget Responsibility. The Government will need to be ready to respond to that in terms of any fiscal decisions, tax and spending decisions. So that is the overall context.

Q106 **Mr Jackson:** What is significant, in your book? Is that a reduction in GDP?

Tom Scholar: I am not going to make a forecast, but I can say that since the referendum result the consensus among independent external forecasters has been that average growth next year, for the 2017 calendar year, which was previously expected to be around 2%, will be less than 0.5%. That is a significant reduction in the expected level of growth. Those are independent forecasts. We will have official forecasts soon. A Bank of England forecast will be published in about a month's time, at the beginning of August, and then we will have the OBR forecast in the autumn. It is their job to publish forecasts; it is no longer the Treasury's job, but we will take the forecasts we get from the OBR. I quote that average of external forecasts to give you a sense of the magnitude of what we might be looking at.

That is the general context. On the specific issue of corporation tax, there have been a number of cuts in corporation tax in recent years. Indeed, there are more in the pipeline already. That has been an important part of the Government's economic plan in order to improve the environment for business and attract outside investment. When the Chancellor made those comments on Monday, he was trying to indicate very clearly that that



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agenda remains—that Britain is open for business and that we will continue to do everything we can to allow the fundamental strengths of the economy to make themselves felt and to make Britain an attractive place for investors. In terms of when and how that will be implemented, it now needs to be brought into the general broader context of all the tax and spending decisions that will have to be made.

Mr Jackson: I suppose what I was asking was whether you had a suite of choices on fiscal policy—in other words, different taxes that would reassure consumers, businesses and so on—and the Chancellor just chose that one. Had you done the work on how big an impact that would have on the wider economy?

Chair: Did you plan?

Q107 **Mr Jackson:** Was there a plan for reassuring consumers, businesses, exporters and so on?

Tom Scholar: Obviously part of our ongoing function is always to have a view on all possible different tax changes that could be made. In terms of a comprehensive package or public finance response to this, I would expect that to come in the autumn statement and the Budget. I think the Chancellor wanted to take one particular policy option that can have a powerful effect on investor sentiment and highlight that.

Q108 **Mr Jackson:** That is somewhat incongruous with what he said on 15 June. I know that is a political issue, but it was a bit of a volte-face, wasn't it?

Tom Scholar: I go back to my comments on the context. We expect this to have a negative impact, and we expect that to have a consequence for the public finances, which will also have consequences for tax policy. I am not going to speculate now as to what that might be. It may not be happening now. I think it is right to wait a few months, to have a better assessment of where the economy is going. At present, that is the context we expect.

Q109 **Chair:** Thank you. I want to go back to Whole of Government Accounts proper. You have an asset-selling programme as a Government. I think you are planning to sell more assets—a very large percentage of the assets on the books. I want to touch on the RBS sale. Your predecessor, Sir Nick Macpherson, said—I think it was at his last hearing with us—that he had doubts about whether it would be possible to recoup the investment liability on that. I wonder if you have any comment to make on that, especially given the vote a couple of weeks ago. Do you think there will be a positive sale of RBS for the taxpayer?

Tom Scholar: I wouldn't want to make a prediction on that either. It is clear that at the moment the share price is considerably lower than the price paid at the time. The other thing to say is that in the last two weeks UK bank shares in particular have been among the most volatile and have suffered considerable falls. Obviously all that has to be taken into account in deciding when and how to proceed.

Q110 Chair: So it is all up for grabs again in terms of the deadline and timetable for when you want to divest yourself of the responsibility.

Tom Scholar: Yes, we will have to take all that into account. At any point in time our objective must be how to secure best value for the taxpayer.

Q111 Chair: So the Government could be the owner of RBS for quite a bit longer than was originally predicted.

Tom Scholar: The scale of shareholding is very large, so it will certainly take some time to wind that down. We have seen really good progress on Lloyds Bank over the past year or so, but of course, with it being a much bigger shareholding with RBS, it will take longer. It was already expected to take a while; we will see how the market develops.

