

Public Administration and Constitutional Affairs Committee

Oral evidence: [Inquiry into Government accounts](#),
HC 95

Tuesday 6 December 2016

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Members present: Bernard Jenkin (Chair); Marcus Fysh; Kelvin Hopkins;
Mr Andrew Turner.

Questions 261 – 360

Witnesses

I: Craig Mackinlay MP and Dr John Pugh MP

II: Rt Hon David Gauke MP, Chief Secretary, and Julian Kelly, Director General,
Public Spending and Finance, HM Treasury

Examination of Witnesses

Witnesses: Craig Mackinlay MP and Dr John Pugh MP.

Q261 **Chair:** I welcome our two witnesses to this session on accounting in Government Departments. May I ask each of you to identify yourselves for the record and explain your particular interest in this subject?

Craig Mackinlay: Yes. I will go first, if I may, Mr Jenkin. Yes, Craig Mackinlay, Member of Parliament for South Thanet; I am the Parliamentary Observer on the Financial Reporting Advisory Board, which meets about every four months—three times a year—to consider what international financial reporting standards are coming through as live ones and how they may be implemented in Government accounting. I am also by background a chartered accountant/chartered tax adviser, hence why I think I was appointed to the FRAB.

John Pugh: I am John Pugh, the Liberal Democrat member for Southport, and under the coalition I was charged along with Sir Edward Leigh to report on the financial scrutiny to Parliament of the Government



HOUSE OF COMMONS

accounts. That was delivered during that period, and I think you have a copy of it.

Q262 **Chair:** Thank you very much. To kick off, what, in your view, is the main purpose of having published, annual departmental accounts?

Craig Mackinlay: That is a very broad question. In my view, it is so that after the event we can look back at how budgets have been met and how the public can perceive the performance of those different Departments. I think that the account should be presented in a way that is understandable to the user. The worry is sometimes that, with ever increasing size of accounts, with the new multitude of reporting standards, they have broadly become fairly unintelligible, apart from to those who are in that profession. I think there is a need for accounts to be understandable to all, and to hold Government to account and have Departments achieved what their objectives are. To me that is the purpose of these accounts.

John Pugh: Yes. I think you need accuracy about what has happened with the taxpayers' money, and that is a clear and obvious purpose and needs to be completely buttoned down, and so on. There is also a view that Parliament, who are also answerable to the taxpayer for the use of their resources, need to be able to understand what any Government has done, what Government expenditure has turned out like and what has happened within the basic administration of Government.

We are quite good in Parliament in spotting the outrages and quite good at spotting when things go wrong, or when things are badly overspent, and so on. What we are not good at in Parliament, and what is almost impenetrable to the public, is how Departments routinely spend their money and whether in fact they spend it well. That seems to me a critical oversight, and it seems that structurally in Parliament we are not very well set up to address that.

Q263 **Chair:** What makes our accounts inadequate or what is presented to Parliament inadequately in your view?

Craig Mackinlay: I would say there is a spectrum of good and bad across the different Departments. I know one of the streams of work by the FRAB was to look at the different departmental accounts and to score them in terms of intelligibility. Are they useable by both Parliament and the public? Some do come out in a good light: the DWP accounts, a copy of which I have here, have a lot of financial indicators and try to match pre-performance and objectives to what was achieved at the end of the day.

I think John makes a very good point: we always hear about the howlers that have gone wrong. Perhaps Parliament is not scrutinising published departmental plans before they are coming forward, and then does the published account reflect a true appraisal of whether that plan has been met? I do not think the complexity of accounting standards helps the user



too much in many respects. To many of us in Parliament, and that would be me included—I have an appreciation of the financial reporting standards, but for most parliamentarians I think it would be very complex to tease these apart.

John Pugh: Things such as the Clear Line of Sight project clearly show that the last two Governments have had an endeavour that is basically to try to make things clearer and more accessible, but they are dealing with very complex material and different reporting periods. What they really have not asked themselves—this is true when you develop an IT project as well as when you develop a financial project—is: how is the end user going to receive whatever it is they have?

It is perfectly possible for any Members of Parliament to go on the Treasury website and find huge amounts of data—in fact really too much data, you can drown in data—but not find it in a way that is particularly useable for them. I suppose you have to start with what might be the interests of Members of Parliament first and ask them when it is they feel they need look at accounts and what is it they are looking for.

I don't think those questions have really been asked. I think they have been looked at from the point of view of: we have numbers of accountancy standards; can we do some kind of synthesis? Can we do some kind of reorganisation? Can we provide people more accessible data? Not from the point of view of having that conversation with people like yourself as to why you would want this information anyway, and if you had it what would you do with it?

Craig Mackinlay: I think there is a tendency as well within all departmental accounts to put a rosy gloss on things, and that perhaps is not always what is really within. There is always that temptation in the Government, for obvious political reasons, to make everything look rather good, and to emphasise the good and gloss over the bad. I think that is the nature of the beast that we are in.

Q264 **Chair:** How should we separate? Why do we not have a much clearer separation between what is proper financial reporting and what is Government propaganda? I am sick of reading accounts that are just full of propaganda.

Craig Mackinlay: Yes. I think perhaps the National Audit Office could be more involved with a proper scrutiny of the performance report part of the full annual accounts, and to really audit: do those statements hold up with the rest of the rather more turgid financial statements? I think they do a bit of that, but it may be something that all Select Committees could be looking into pre-publication.

John Pugh: There is a sense in which any Government, when asked to make things presentationally easier for the average person, seizes an opportunity to put their point of view across rather better and provide those stats and statistics that it finds most favourable to its cause.



HOUSE OF COMMONS

Q265 **Chair:** This brings us to the Treasury Command Paper in 2014 setting out reforms to the Government accounts process, which proposed, or recommended, the practice of creating separate performance accountability in financial sections in the report. What is your view of this, and how is it working?

Craig Mackinlay: I think there has been some improvement. Just looking through the different departmental accounts, I do hold up the DWP ones as probably the best that we currently have. So there has been some action to streamline the accounts and make them more useable. If people only go through the first 40 pages, we hope they would have a reasonable appreciation of what else lies within. There has been some improvement, but some Departments—I think Defra particularly—are still rather turgid, not very informative, and do not really highlight the aims and how they have been achieved or how they have not been achieved.

John Pugh: We had a broader look at this on the Public Accounts Committee, looking at the different specimens around. It may have been a view that came from the Scrutiny Committee originally; the general view was there is tremendous variation. In other words, everybody has complied in kind, but not in precisely the same way or with the same degree of clarity.

Q266 **Chair:** Dr Pugh, you said that Departments should publish financial data in a more co-ordinated fashion. I guess that is what you are referring to. Can we explain what that means in practice and why you don't think the Command Paper reforms have achieved that?

John Pugh: I don't claim to be a complete expert in what the Treasury requires here, and the Treasury must speak for themselves about what they required. From the point of view of an ordinary Member of Parliament, and I am speaking largely from the point of view of an ordinary Member of Parliament here, if you look at each individual document from each individual Department, broadly speaking the same data will be there but presented with more or less ease to the person looking at it.

Q267 **Chair:** What should we be able to learn by comparing national performance?

John Pugh: I think it would be very useful if your Committee were to point out the best practice and recommend it more broadly.

Q268 **Chair:** Which Department should we look at for best practice?

Craig Mackinlay: DWP would be a good place to start, and it is one of the biggest set of accounts in terms of expenditure departments. I think they have got to a pretty good place rather more quickly than others.

Q269 **Chair:** In particular, what do they do in there that is of value?

Craig Mackinlay: They have separated it into three major sections and quite a readable performance report with stats. Whether they are



accurate is perhaps something the NAO would want to look at a bit more carefully, because it is obviously going to put the gloss on the good. Then you get into the full financial statements, which I am sure but a few would even delve into. The important thing is a performance report. There is more that can be done across all Departments to make that the readable and understandable part of these reports. As I say, Defra's was not particularly good on that side of things.

Q270 Marcus Fysh: How accessible do you think these governmental reports are to non-specialists in accounting?

Craig Mackinlay: I would say non-specialists would really struggle with them. But we need to get to: what are these for? There is obviously a statutory requirement to present departmental accounts. Beyond that, I think there is perhaps a lot of time being spent on putting these together without really understanding what is the point of them to the user. I am particularly interested in the Single Departmental Plan that has come forward on a regular basis, and they are sometimes changed midyear, often put together by the permanent secretaries. That should be the start point of: are they the vision that the users of these Departments would concur with, and then after the event do the accounts sustain what was the vision for the year ahead? I do not see much of a linkage as to whether that vision was achieved.