Q112 Chair: You can reassure people that you are not going to sell it off cheap, then. You are going to wait till the right moment.

Tom Scholar: We will maximise value for the taxpayer, but we don't know when or how. With this period of volatility, it is not imminent.

Q113 Chair: How it relates to the Whole of Government Accounts is that we on this Committee and our sister Committee, the Treasury Committee, have looked at issues such as the sale of Royal Mail. We have discussions in Parliament, but what do you think could be done to make the risks, benefits and liabilities much more visible in the Whole of Government Accounts? It is very important that parliamentarians get the opportunity to really scrutinise this. Are you, and perhaps Mr Kelly and Mr Bulmer, convinced that the Whole of Government Accounts currently give us a clear enough picture of liabilities? The student loan book is another big issue.

Tom Scholar: Let me say something on that, and then Mr Kelly might want to add something. The accounts, of course, provide a point-in-time valuation; they do not provide and are not intended to provide a future-looking risk assessment.

Q114 Chair: There is a commentary that goes along with it.

Tom Scholar: Yes. There are other ways in which we provide that assessment. We monitor fiscal risk—we have an OBR fiscal sustainability report and so on. Looking at assets and the spectrum of risks for the value of future disposals, the important thing is that the information on that is available for public debate and scrutiny, and then it is produced in a variety of places.

Q115 Chair: Mr Kelly, do you want to add anything?

Julian Kelly: I think that's right. As at what is now almost 15 months ago, it is really clear what RBS, Lloyds and the various other holdings are worth in the accounts. It is clear that it gave fair value for the student loan asset in these accounts. You can see that and we publish forecasts of what those things will be in the Budget documentation, the autumn statement documentation and the OBR documentation.



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Q116 **Chair:** Will you be looking at being more public about the options and, if so, when? We have already heard the discussion going on about the timing. Obviously that would have been happening anyway, but it may be affected by recent events. How public will you make your thinking about what options are available? I know there are commercial issues, but there is still a very strong interest from the taxpayer.

Julian Kelly: My apologies for asking, but for which of the assets?

Chair: I am thinking of RBS in particular.

Tom Scholar: On the strategy for bank sales, we made various statements about that in the Budget, particularly in relation to Lloyds and some of the legacy Bradford & Bingley assets. I don't think we should rush into any new judgments on that. Yes, we have had two weeks of market volatility, but we need to just wait and see how that settles down. I think it would be natural at the time of the autumn statement to at least be revisiting that judgment, and if it is necessary to change it, that would be, as a fiscal event, the natural time to do so.

Q117 **Chair:** Okay, so basically we might expect to hear more about this around the time of the autumn statement.

Tom Scholar: Either to confirm the plans or not.

Q118 **Chair:** That is helpful as a steer.

Tom Scholar: As a timetable, I think it makes sense to wait.

Q119 **Chair:** There are obviously risks around that because of what has been going on. Then we look at the student loan book, which is perhaps a different type of risk, which may also be hit by current circumstances. The loan book has gone up enormously in value—it will exceed £400 billion by 2040, so it has already doubled since five or six years ago. With current events and with your predictions on the economy, have you made any assessment of how many future student loans will not be repaid because students cannot find suitable employment? Of course, it is extending now to FE loans and, generally, more people in perhaps more precarious circumstances are taking on the loans in addition to whatever is going on in the economy.

Tom Scholar: Let me say something and then I will hand over. In managing any liability, you must have a view on how it will respond to different circumstances. I am sure that those managing the student loan book have a view and a good sense of the impact of an economic slowdown. Going back to my earlier remarks, it is very early days so it is hard to say what it is going to be. They need to be looking at it.

Q120 **Chair:** Are you confident that they have modelled the various likely outcomes?

Julian Kelly: We forecast the effects. We forecast the future profile for student loans several times a year because we always have to make budget provision for it in the estimate and in a supplementary estimate. The forecast feeds into the autumn statement, so there will be a forecast



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that feeds into the OBR's autumn statement and its work on the fiscal sustainability report, which is also due in the autumn. I am confident that we will be forecasting it, and we will be taking account of what value we can derive for the taxpayer in thinking about whether a sale proceeds.

Q121 **Chair:** What would be the impaired value of the loan? Look at page 34, figure 14, "Forecast value of the student loan book", up to 2050.

Julian Kelly: Sorry, which page?

Q122 **Chair:** Sorry, I am not being clear. That is in "Evaluating the government balance sheet: financial assets and investments". It is figure 14 on page 34. What is the impaired value? If you have a figure, you can tell us now. If not, you can write to us.

Julian Kelly: Currently, the impairment or the provision is worth—we do not recover about 20% to 25% of the net present value. That was the latest forecast.

Q123 **Mr Bacon:** Mr Scholar, I have a couple of questions. One is sort of micro and the other is more macro. You said of clinical negligence claims that the legal fees were three times the value of the claim in some cases. Therefore, do you think we need a new method for solving low-value claims? Is that what this consultation is trying to achieve?

Tom Scholar: May I turn to Mr Kelly?

Julian Kelly: Sorry—could you repeat the question.

Mr Bacon: The question is about clinical negligence. I think I heard Mr Scholar say that in some cases the value of clinical negligence claims was lower than the legal costs of solving those claims and that, consequently, there was a consultation going on. Is the aim to find a new method of resolving low-value claims?

Julian Kelly: Yes. It is looking at how we can do them most efficiently, so that when we are paying out money it is to compensate people and not simply to pay very high legal fees. So how do we do that most effectively? They are looking at what is the process by which you can reach—sometimes you can resolve claims even without having to resort to—

Q124 **Mr Bacon:** The Society of Clinical Injury Lawyers wrote to the Committee, pointing out that in many cases it is the NHS Litigation Authority and hospital trusts—I have seen this in my constituency—that drive costs, because they fail to admit liability in a timely way. Indeed, they point out that it is not only them saying that; there are judges who say that. They quote Master David Cook, who recently said in a lecture that failure to make early and prompt admissions is a problem and that too many valid claims are being settled late in the litigation cycle. Are these things that the consultation is going to address?

Julian Kelly: I don't know whether this addresses the point directly, but I know that options are being examined. There was a triennial review of the NHS Litigation Authority 10 months ago, which recommended looking at exactly that issue.

Q125 Mr Bacon: Do you know when the consultation will be complete?

Julian Kelly: Not off the top of my head.

Q126 Mr Bacon: The reason it particularly interests me is that I have been on this Committee for 15 years, and almost the first hearing we took evidence on after I joined the Committee in 2001 was on the NAO Report on handling clinical negligence claims. It was after the June 2001 election—it was published in May, just before I was elected. That Report said—I've got it in front of me—"Our analysis indicates that for settlements up to £50,000 the costs of reaching the settlement are greater than damages awarded in over 65 per cent of cases", so this is not a new problem.

You would expect the Society of Clinical Injury Lawyers to talk up its own case, as it were, but it appears from independent evidence and from judges that public sector bodies are themselves drivers of costs. We could be talking about a very significant sum of money over the next few decades. It is one of the big liabilities that we are looking at. When we did that Report it was £5 billion. We looked at it more recently and it was £15 billion. When is something actually going to be done to grip this?

Julian Kelly: As I said, I understand that the Department of Health is looking at options at the moment, and looking to consult. I don't have the precise timetable here and now.

Chair: I appreciate that you might not, but—this is partly what Mr Bacon is driving at—is it just a matter for the Department of Health, or is there some oversight by the Treasury? This is a really big liability.

Q127 Mr Bacon: If I can add to the question before you answer, the society says that the fixed-cost recovery answer that appears to have been come up with could increase costs, because many people are suing not so much for financial reasons but because they want an acceptance of where the responsibility lies. If they are forced to become litigants in person, that will make things slower, clog things up and drive further cost.

Julian Kelly: That is one of the things we will have to think about. It is one of the reasons, no doubt, for consulting and thinking all of those things through. To go to the value of Whole of Government Accounts, where we started, simply bringing all of this together and looking at what the really big numbers are focuses minds; it focuses the Treasury's mind and it focuses the things that you as MPs in Parliament see and challenge us on. I don't doubt that we have paid more attention to this over the past three or four years than we have historically.