That is something the Select Committees could get far more involved with, perhaps assessing the great claims in the Department plans for the year ahead. Are they sensible and achievable? Are they doing things that the public would expect? Then look at the accounts after the event and say, "You made this statement"—just plucking one out here from the DWP. Number 2, "Increase saving for and security in later life." Do the accounts then reflect a report on how that vision has been achieved?

The trouble with a lot of these accounts is looking backwards all the time. I know the Public Accounts Committee often look backwards about what has gone wrong rather than being on the front foot a bit more as to can things not go wrong at an earlier stage?

Q271 Marcus Fysh: One of the ways in which Parliament should be holding Ministers to account is exactly that performance on their future plans, I would posit. In those terms, what would make these accounts more accessible to Members of Parliament who, on behalf of the public, who you mention, will typically be the ones trying to scrutinise these accounts—because most members of the public do not have the time or necessarily the wherewithal to want to devote to it? What do you think the main way is that we can make them more easily accessible to Members of Parliament?

Craig Mackinlay: I think that is a very expansive question. I do not suppose many people on any of these committees have delved through lots of these departmental accounts after the event. It might be a good



idea for all Parliamentarians who serve on Select Committees to have a bit of training, frankly, on what they are looking at.

We are moving towards trying to get the Government to copy best practice in the wider world of PLCs. You can have a debate as to whether that is at all sensible, but all organisations have to comply with international financial reporting standards, so there is a movement towards commonality so that anybody who is familiar with PLC accounts should have a similar familiarity with the Government accounts. That is what much of the work of the FRAB is trying to do.

To make these more accessible—I think the issue is almost too complex to make them entirely accessible—but what would be useful is that these performance reports that we are increasingly seeing are a good reflection of what has happened, and that would be a good start point for people to understand these accounts.

John Pugh: I am not convinced they are not accessible, but I am not convinced they are accessed; we cannot judge how accessible they are until we know who is accessing them and using them. I think they are piled up on bookshelves across the place, but not really used effectively.

You used the word “time” a few minutes ago. Is there time to do this? Frankly, there is not time in most committee’s calendars, I do not think, to look into this document, or look into any documents provided. We have had a history of “estimates days” before Select Committees, and I do not know how it proceeds in every Select Committee, but a good number of the Select Committees that I have attended that have had their estimate session have been utterly consumed with policy and discussing the policy with the permanent secretary. When Members have seen fit to raise issues regarding the more boring and pedestrian aspects of the accounts, they have had to receive a written answer because the permanent secretary has come unprepared for dealing with that at all.

Q272 **Marcus Fysh:** Yes. Just to come back to your comparison with international reporting standards on financial statements, one of the important factors that I found when analysing those in a previous business life was always trying to start from the end where the notes are, because the notes are where you see what has really been going on, and you can look at cash flow and the rest of it. To what extent do these governmental accounts provide notes that allow you to look into what is behind the headline numbers?

Craig Mackinlay: We have a huge problem, really, because Governments really work on annual cash. Broadly, they work on annual cash, cash allocations for the year ahead, and budgets on that way, and yet the financial reporting standards are trying to, quite correctly over years, make sure that every set of accounts account for every single liability.



HOUSE OF COMMONS

There has been for years and years and years the tendency to try to hide liabilities, and that is what a lot of the new IFRSs are trying to get into accounts. One of the current ones that we are looking at on FRAB would be how you account for leases. When is a lease a proper lease and really a loan by another name, or is it a true operating lease? Governments with PFI; what is PFI? To many I would say it is a liability and a loan that is being paid back at its appropriate interest rate.

When there is a grant to a local authority, how is that to be accounted for if the repayment terms are at effectively a zero rate of interest, but there is an implicit transaction there that would be recorded in the real world? A lot of this is trying to make sure that Government accounts do take onboard proper liabilities, whether it is leases, pension funds, PFI contracts, and to determine losses and impairments when they do arise.

We do have a conflict, because in our minds everything is on a cash-annual basis, so to try to reconcile that budget with the outturn is a very complicated reconciliation that I think few would ever understand. In the ideal world, honesty with cash would be the reflection you are looking for, but because people have skated around it for too long that is why we have a new host of IFRSs trying to get liabilities where they ought to be.

John Pugh: In the job of scrutiny, you are inevitably going to come across a situation where whoever is preparing the materials for scrutiny does not want you to scrutinise much further. There will always be this element of devolving. Wherever we go, whatever situation we get to, there will always be a role for intelligent interrogation by Members of Parliament of the accounts. That will always be a complex role, and there needs to be time assigned for it.

Q273 **Marcus Fysh:** On that, Dr Pugh, in 2012 you made a report into the parliamentary scrutiny of Government finance, and you mentioned resource accounting as potentially one aspect that could make accounts more open to scrutiny. Can you explain how that would work?

John Pugh: The resource accounting is, I think, more or less the industrial standard kind of thing you would expect in a well-formed company and so on. It obviously has certain complications, but you do have a general idea of the assets and the viability of a Government Department like that that you do not have through other processes.

Q274 **Kelvin Hopkins:** Mr Fysh has touched on the skills of MPs or otherwise, but peering a bit further into that, isn't it a fact that many MPs are simply not sufficiently numerate, let alone being skilled in accountancy? Ministers bamboozle us by talking up small numbers of millions when they want to say they have spent more, and glossing over some more significant numbers of billions, because most MPs are a bit confused as to the size of billions and millions.

I used to teach economics, and that was one of the problems with the students: they did not really understand that. Having some basic



HOUSE OF COMMONS

numeracy, an understanding of what GDP figures are, what proportions of GDP are spent on what, and that kind of thing would give them a starting point, but many MPs do not have that. Wouldn't that be a good start?

Craig Mackinlay: I think there is a role to be had for some training sessions to get a better understanding of what we are all looking at. I think that would be a very, very good place to start. Yes, indeed.

John Pugh: I think there are going to be some people who will never want to interest themselves massively in boring financial detail, but I cannot honestly say that this place massively encourages you to do so. I can claim—and I know it is in Hansard—on “estimates day” to have endeavoured to speak about the estimates, and to have been ruled out of order by the Deputy Speaker at the time on the grounds that I was speaking off-piste, as it were.

I cannot remember what we talked about—there were millions and millions of pounds on the audit paper, billions of pounds on the audit paper—but we talked about general policy stuff and that is generally the tenor. There are Members who will never have any interest in the sort of esoteric topics we are talking about now, but the opportunities for them to do so are fairly limited in this place, I would say, except, I accept, these budget meetings where people talk about headline matters.

Q275 **Kelvin Hopkins:** Isn't it the case that Ministers do not want us to worry ourselves about all these numbers—just let them deal with the policy?

Craig Mackinlay: It is the nature of modern politics and very much media driven. It is all the excitement of the day, rather than the drudge of rather boring accountancy figures. I think all Select Committees unfortunately have slipped into that a little, wanting the sound bite of the day rather than some of this more dull work, which could serve the public rather well.

Q276 **Kelvin Hopkins:** If there was a bit of training—I am suggesting this—our MPs would be better able to hold Ministers to account?

Craig Mackinlay: Absolutely. Yes, yes.

Q277 **Kelvin Hopkins:** A second question. Professor Heald suggested to the Procedure Committee that the spending review estimates and accounts should all be put together on the same basis. What does this mean in practice and why is it important?

Craig Mackinlay: I will pass to John. I think he might have looked at this a bit more.

John Pugh: I cannot answer that question.

Craig Mackinlay: I have not seen the report, unfortunately.

Kelvin Hopkins: Perhaps we can take a rain check on that and have some explanation later on. I will not pursue that one anymore, Chairman.



Q278 **Mr Andrew Turner:** You told us what your role is in the FRAB. Who does the FRAB consult when coming up with changes to the standards?

Craig Mackinlay: You have generally accepted accounting principles, which we have had applied in the UK for many years. You then get an EU dimension to it to try to have a bit more commonality across the EU institutions, and then you have the international dimension, which things have increasingly moved towards.

The international board comes up with international standards, and then they get translated locally into international financial reporting standards. The FRAB brings together—you have the head of ultimate finance on the NHS, you have heads of finance on the devolved Administrations, it is now chaired by what was a Big Four accounting chap, the NAO are on there, and you have the accounting standards board. There are about 20 different members on there.

A lot of them are the people who would be putting accounts together rather than the ones who may be the users of. If there is a deficiency on FRAB it may be that we are light on people who are there to understand the accounts rather than those who are charged with putting the accounts together. We have long and very technical discussions about, let's say leasing, just as an instance. We have had a couple of sessions now, I think generally they go on for two or three sessions before we settle, so it may be a year before we settle on what should be the policy across all of Government accounts.

Often there is a headline date, say 2018, where a financial reporting standard is on the horizon before it needs to be implemented. In some cases it is just inappropriate to use them for Government accounts because they are fairly meaningless. I think leases has really put it into focus as to what should be on the balance sheet of the Government, whereas before a lot of leases were not.

We have very long technical discussions about how we can implement them within the accounts. Also, we have discussions about what is the boundary of consolidation, because we have whole of Government accounts that seek to consolidate the entire Government, and we have discussions about where that boundary lies. Is it at local authority level? Does it go down to schools—which it does—and academies? Should it extend to third-party private institutions that are charged with delivering parts of the Government agenda?

If there is a loan between Departments and one has decided to impair it that should obviously be reflected on the other party. These are trying to put whole of Government accounts together, which are often very, very late, often over a year, if not 18 months, after the accounting deadline, and probably by the time that has happened things are long, long gone. It is trying to bring common sense to what is a fairly complex, technical background that the world of accounting has to deal with with bigger international organisations.



HOUSE OF COMMONS

John Pugh: Please do not run away with the idea that I am an expert on the world of accounting; I am only looking from the point of view of what an MP can and cannot understand. Frankly, in this place we do not need to understand local government accounting in particular. Local government accounts are an example of something that is pretty well scrutinised within most local authorities by somebody, and presented in a far more clear-cut way than the national Government accounts.

Craig Mackinlay: Sorry, I must say that Treasury is obviously heavily onboard with those meetings as well.

Q279 **Mr Andrew Turner:** Yes. How could annual reports be set out to make it easy to compare actual performance in the year against a Single Departmental Plan?

Craig Mackinlay: I think that is the Holy Grail that we are after. Who put together the Single Departmental Plan? That is often the permanent secretary, obviously working through Ministers, and I would like to see the NAO more involved in analysing that plan and the outturn in the final performance report. As I say, there is always a tendency within the Government to gloss the good and ignore the bad, and I think we do need to make sure that accounts are warts and all, and even the bad is highlighted, because I think that is the means by which improvements can be made.

Q280 **Mr Andrew Turner:** Part of our inquiry focuses on management accounts. How important is it that Parliament receives reporting during the year, for instance? How could this information be better informed?

Craig Mackinlay: I have not had much experience of what management accounting is going on. They are not published. They are not generally for public consumption. I can only imagine that the quality of those across different Departments would be very, very variable. These are very important, I would assume, to Ministers, but I have had no experience of what they are actually looking at and whether they all follow a similar formula. That might be an area of work you might want to look into.

John Pugh: I think Parliament getting more frequent reports will meet the same problem. We were talking about Parliament as this kind of abstract beast. Who is going to plough through the data at the end of the day? If there is nobody there to do it, you can have as many reports as you want.

The average local authority would have something the equivalent of a Policy and Resource Committee, a Cabinet Committee would receive monthly reports and they would spot variations. They would spot where things are going wrong, and they would be mandated to do something about it, or be expected to do something about it. There is no such beast in the House of Commons at the moment. Essentially what we are talking about is the Vote Office will get a copy of them, and some people will or will not go and pick them up.



HOUSE OF COMMONS

Q281 Chair: This is a very interesting area, and we are going to question the Minister much more about this later on. Select Committees receive estimates, and we scrutinise the estimates. Some officials from the House Service provide us with the scrutiny, but that is it. We do not get any management accounting information.

What would be the objection, for example, to producing quarterly results like a major quoted company, with performance data about individual programmes on a quarterly basis, showing the original budget for the programme, the progress against that budget and the projected outturn plus or minus? The House Service would have to develop the capability to scrutinise that and put that information in front of Select Committees on a departmental basis. What would be your opinion of that forward-looking scrutiny as opposed to merely the retrospective scrutiny?

Craig Mackinlay: I have experience of local government. I was the chairman of the Audit Committee in Medway, a unitary authority, and you had various overview scrutiny committees. I would imagine every local authority does look at quarterly outturns and how that is progressing against budget. It is not easy but it is doable at the local authority level, but we do not seem to be translating that within Parliament.

Q282 Chair: What kind of admin support would a Select Committee need in order to do that on a quarterly basis so that the information can be deciphered and the important variances highlighted and related to policy success or failures?

John Pugh: When we did our report on financial scrutiny we did think that the Scrutiny Department was probably the only vehicle that was going to do it properly, but it was probably not sufficiently tooled up or equipped to provide that level of service to every single Select Committee at quarterly intervals. It would need to be a bigger beast, more comparable to ones you get in other jurisdictions than the one we have in Parliament.

Craig Mackinlay: In your evidence you suggested a new budget committee, didn't you, as a potential new beast that looked at all the budgets across all of the different Departments?

John Pugh: Yes, that is another way of doing it. There is more than one way to skin a cat, as it were. You could have a dedicated committee, or you could have a specific time allotted to a Select Committee and a mandated duty upon them to do precisely the same task as a budget committee. We thought that probably a budget committee would attract the people with sufficient forensic intelligence to want to go further into it, whereas Select Committee people tend to go on because they are interested in the topic. They are interested in transport, not necessarily the finance of transport. They are interested in local government, but not necessarily the finance.

Q283 Chair: In the United States, for example, the Congressional Committee is via amounts across budgets. They approve programmes or refuse to



HOUSE OF COMMONS

approve programmes. We are still a million miles short of that in our Select Committee system. What would be the advantage of encouraging Select Committees to divorce themselves from the scrutiny of management information and financial matters in their Departments by taking it away to another committee?

John Pugh: That is a valid argument, but you have to look at what actually happens in this place from month to month. Select Committees, I think, without being disparaging about them, tend to be rated these days depending upon whether or not they attract the headlines and whether or not they are dealing with a topic of the moment. They almost mark themselves not on the ability to churn through the numbers of their Department but on their ability to get a good headline from a good issue. That has been a distraction, I think. We would have to alter the culture a little bit of Select Committees, and some Select Committees do struggle to get membership or to get membership to attend. I think if we made it a rigorous financial exercise this may or may not have a good effect, but I would not like to anticipate it.

Q284 **Chair:** Yes, I understand that. But as Select Committees evolve and take on more work the number of hours that Members of Parliament have to devote to a Select Committee does not go up. What happens in other jurisdictions, and notably in the United States, is the Select Committees, their congressional committees, have far bigger staffs, and the committee is more like a board of directors supervising a stream of work rather than actively doing the work. The scrutiny already works on that basis. The information is scrutinised and produced for others to use on an independent basis, but why wouldn't that be a good system for the House of Commons to adopt?

John Pugh: I think it would be a good system, but it would probably require a level of resource that we do not currently have. I think the Treasury have all the resource they need at the moment to monitor more or less what is happening in most Departments. There is no argument about how efficiently or forensically they do that. Nonetheless, they have the capacity. Parliament, as the other respective Government, is unfortunately denuded of that level of resource.

Craig Mackinlay: There are a lot of staff in the Treasury; you would know that yourself just walking through. There may be a good argument to be made for two people to be allocated from the Treasury to each Select Committee to do that type of forensic work on behalf of the committee. I do not know about the constitutional arrangements in the US, but I think the country that seems to be fairly good at producing accounts to do Government consolidations, and to do that type of work well, is New Zealand. I would recommend you look at how they have made their arrangements there. It is quite an exemplary country for doing the job well, and it is worth looking at.

Q285 **Chair:** Thank you for that suggestion.



HOUSE OF COMMONS

In terms of the attitude in Whitehall towards good management accounting information, we have had a long history. I recall Michael Heseltine 30 years ago introducing MINIS. Thirty years later we have a litany of evidence of the inadequacy of management accounting in Whitehall and Sir Amyas Morse was complaining that nobody seems to care about management information and that it would be nice before you start your surgery if you knew where the heart was. Why do you think there is such a lamentable attitude towards good management accounting information across Whitehall?

Craig Mackinlay: The difficulty is nobody has been willing to grasp the nettle on putting the appropriate computerised system, or whatever is needed, in place. There are huge megacorporations across this world that do manage to do management accounting on a regular basis, and they pretty much know where they are within a week of a period end. There are some huge organisations with multibillion/trillion pound budgets and turnovers.

Systems do exist out there; it is whether we have the will to invest in such a system and pull it together. I do not know what happens across different Departments, but you can probably be sure that some of the information is residing on spreadsheets here and bits there, and there is nothing really pulled together that is commonality across the whole of the Government Departments.