Q128 Mr Bacon: For the record, could you write to the Committee, or cause the Department of Health to help you write to the Committee, with a summary of where we are and when the consultation will be finished?

Julian Kelly: We will.

Q129 Chair: From what you just confirmed, Mr Kelly, the Treasury is now more interested in this than it was in 2001, when Mr Bacon looked at it. You



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have a direct interest.

Julian Kelly: Yes, because this is one of the values. It flags a big number and you go, "Hold on a minute. What are we doing about it?"

Q130 **Mr Bacon:** The public sector pension has gone up by a third by 2009. This has gone up by three times in fifteen or sixteen years. It's a very big number. If you are able to give us a bit of comfort, that would be excellent.

Mr Scholar, I have one more question on the macroeconomy. The Bank of England has been undershooting its inflation target for quite some time. Do you think the fall in sterling will be sufficient to get the inflation target back on track?

Tom Scholar: I think we need to wait to see the inflation report that the Bank will produce and the forecast that it will produce in August. The answer to that question will of course depend on the future path of sterling, which we don't know—is the fall sustained, does it go further or does it partly unwind? It is very difficult to make that assessment at this point.

Q131 **Mr Bacon:** We have had this long-heralded march of the makers. One might hope that a fall in sterling would help that. Have you done any assessment, or will you be doing an assessment, of the extent to which that will contribute to extra GDP growth?

Tom Scholar: That will be a very important part of the forecast, both of the Bank and of the OBR. A fall in the exchange rate—other things being equal, obviously—does make British goods more competitive on world markets. There is not a one-for-one translation of that into demand. There have been periods in the past when a fall in the exchange rate has had that effect, and there have been periods when it hasn't. So a judgment needs to be made, but it is too early to make it.

Q132 **Mr Bacon:** But the possibility of its contributing to GDP growth—well, obviously imports are more expensive and that will lead to further increases in costs, but it will also lead to import substitution. Are you saying that the possibility of further GDP growth because of the fall in sterling will be one of the things that the Treasury will be assessing?

Tom Scholar: We will assess all these things as part of our ongoing analysis. As I said, other things being equal, a fall in the exchange rate does tend to—as you say, it increases import costs—reduce the world market price of goods. Quite what the net effect of all that will be on the economy needs—

Q133 **Mr Bacon:** I think you said "increase" when you meant "decrease", didn't you? The world price of our goods will be decreased—

Tom Scholar: Yes, they are more competitive. I apologise.

Q134 **John Pugh:** Following on from Richard's question about clinical negligence, I have a suspicion. We had a long look at legal processes—the NHS Redress Bill and so on—and a lot of efforts have been made to



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finesse that, although there are undoubtedly flaws, but the big numbers within that are related to obstetric cases it is hard to prove either way. It would be useful if, in reply to Mr Bacon, you could give us some breakdown of the balance of clinical negligences, if I can put it like that, because I suspect that the really big numbers, and the numbers that are quite hard to shift, are related to obstetric cases that are hard to prove either way in court.

Julian Kelly: I don't know. It is hard to prove but, either way, I understand that the largest group of cases are obstetric cases.

Q135 **John Pugh:** I think by a significant amount. In other words, a "clinical negligence" label per se does not tell us a great deal about the problem.

Julian Kelly: No, but I think I have referred to that in an earlier answer.

Chair: I remember being in this very room when we first highlighted this as a big issue.

Q136 **Nigel Mills:** While we are on contingent liabilities, there is a big amount for tax dispute claims—£35.6 billion, I think. I think these are where taxpayers are taking the Government to court because our tax rules contravened EU laws and fundamental freedoms—I think that is what a lot of that is. Is there any thinking yet on what the position of that liability might be now that—or presumably at some point—the European courts will not have any power to take decisions on UK matters?