John Pugh: When we did our report, we were quite pleasantly surprised by the willingness of people within the Treasury to make Parliament a more effective scrutineer of the Government accounts. I do not think there is any resistance on the civil service side to providing more management information. I do not think they are reluctant to do so, and we are quite happy to share it. I think there is a political culture issue, which is that the Government have been seen increasingly over the years as very much about changing things, altering things, introducing new initiatives, and not about running things. The Government run huge budgets year in/year out, but this unglamorous side of politics, as it were, is not something that advances a ministerial career.

If you run your Department extraordinarily well and efficiently, you are not going to get the same kudos as if you had come up with a startlingly new initiative. We are as much to blame for this; we have not interested ourselves sufficiently in this place in the aspect of Government that goes on year to year, because most Government does not change. We talk about Government initiatives, we talk about green speeches, we talk about new developments all the time, but frankly an awful lot goes on all the time unchanged, runs from Government to Government, and largely un-scrutinised as well.

Craig Mackinlay: The vanguard Department in a lot of producing accounts is obviously Department for Education, because they are now trying to even pull in academies within the boundary of accounts, and academies being, to all intents, fairly independent organisations, they



HOUSE OF COMMONS

have their own audits, they could be using a variety of accounting systems, to get a commonality across the whole of the Government boundary would be a big ask. Talking quite frankly, we do not often make a very good job of implementing new computer systems.

Q286 **Kelvin Hopkins:** But academies are publicly financed.

Craig Mackinlay: Of course.

Q287 **Kelvin Hopkins:** The Government have an interest in—

Craig Mackinlay: No, absolutely. What I am saying, Mr Hopkins, is that you could have academy X using spreadsheets, academy Y using some off-the-shelf proprietary accounting programme, and academy B using one that is used by most.

Would the Government want to impose commonality right the way through the Government boundary for the only purpose of producing end-of-year accounts whereas they may be running very effectively with what they do? Are we focusing too much on the outcome of producing a very rapid set of accounts, or are we more interested in these organisations running their own little affairs very well? That to me would be the important thing. We have a conflict there.

Q288 **Kelvin Hopkins:** Could I pursue that, Chair, for a little while? I have just been on a Bill committee about further education, and there are concerns about organisations that are essentially publicly funded getting out of control. That has happened on a number of occasions in recent times with chief executives or even head masters, head teachers, paying themselves vast sums of money and whatever. Government want to keep an eye, want to keep tabs on these organisations, so it is right that they do take a positive interest in them and want to know what they are doing.

Craig Mackinlay: Absolutely right. There have been discussions going on for many years. Where does an FOI request go down to? Does that go into more private bodies that are in receipt of public funds? This discussion is not new as to what is the influence of Government?

John Pugh: The more encompassing the Government accounts are, the more we demand full Government accounts, the more likely it is that the time flow of information getting back will not be adequate in time. I think this was the problem with the education accounts. I do not think there was any insinuation there was falsification of data or anything like that, it is just the information could not be collected and back in time. The same reason why the European Union Council have not qualified very often, largely because nations states do not get the information back in time for it to be done.

Q289 **Chair:** It is odd, isn't it, that the Treasury breaks heads every public spending round to force Departments to accept draconian spending totals and limits, and then the system takes so little interest in the ongoing process of spending the money. Why do you think it is like this?



HOUSE OF COMMONS

Craig Mackinlay: Perhaps you are asking the wrong people. I really cannot help you there, Mr Chairman.

Q290 **Chair:** What would you say to the idea, as we now have these non-executive directors of boards of Departments, that we give those so-called directors some fiduciary duties, one of them being to ensure that there is adequate management accounting in Departments? What would you say to that suggestion?

Craig Mackinlay: I would not disagree with that suggestion at all. I think it would be a rather good one.

Q291 **Chair:** What do you think of a suggestion given to us by Ed Poole that accounts should report back on whether announced savings were achieved and whether the Government's announcements about how much money is being saved was actually saved?

John Pugh: It is bizarre that it does not happen, because in any tin pot local authority, or not major local authority—I should not say tin-pot local authority—small local authority, that is precisely what would happen and what would need to happen, because they would know that on a finite budget reaching a finite conclusion at the end of the year they needed to find that money from somewhere else. Simply not to own up to the saving would create a knock-on problem. In Government accounts it doesn't in the same way, because we do not have the same rigorous procedures applied.

Craig Mackinlay: You have a problem with what does "saving" mean. You have two aspects to "saving", in my mind. It would be physically spending less, and doing less, and just doing do things differently, or you have the classic Gershon savings of doing the same thing but saving the money through doing it. What is a saving? Is it doing less, spending less, or is it doing the same things more effectively. I think you have two strands of saving, but you are quite right, Mr Jenkin: what does saving mean and how is it being assessed? Is it something the NAO should be reporting on after the event? You are quite right, we have had, particularly under previous Administrations, the same money being trumpeted twice and the same savings trumpeted twice or three times, but all Governments are tarnished with this.

Q292 **Chair:** In a local authority, tin pot or otherwise, the scrutiny of the Overview and Scrutiny Committee is supported by what staff? Is the staff independent of the local authority in some way so that they—how is the actual work of scrutiny conducted by staff for the Committee? How is the independence of that work guaranteed?

John Pugh: The preparation of the data is normally down to the director of finance, precisely the same person who will provide the information to the executive, but they are under—and have been put under by central Government—strong rules, reporting rules, which mean that they cannot gloss over problems that are there. In a sense, we have made a desirable regime for local authorities, which we have not emulated at central level.



HOUSE OF COMMONS

Certainly, although scrutiny can have its own arrangement and its own back-up in local authorities, by and large it is the same officers providing the same reports as the executive.

Craig Mackinlay: No, the reality is quarterly reports at local government level are not audited. The councillors are fed what the finance director and the finance team have put together. It is up to the audit committee to make inquiries should they have concerns, but then you have the independent end-of-year audit of which the audit committees can direct the auditors to look into areas of worry, should they have any. Your reliance, at the end of the day, is on an independent auditing firm to do the end-of-year accounts. Mid-term, no, you are reliant on the team.

Q293 **Chair:** This is very helpful. We could make a suggestion that the Government either resource the House of Commons more effectively so that we can carry out that work under the auspices of Select Committees, or that they set up a unit in the Treasury to do that work themselves and then give it to us. Which would be more reliable in your view?

John Pugh: Treasury, I think, endeavours to get things right, and certainly if you look at Treasury predictions versus OBR predictions there is no evidence that Treasury gets things systematically wrong. I suppose it would serve having a huge counter organisation bound by Treasury.

It would probably be better to have some sort of system whereby the Treasury assists in the scrutiny process, but it would have to be overlaying with a set of principles that permanent secretaries need to follow as to how they approach Parliament, what they can say to Parliament, what they can do when there is a conflict between what they would want to say and what they Minister would want to say.

You do have that situation in part in local government because the director of finance, his job hinges on him not saying anything that is deliberately falsifying, or misleading, or confusing, and on the local authority reaching a balanced budget. As it were, he can show an executive the red card in circumstances where things are going badly awry. There is no parallel to that in the Treasury. I think the Treasury just simply has to do what the Chancellor asks it to do.

Q294 **Chair:** Very good. Gold dust, if I may say so, because I think in that last answer there was an awful lot we can draw on. Is there anything else either of you would like to add? Any particular recommendations?

Craig Mackinlay: I would perhaps recommend the Committee look at some other international examples of good practice, and I would recommend New Zealand being looked at.

Q295 **Chair:** Are there any other particular recommendations you want us to include in our report?

Craig Mackinlay: Just on your final question, I would think the Treasury are closer to the fire to provide the information, but Select Committees



HOUSE OF COMMONS

could have some additional support to do some of the independent forensic analysis of what is coming out of the Treasury.

John Pugh: I would just like to share with you the reaction from the Chancellor and the Treasury to our initial report, which is generally, fairly positive. But there was a recognition that the politics of delivering some of the recommendations were going to be rather difficult, because although some of the work we thought should be done, and was not being done, and the kind of work that you would like to be done, was all to the point and entirely relevant, it could be suggested—and in fact it was suggested—that the existing committee structure, maybe the Treasury Committee, and the Select Committee, and the Public Accounts Committee were in a position to do that.

I watched the Treasury Committee and the Public Accounts Committee obviously more closely since then, and it is still my considered view that they do not have the capacity to do that, simply because they are already taking on work that is sufficiently onerous and time consuming that if they do any more they will simply burn off every existing member.

Chair: Very good. Thank you very much indeed to you both. Please can we have our next witness?



Examination of Witnesses

Witnesses: Rt Hon David Gauke MP and Julian Kelly

Q296 **Chair:** Thank you to our two witnesses for joining us at this PACAC session on departmental annual accounts and management accounting in Whitehall. Please could you identify yourselves for the record?

Mr Gauke: David Gauke, Chief Secretary to the Treasury.

Julian Kelly: Julian Kelly. I am the Director General for Public Spending.

Q297 **Chair:** Mr Kelly, can you just describe what that means?

Julian Kelly: I look after the bit of the Treasury that does public spending, so helping the Government decide both where to spend the money, then making sure that Departments live within budgets or give advice where we think we need to do something differently. I lead the Government finance function, so I lead the group of departmental finance directors.

Q298 **Chair:** In your view, what—and I guess you are going to say the same thing in answer to this question—should be the purpose of published departmental annual accounts?

Mr Gauke: I think the purpose of published departmental accounts is to enable Parliament to hold Departments to account to allow a wider holding of account by journalists and the public more widely. They also have an internal role in terms of focusing the minds of Departments, and combined with other work that is done, enabling, if you like, a focus across the Departments on delivery of objectives and delivery of policy objectives and delivery of sound financial management. I don't know, Julian, what you would add to that.

Julian Kelly: I would to add that clearly publishing an audited set of financial statements does explain how much money has been spent in a way that Parliament then knows is a true and fair view. In addition, the bit we are trying to develop is the annual report side, which is the explanation of what has been done with the money and what has been delivered with it. I think that is just a gloss on then giving taxpayers and in particular Parliament the ability to hold Departments and the Government to account for the way the money has been spent.

Q299 **Chair:** How satisfied are you with the quality of what is published?

Mr Gauke: In terms of what is currently produced, there are particularly some Departments—I was flicking through a couple of annual reports and accounts yesterday in preparation for this—where it doesn't just provide dry information, which it needs to do, but also explains more fully and in a more digestible way the way in which a Department works, what its objectives are and how it delivers. Of course there is always room for



HOUSE OF COMMONS

improvement, but in terms of what is provided we are seeing improvements and I think it is quite helpful information. How much is used is no doubt a question that your Committee will be inquiring upon, but I think there is quite a lot of helpful information that is already out there.

Q300 **Chair:** Which Departments would you highlight as good examples?

Mr Gauke: I thought the FCO report was good; it was quite readable, quite interesting, and I thought the DCLG one, if I remember correctly, was also pretty good quality.

Q301 **Chair:** Perhaps you do not need to name the miscreant Department, but which one did you not like?

Mr Gauke: Those are the two I was looking at particularly, yes.

Q302 **Chair:** So you have not found anything unsatisfactory?

Mr Gauke: I thought they were helpful and good and useful.

Q303 **Chair:** Okay. Why do you think people don't find them very useful? You agree yourself that people do not seem to use them.

Mr Gauke: In terms of, for example, the parliamentary side of things, clearly one of the points that your Committee will be looking at is the degree in which Parliament uses it. I was up before the Procedure Committee and they were looking at supplementary estimates and the whole process and the way in which Parliament uses it. If there is more that can be done to ensure that proper training is available to parliamentarians, then that is clearly something that we should look at. I know the Treasury will be willing to help with that.

A lot of this is very detailed information and the degree in which there is an appetite to delve into this information is one that could be questioned. The information is put out there and in a way that is increasingly digestible, but if there is more that we can do to improve that, I will look for constructive suggestions.

Q304 **Chair:** A long way of saying what?

Mr Gauke: It is saying I think the information that the Government puts out is pretty good, although I should say Departments put out.

Q305 **Chair:** So why don't people use it more?

Mr Gauke: They could use it more and there is a case for us saying, "Look, here is this information. Do look at it. Do read it".

Q306 **Chair:** How does it help, cluttering up accounts with a whole lot of sort of guff that makes it look more like a Government White Paper, making the case for a policy, rather than just reporting the information?

Mr Gauke: Trying to ensure that there is a close alignment between the policy objectives and the financial rules is really helpful.



HOUSE OF COMMONS

Q307 **Chair:** No, we are both in politics. We know that when we put a leaflet through a door during a general election, we like to think we are giving the voters information, but we know we are making a case, okay?

Mr Gauke: I am sure we are doing both.

Q308 **Chair:** Why don't we remove from the Government's accounts all the propaganda, all the unnecessary clutter and why don't we just concentrate on the financial information and explaining that?

Mr Gauke: The financial information is very clearly there and there are sections of these annual reports where that is set out very explicitly, so if people want to ignore the other parts of the document, they can very easily do that. I don't think it is getting in the way, but to the degree in which Departments are held to account for saying, "Here are our objectives" then you can be assessed against those objectives, measured against those objectives, then I think that is helpful.

Q309 **Chair:** Can I just ask about civil servants: how much do civil servants use published annual accounts once they are produced?

Julian Kelly: In the Treasury we do use them, because there is information in them that is useful when we are talking/discussing with Departments on a variety of issues. Hopefully the stuff that is in the annual accounts is already, to a large degree, covered by what people have been doing through managing their Department week to week, month to month.

I would be surprised if the financial accounts themselves contained anything that should be new or news to the Department that it isn't already doing. The one aspect that I would say probably does not target that is the use of the balance sheet, getting Departments to think about—which they are doing—what assets they have, how they are using them and the other liabilities that they have and how they are managing them and the risks and opportunities that go with that. That in particular is the thing that Departments do use that they would not have in a month to month set of management accounts.

Q310 **Chair:** Wouldn't they be more useful if they had data that extended back over a longer time period on a consistent basis so that you could look at the accounts from last year and the year before, you could see consistently between each year's publication and also you could see in any single publication data going back say for five or 10 years?

Julian Kelly: In the annual accounts, in fact you do get the financial data at least for the prior year compared to the current year. We are encouraging Departments in the performance report to set out trend data where that is relevant and helpful. It is always the judgment about—as you yourself just said—how much data you put in and it being useful and not completely confusing.



HOUSE OF COMMONS

That is always the challenge, not just in public sector accounts, but any set of accounts. If I take the set of accounts for which I am personally responsible, the Whole of Government Accounts, increasingly we are putting in five-year, six-year, seven-year trend data as we get to each subsequent set of accounts.

Q311 Chair: Does the Government know how much it costs to produce annual accounts?

Mr Gauke: It is quite hard to isolate this, to have robust measurement, because it is not really a stand-alone exercise. You have people who are working all the time on dealing with financial management, so a small part of what they do is this. We could have guesses, but I am not sure that they will be particularly robust.

Chair: Do you have a view on that question?

Julian Kelly: We have done a survey that tells us at least how many people in Departments we think are involved in producing them, but I don't think that captures the full cost, because in some places there will be additional professional service support. I am not sure it is an entirely accurate number.

Q312 Mr Andrew Turner: What is the purpose of the changes announced in the Treasury Command Paper in 2014?

Mr Gauke: Which specific changes are you—

Mr Andrew Turner: In 2014 Treasury published a Command Paper setting out reforms to the Government accounts process. The Command Paper set out a new division in the annual reports between performance accountability and finance.

Julian Kelly: I think this is the simplifying and streamlining work that we did, where the aim has been—as I described earlier—first, to go to one of Mr Jenkin's earlier comments, to get Departments to focus on what is material, to get rid of pages of, for example, disclosure notes, many of which when you really look at them are not completely material, so to slim it down, to help readability and its usefulness.

The second thing is then get Departments not just to say how much money has been spent, but upon what it has been spent and what they have delivered. That essentially is the kind of front half, the performance report. Now, again, the purpose has been to try to provide an account for how the money has been used, so that in one place once a year you have an account of how the money has been used, the sort of governance arrangements within a Department and its control, what we call the control environment, and that that is robust, then finally the audited set of accounts, which set out exactly what money has been spent.

Q313 Mr Andrew Turner: Which users of the accounts did the Treasury consult in making these changes?



HOUSE OF COMMONS

Julian Kelly: We spoke to, as far as I remember, the accounting firms; we spoke to people like the Liaison Committee; we did speak to some of the clerks of the Select Committees and the PAC and then numerous various outside bodies and Departments themselves.

Q314 **Mr Andrew Turner:** What change have you observed in the way that people use accounts since the new formula was brought in?

Julian Kelly: To be honest with you, time is still to tell. In the end, the key place where I think Departments will be held to account is in their departmental Select Committees. I have been before the PAC at least three times on the Whole of Government Accounts and they are challenging me every year as to what these accounts say and indeed how we can improve them, how we can improve their usefulness, the explanation of what risks and liabilities we have and how we are managing them.

Q315 **Mr Andrew Turner:** The NAO audit the financial information in the accounts. Who gives Parliament assurance about the performance information in your annual accounts, in your annual reports?

Julian Kelly: In the end, that is the responsibility of the Department to make sure that the information it is publishing is true and fair and not misleading.