Tom Scholar: As you say, once we leave the EU the ECJ will no longer have jurisdiction over these things. What the impact will be on existing cases is less clear, because it is a general legal principle that the law that applies is the law that applies at the time. I am sure HMRC is looking at that. I think the answer is not clear cut.

Q137 **Nigel Mills:** I think generally the UK courts have chosen not to decide those claims, so presumably it will be one of those ones that we have to work through. It is such a large number, so do you think it merits some thinking as to whether there is a way in which we do not have to pay that £30 billion out?

Julian Kelly: I think the general rule is that they proceed through the UK courts and, if necessary, get appealed to the European courts. So the normal due process will continue.

Q138 **Chair:** I just want to pick up quickly on some individual departmental accounts. We know there were problems with academies, and that caused the Department for Education accounts to be late. Will the new arrangements that are in place resolve that for future years?

Julian Kelly: Yes. I don't think they will resolve it next year, for 2016-17. I still hope that we will produce the Department for Education accounts earlier than we managed this year, but it will not entirely resolve the issue of qualifications. I think we are really looking at 2017-18 to get the new arrangements in place.

Q139 **Chair:** Is there anything we ought to know about how you are working



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with the Department, or how the Department is working with academies, to resolve this? Are there any big blockages, or is it just a question of grinding through the changes?

Julian Kelly: No, I think it is just a question of—to use your phrase—grinding through the changes. There are some judgments that need to be made, on which we are working very closely with the National Audit Office and the Department for Education—on quite how you handle academies that open during a year and things like that. It is just grinding it through.

Q140 **Chair:** On departmental accounts generally, I just want to say that the Committee is pleased that the Treasury did not just try to publish all of them on 6 July or 20 July. We did not understand what the sudden agenda was to try to propose that they were just published on two days of the year. Mr Scholar, can you give us any comfort that in future departmental accounts will be published when they are ready, so that Parliament and the public can see them as soon as they are available?

Tom Scholar: I am not entirely clear that the date of publication is a decision for the Treasury, but it makes eminent sense that accounts are published in a timely way, as and when they are ready. As I have said, I do not think it is first and foremost a decision for the Treasury.

Q141 **Chair:** Thank you for giving us that. You may be interested to know that your Minister certainly shares your view, so I think we have got a sensible way forward. I know that Committee members are keen to look at the accounts over the summer, so we will probably come back to you next time you are in front of us with some more specific questions. There is a real appetite—

Mr Bacon: We certainly know how to have fun in the summer, don't we?

Q142 **Chair:** Being on the Public Accounts Committee is a barrel of laughs, but actually there is a real drive across Parliament for more financial discussion around estimates, excess votes and so on and looking at accounts. The Whole of Government Accounts are a welcome step in shining a light on how taxpayers' money is spent and how it interacts. You will have picked up from our conversation today that we are very concerned about all those future liabilities and how they are handled, and that will be a continued focus of our attention over the next four years.

Mr Scholar, as it is your first outing in front of us, I wondered whether you wanted to make a final comment as the new permanent secretary at the Treasury before we finish our session today.

Tom Scholar: Thank you. I think I will just repeat two things that I have said already. First, in the period ahead I think the Treasury has three overriding priorities: our ongoing work on financial stability; the analysis of the evolution of the economy and the fiscal impact, and being ready to respond to both those things; and playing a full part in the discussion within Government on preparing and conducting the exit negotiations, because economic issues are absolutely central to that, and the Treasury needs to be a full player in that. I think those are our big priorities in the time ahead.



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The second thing, which is where I started, is that we share with this Committee and the NAO a total commitment to improving taxpayer value and the more effective delivery of public services. I very much hope that we can continue to discuss that in the very constructive way that we have done this morning.

Chair: Thank you very much. I pass on apologies from Stephen Phillips and David Mowat, who had legislation to attend to—I suppose that is what we are here to do, as well as question civil servants. The transcript of this hearing will be up on the website in the next couple of days, and our Report will out in the autumn, because of the timescale. Thank you very much. We look forward to hearing from you on the questions that we have asked you to write to us about.