Q316 **Marcus Fysh:** I wanted to ask about the readership of these accounts. Do you keep any information about who looks at them, other than your good selves in the Treasury? I am interested also in to what extent they are read and used in the Treasury. You touched a little earlier on some of the things that you use them for in terms of the meetings with the Departments to see how they are doing, but how wide is the readership?

Mr Gauke: Just to follow up on what I was saying, obviously it is available to Parliament and Select Committees, but you have academics and international bodies and the general public. Coming back to the simplifying and streamlining project that we were just discussing in response to Mr Turner's question, there were something like 60 responses to the consultation on that, so it does suggest there is some interest out there. It is obviously available on the gov.uk website in terms of the departmental accounts, so I suppose we could see what information we have as to how many people are accessing it from gov.uk. Those are the groups, and of course the general public are therefore able to access it, but we can perhaps look to see what the sort of number of people downloading departmental accounts would be on that website.

Q317 **Marcus Fysh:** My understanding is that Treasury is the function within our constitutional affairs that is holding the Departments to account for their different spending through the year, but this does tend to happen once a year potentially rather than throughout the year. Does the Government use these departmental accounts? Could they be structured in a way that is more useful for either you or other organs like Select Committees to be able to try to monitor performance through the year as



it is going along and try to drive efficiencies in spending through the year, as opposed to between the accounting periods, between the budget analysis periods that are the normal way Treasury goes about it?

Julian Kelly: First I would say in our relationship to Departments, we aren't just having this conversation with them once a year. The financial accounts are a statement of the financial position very much at a point in time. The conversations we are having with Departments go on day to day, week to week, month to month. The information that we are using is the monthly financial information they give to the Treasury, supplemented by the information they are giving to their executive boards or whatever the sort of governance arrangements are within Departments, which will cover a broader range of things: their performance, project delivery, management of risks and things like that.

In terms of the way we work within Government, that is not just once a year. It is, "Where are you on your plans on delivering the efficiencies you said you would deliver, on meeting your performance goals? Where are we on the big transformation programmes that will deliver future efficiencies or improved performance?"

There has been a question as to how often information is given to Parliament. For us, the core document is the annual report and accounts. We have historically produced a mid-year report. We have recently stopped doing that, with the agreement of the Liaison Committee, in part because it is still quite a lot of work and it wasn't obvious it was being used a lot. It was, "Let's at least focus on once a year having a very clear statement".

Increasingly we are trying to make sure that we have a clear link between published departmental business plans, what we call the single departmental plans, the accounts in the annual reports, which say, "How have you done against that?" and making sure that is also lined up with what we present in terms of the estimates, so where the Parliament votes the resources in the first place, so that you can just follow it through. I think it takes a while for that to continue to mature, but that is what we are trying to do.

Q318 **Marcus Fysh:** How useful do you think that the current way of presenting things is to non-accountants? Because some MPs are more well-versed in being able to read financial statements and their notes or the like than others. If Parliament were to have more of a role in helping you, perhaps with some support from your officials to scrutinise it, then that would be something to think about, would it not?

Mr Gauke: Can I just come back to the point in terms of making this something that is easier for Parliament to scrutinise? To some extent this has to be a matter of ensuring that parliamentarians have the sufficient skills and experience to be able to do that. One can only simplify these things so far before the information no longer becomes as useful as it should be. I come back to the point I was making earlier: to the extent



HOUSE OF COMMONS

that there is a need for improved training for parliamentarians, this might be something for the NAO to lead on, but certainly from a Treasury perspective, if there are steps that we can take to help that, then I am sure that we would do that.

Q319 Marcus Fysh: Just to take an example, with the way we look at statistics, that is now governed by a particular code on impartiality and objectivity and integrity. What can we implement, if anything, that is similar and how does work at the moment for the way that departmental accounts are managed? For example, in a local authority you will have an audit process that sits around the local authority accounts. Is there something similar with a third-party authorisation to some degree or ability to review and enquire on the departmental accounts side?

Mr Gauke: I suppose accounting officers do have to personally sign off accounts, so there is a degree of accountability there. Of course when it comes to independent audit and scrutiny, we have the National Audit Office, who obviously perform a vital role. That is certainly something that I am very conscious that civil servants are very well aware of, that the NAO looks at these matters and that really does impress upon the culture of Government Departments.

Julian Kelly: The financial statements themselves are clearly governed by a set of rules and standards and they are properly audited. I think the area where we just need to keep on improving, and we will improve faster is—much like this process in the Committee—as people start to use them and if they use them to question what is in the accounts and ask questions and even start to ask for certain bits of information to be included on a regular basis.

When the kind of challenge and demand comes, it definitely helps people focus on what they need to sharpen up, in particular in the first half of the accounts, which is the performance report, because that is the bit where you can explain, if necessary, in simpler terms or in summary terms, the story that the financial statements tell.

Q320 Marcus Fysh: To what extent do you think that that is capable in the future of including forward-looking assessments, so when you are looking for value for money out of the performance or the management of those particular Departments, you would have a budget that looks ahead in mind? Is it possible for us to look at a system that might be able to share some of those forward-looking plans and help us to make sure the Departments are delivering against those plans as well?

Mr Gauke: We have the single departmental plans and they are, by definition, forward-looking. They are the way in which a Department sets out what its strategic objectives are going to be, a high-level summary of its commitments and key programmes and key performance measures or a narrative to track progress. That is the opportunity, I think, and this is definitely a step in the right direction, whereby Parliament and outside bodies are able to hold Departments to account, because they are setting



out their plans and then can be measured against delivery on those plans.

- Q321 **Kelvin Hopkins:** Just to reassure me on a very basic, simple point—I am not an accountant, economics in numbers I can do, but accountancy is something else—it is fundamental to our democratic system that we have good accounts presented to Parliament so that Parliament, on behalf of the citizens, can hold the Executive to account. If the accounts are not good or we play them down and they are not important anymore, we marginalise them, that is going to weaken our democracy. Isn't that a fair point?

Mr Gauke: I certainly think that accountability for public spending is very important and good accounts are a key part of that, so yes.

- Q322 **Kelvin Hopkins:** The fact that you have to report to Parliament suggests that it imposes a discipline on Government to look at the numbers and not to try to obfuscate or mislead us and to present something, despite the fact that there is a degree of political presentation of them.

Anyway, that wasn't my question. If I move on to my question, which is should accounts contain information about Government programmes, such as the Troubled Families programme, for example, disclosing the performance of financial data about Government projects like Trident and HS2 against milestones in budgets? I use Trident and HS2 in particular because it strikes me that Government, time and again, talks about positive things in terms of small numbers of millions and glosses over or hides projects that cost vast amounts of money, in billions, which is because there is a political will to drive these things through and money is not the concern. Is that a fair point?

Mr Gauke: I don't think it is a fair point. I think you are absolutely right to say that all spending should be spent wisely and that there is an important role for scrutiny. There are circumstances where, for example, there might be management information that it is very difficult to reveal because of particular sensitivities, whether they be commercial or whether they be to do with national security. But in terms of holding Departments to account, projects clearly need to be included as part of that.

- Q323 **Kelvin Hopkins:** Specific Government programmes we are talking about. Isn't it the case that HS2, for example, the off the record estimates—possibly leaks even from inside the organisation—suggest that the total cost will be double, treble or more than the publicly-known figures? We ought to know more about what is going on inside the programme.

Julian Kelly: One thing that it is worth saying is that the Government publishes each year a report on how, what we call the Government's major programmes—in which HS2 would be included—are doing. We publish that about the time we normally publish all the annual departmental reports and accounts. We do produce a report that sets out



HOUSE OF COMMONS

progress across the whole portfolio of the Government's major programmes.

Q324 Kelvin Hopkins: I have to say that if HS2 goes ahead—if—I would be interested to see what the financial outcome in terms of costs will be, rather than compared with what is being assessed now, suggested now.

The TaxPayers' Alliance told us that accounts should be organised by policy priority rather than by internal departmental functional unit. What is your view of this suggestion? Why not both?

Mr Gauke: There is one point I would particularly make, which is this issue of accountability. I come back to an earlier point I made: that accounting officers have to sign off accounts. One thing I think we have to bear in mind with that process is that there is a clear level of accountability in terms of the period of spending by a Department and signed off by that Department's accounting officer.

One of the things that one would have to bear in mind, if one moved away from a departmental basis to a policy objective basis, it is how do you fit that into an accountability framework? That is one immediate concern I might have if we went down that route.

Q325 Kelvin Hopkins: That is interesting. A supplementary: arm's length bodies publish accounts, but internal divisions of Departments do not. When a body moves into a Department, such as UKBA in 2013, becoming a directorate within the Home Office, how concerned should Parliament be that it loses the ability to make UKBA accountable to it?

Julian Kelly: In that instance, the accountability arrangements move specifically almost then directly to the permanent secretary for the Home Office. Its activities would be covered by the Home Office departmental report and accounts and the performance information that they include alongside the financial information.

I suspect the permanent secretary to the Home Office feels he is giving quite a lot of account to the Home Affairs Select Committee on the performance of the constituent parts of the UK Border Agency. But in the end, you have to have an organisational unit for which you are going to produce a set of annual reports and accounts. That is the Departments and then, normally speaking, it is subsidiary arm's length bodies.

Q326 Kelvin Hopkins: Just one more question. Some dozen or so years ago, a Government at that time seemed to want to allow the Treasury to get a grip of the National Audit Office, which I think would have been fundamentally very dangerous and an attack on our responsibility to hold Government to account. Can we be assured that there is no such attempt ever again that the National Audit Office will come under the control of the Treasury?

Mr Gauke: I think I can give that assurance, at least to the extent that I have responsibility. The National Audit Office plays a really important



HOUSE OF COMMONS

role. As part of my ministerial responsibility is ensuring good value for the taxpayers, I see the NAO as playing a very similar role. The role of the NAO and the independence of the NAO is something that we recognise and support.

Julian Kelly: It is an agent of the Government. That decision is made by Parliament, not by the Government.

Q327 **Chair:** Picking up on one of Mr Hopkins' last points, when we did our PASC inquiry in the last Parliament on arm's length bodies and the landscape of non-departmental bodies and public bodies, we took evidence from a number of former Ministers, one being John Redwood. He said it was easier for the Minister to hold arm's length bodies to account than parts of his own Department, because the arm's length body produced an annual report and accounts; he could have them in before they published their accounts and scrutinise them and question them, but no such information was flowing from with the Department. The same in fact goes for external scrutiny, so why isn't there a policy of encouraging large units like Border Force to produce their own sets of accounts, which would be available for external scrutiny?

Mr Gauke: That is an interesting point. I do think that there is frequently a debate—I suspect Mr Hopkins has made this point in the past—that Parliament is less able to scrutinise arm's length bodies, the frustration that there isn't a Minister there that answers directly for them. I appreciate, Mr Jenkin, you are making a slightly different point in terms of the role for Ministers to scrutinise. I guess there is a judgment to be made as to whether, if you have something that is part of a Department that is fully integrated into a Department, it is easy to produce separate accounts for that entity, as opposed to a clearly discrete closed-off part of Government.

I think that is one where you just have to make an assessment on a case by case basis, but as I say, if you have something that is part of a Department, then that Department, the Ministers in that Department, are directly accountable to Parliament and those departmental accounts are a means by which the whole of the Department can be held to account.

Q328 **Chair:** That sounded like a thinking on the hoof answer.

Mr Gauke: No, I am giving some thought as to what you are saying. One would have to consider this on a case by case basis, but one of the problems that you might face is that you have something that is part of the Department, it is integrated into a Department—

Q329 **Chair:** I appreciate that, but a lot of Next Steps agencies and public bodies have been taken back into Government Departments. Presumably they have been taken back in with their accounting systems. It would seem logical that that should remain. That is why one or two of these bodies have carried on producing their accounts. Couldn't we look at this on a case by case basis and, where practical, make the system more



HOUSE OF COMMONS

accountable?

Julian Kelly: There are two issues. There is accountability to the Minister and there is accountability to Parliament. Certainly within the Department, the Department will be producing monthly management accounts. It will include the performance of its constituent parts, as well as normally any relevant information on the performance of its arm's length bodies, its major programmes. I think that is covered. Within the Home Office I would absolutely expect that the Permanent Secretary for the Home Office receives a monthly report, and indeed, the Secretary of State can.

Chair: But I am talking about annual accounts.

Julian Kelly: Then on the annual accounts, I still think there is an issue of who is accountable to Parliament, and it is the accounting officer for the set of responsibilities they cover. We choose the organisational boundaries where the—

Q330 **Chair:** The role of the accounting officer is not made to protect the rest of the Department from scrutiny.

Julian Kelly: No, certainly. I am not arguing—

Chair: The role of the accounting officer is to make things more transparent. Indeed, I would argue that internal and external scrutiny of transparency are the same thing. If there is internal transparency, why isn't there also external transparency? I am sorry; I interrupted your answer.

Julian Kelly: No, no, that is fine. Then the departmental—or indeed, an ALB's—annual report and accounts should set out the story of how it has performed, including its major functions. I would expect the Home Office annual report to include how its major internal public services—the Border Force, the immigration system—have performed, so that you would have accountability for the performance of the Department as a whole and its major functions.

Then there is always a question as to how many annual reports and accounts does Government produce. There is a debate going the other way, which is to say we produce so many that how can Parliament be expected to hold everyone to account? Some have argued to me that we should be consolidating more of the ALB annual reports and accounts into a single departmental set. We have not done that because we think it is important individual agencies should produce annual reports and accounts. It is always that balance of how much information do you produce and how do you make it as useful as you can.

Q331 **Chair:** Not impressed. I think if we had more annual account type information coming out by business unit with Government Departments, I cannot see how that could possibly be unhelpful. Can you explain why you think that would be unhelpful?



HOUSE OF COMMONS

Julian Kelly: As I said, I think within a Department's set of annual reports and accounts, it should cover the performance of its major constituent parts so that—

Q332 **Chair:** This sounds like resistance to me.

Julian Kelly: No, I just think it should cover it and answer the questions that you are asking. I think that it should do. I do not think it makes sense to produce an entirely separate balance sheet. In fact, I am not sure it is possible to do so. Once you have set something up within a Department and therefore you have chosen to manage its assets and liabilities as part of a single organisation, I am not sure it does make sense for it to produce a separate set of annual accounts.

Q333 **Chair:** But isn't that part of the weaknesses of the accounting systems in Departments? How many programmes does the Home Office have? Some of them are very big programmes. Why aren't they separately accounted for as programmes? I don't think you have given a—

Julian Kelly: You would, within the Department, be managing individual budgets for individual areas of the Department and the budgets for major programmes, but then when you produce the annual accounts, you are producing against a single balance sheet.

Q334 **Chair:** I feel you think we are making an unhelpful suggestion here.

Julian Kelly: I think we should be answering your question, which is how do you have transparency on the performance of the Department and its major parts within the annual report and accounts. We should be trying to make that as useful as possible.

Q335 **Chair:** Moving on, we have had a lot of evidence to suggest that there is a deficit in the accountability arrangements in terms of what Governments announce in spending reviews or savings programmes, but that is not directly comparable with what turns up in the estimates or the accounts that are produced by Departments. First of all, how much do you recognise this as an issue?

Mr Gauke: I am not sure I entirely agree with that. Particularly the direction we are going in with single departmental plans, setting out where priorities exist for a Department and what their objectives are and ways in which they can be measured against that, no, I am not sure I entirely accept it. I do think there is always a fair challenge as to what can we do to improve transparency and that is one where we are, I hope, constructively engaged. I don't know, Julian, whether you can add anything to that.

Julian Kelly: In the way the system works, we are trying. We announce budgets at spending reviews and we update them at each fiscal event. You can track for every year that number then flowing through into the estimates. The estimates themselves say what the budget is and you



HOUSE OF COMMONS

reconcile that to the sort of net operating cost you would expect to see in the accounts.

Then in the accounts, you should see what the net operating cost is and you can track it all the way back. The clear line of sight arrangements we brought in—I forget now the precise year, but from sort of 2008 onwards—are precisely supposed to be able to show the budget that is agreed at the spending review, the money that is voted by Parliament and then the report on that money being spent at the end of the year in the accounts.

Q336 **Chair:** Do I remember correctly, Chief Secretary, you were a Shadow Treasury Minister?

Mr Gauke: I was a Shadow Treasury Minister, yes. Not a Shadow Chief Secretary, but I was a Shadow Treasury Minister.

Q337 **Chair:** A Shadow Treasury Minister. The previous Labour Government was in the habit of making very grand statements about savings or spending programmes and accumulated the totals over a large number of years and made these huge commitments. How did you scrutinise those commitments against the estimates in the accounting information?

Mr Gauke: I think it was possible to do it. Before I was a Shadow Treasury Minister, I was a member of the Treasury Select Committee and I certainly remember being able to have the information to scrutinise what the Government was doing. I remember particularly the point about double-counting and triple-counting and so on and holding Gordon Brown to account in Treasury Select Committee interviews when I was sitting on that side of the table rather than this side of the table.

Q338 **Chair:** Which document did you turn to where the Government had published the comparison between what the Chancellor had said and what the actual outturn or the actual estimates said?

Mr Gauke: There were certainly occasions, and there is a particular incident I am trying to remember in respect of education spending, but information within the Red Book published at the time of the Budget was certainly very helpful.

Q339 **Chair:** Yes, but did that say, “The Chancellor said this in the autumn statement and here is the number and now here is the number”? The Red Book is not quite that clear, is it?

Mr Gauke: No, you did have to do a bit more work than that, I do concede.

Q340 **Chair:** Why doesn’t the Treasury do that work and present these figures in one document so that it is easier? You have something of a reputation of having a very capable mind on these matters. For some of us, it is more difficult. Why doesn’t the Treasury publish these figures together so we can see that when a Minister gets up and says something very grand, it can be measured against the information and there is an actual table of



HOUSE OF COMMONS

figures that shows the relationship between what was originally claimed and what the actual estimate or what the actual outturn is?

Mr Gauke: I think it is possible. If you were looking at, for example, departmental spending to see changes reasonably easily between what a previous announcement was going to be in terms of the forecast and then what is delivered, I think that information is all there.

Q341 **Chair:** What do you publish it in now?

Julian Kelly: In the annual accounts there is a table that says what has been the money voted by Parliament in the estimate and it reconciles that to the outturn in the accounts. Every Department does that each year. In addition we publish the public expenditure statistical analysis. That shows for the whole of Government the outturn and I think, although I can go back and confirm, there is also a table that says how that compares across the whole list against the estimate. Where there are differences, in particular where a Department has spent more than they are voted by Parliament, clearly that is covered in the audit and there is an excess vote.

Q342 **Chair:** For example, where would I find in the Foreign and Commonwealth Office accounts the £70 million from the 2013 spending that has been found for the Trade Department?

Julian Kelly: I would have to go back through the—

Q343 **Chair:** You have looked at these accounts. Do you see the point I am getting at here? There is a deficiency in the transparency of the relationship between what statements are made. This is a perfectly innocent £70 million. There is nothing malign about it; I am not accusing the Government of anything about it. It is not like some of the savings claims that were made under the previous Government but it would be handy to be able to compare what was said so you can see what is said in context in the final accounts or in the spending instruments.

Mr Gauke: I am more than happy to look at that. We are seeing some machinery of government changes at the moment whereby the Department for International Trade is obviously inheriting parts of what was in BIS and what was in the Foreign and Commonwealth Office. As that is presented I would expect that to be clear as to where we are seeing movements from one Government Department to another, for example, so that is apparent to Parliament and others.

Julian Kelly: Where there are transfers between Departments those are covered in the estimates when dealing with supplementary estimates so you could see that money has been transferred, you could see the total and then you should go to the Department in question on the annual report and accounts and you should see how the outturn is against the total money voted including transfers between Departments.

Q344 **Marcus Fysh:** I want to move on to what you think might be a useful



way we could augment Parliament's role in helping Departments achieve their objectives, both financially and against the policy but particularly from a financial point of view. There are examples in the US. The Congressional Committee is getting involved in helping to approve particular pieces of spending on different things. I am not necessarily saying we go as far as that but I am interested in how much you would agree with the general direction of travel to have Parliament more involved in scrutinising one way or another the financial performance of the different Departments.

Mr Gauke: Again, I welcome in my role Parliament scrutinising public spending. We have a shared objective to ensure there is good value for money for the taxpayer. There is obviously a very important role for Departmental Select Committees in terms of holding Departments to account and I welcome that.

In addition we have the Public Accounts Committee that has a broader role in terms of scrutinising value for money. I also come back to the point I have already made a couple of times. In order for Parliament and parliamentarians to do this effectively very often this does require a good understanding of accounts. To the extent that there is greater support that could be provided to parliamentarians to enable them to do that then I think as far as I am concerned Treasury should be willing to assist.

Q345 **Marcus Fysh:** What sort of feedback would be useful to you in terms of helping to encourage that on the data side? What kind of input would you like from, for example, the Select Committees or the Public Accounts Committee and what sort of data and ways the data is presented could be implemented to help that process?

Mr Gauke: To some extent it is for them to provide the feedback rather than necessarily specify what it is but if Select Committees or individual parliamentarians are saying this information is put across in a way that is either confusing or beyond our expertise could you help educate us or train us or are there new ways this could be presented?

I come back again to a point I made earlier. There is a tension in wanting to ensure the information is put across in a comprehensive way that specialists, outside bodies and academics can properly scrutinise with also making it accessible to the non-specialist. If there are constructive thoughts as to how we can do that then certainly we are keen to hear it, particularly from parliamentarians.

Marcus Fysh: Finally, clearly there are multinational firms out there with extremely complex operations, with multi-billion pound revenues and they do a good job of having up-to-date management information systems that enable their managers to assess things on even a daily basis for some firms. What impetus is there within Government to look at ways of trying to provide a commonality to management information that reconciles with the accounting systems?



HOUSE OF COMMONS

I know Government does not have a brilliant record when you look back in the past at implementing major IT projects but is there potentially a role to try to simplify some of the ways it operates across Departments so there is more of a commonality about the type of data that is presented and makes that process easier and also helps in the management of the Departments and your role in overseeing it?

Mr Gauke: There are a number of points in that question but I agree management information is really important. There has been a recognised improvement in terms of the quality of management information available within Government. Again, one can always look to see what can be done to improve it but I think we do noticeably better in terms of the information that is available.

As Julian pointed out earlier, when it comes to the Treasury scrutiny of Departments then management information is absolutely crucial and is used on a daily basis. In terms of wanting to ensure there is some commonality between that information, again this is a balance point between the advantage of there being some commonality so one can compare Departments and what have you. On the other hand, different Departments have different roles and sometimes what is suitable for one Department may be less suitable for another Department and one has to strike the right balance there. But in terms of your emphasis, Mr Fysh, on the importance of management information I entirely agree.

Julian Kelly: One thing we had and we continue to improve is a central consolidation system for all the financial information that flows from Departments and we specify the information we want and the level of detail that we want. We are working to make sure that where you define a particular category of spend, that is clearly understood and people are classifying, categorising the spend in the right way. In that way, when you then aggregate across Departments you could compare and we can compare how much Departments are spending on people, travel and subsistence, IT, so you can start to benchmark Departments to the extent that is appropriate.

Q346 **Chair:** We are reaching the end of the interview and we have some quick-fire questions now about management information and management of accounts, starting with the problem that Amyas Morse has described to us: that management information is not sufficiently used or cared about by people in the public sector. Why do you think that is the case?

Mr Gauke: I am not sure that is the case, at least not as much as it once was, so certainly from a Treasury perspective I think it is used very significantly and I think there has been a real effort to—

Q347 **Chair:** If I can just interrupt you for a minute, the Institute for Government, the National Audit Office, Lord Browne, the Chartered Institute for Management Accountants and academics have all given us the same view.



HOUSE OF COMMONS

Mr Gauke: I think certainly looking at it from a Treasury perspective that management information is very important to us.

Q348 **Chair:** Then why is management information in Government Departments given such poor priority?

Julian Kelly: I think you heard from Ian Cheshire as well. He is now the Government's Lead Non-Executive and was the Senior Non-Executive at the Department of Work and Pensions. He said in the time he has been in that role he has seen quite significant improvements in the management information and the management accounting that is going to boards and I think this is something we just have to keep working on. I think there have been improvements.

Q349 **Chair:** Mr Kelly, you are doing very well. You are beginning to sound like a civil servant. We always have these discussions where we say here is a problem and the civil servant says, "Oh well, it is not nearly that bad and we are much better than we used to be". But the problem is it is still there, is it not? Come on, you come from the private sector. You must be tearing your hair out about how bad the management information is in some Departments.

Julian Kelly: The thing we are working on is really making sure that Departments are doing good medium-term planning. This is the point of, again, re-emphasising the single departmental plans. Out of that flows them knowing what they are measuring and tracking and then out of that flows the report that says how we have done. That is the process we are working through to make sure we are continuously improving. I think some Departments will do it well, some Departments will do it less well and we are just working across the piece to lift our game.

Q350 **Chair:** I accept all that but 30 years ago Michael Heseltine introduced MINIS and he revived it in the "No Stone Unturned" report he did for the previous Administration. Thirty years on from MINIS we still seem a very long way from the ideal he was setting out and that he employed when he was a Minister. Why do you think this is the case?

Mr Gauke: I think what we have in place at the moment builds on MINIS and MAXIS and various developments on that so the reality is there has been progress on this and, as has been pointed out, Sir Ian Cheshire has drawn attention to that. There is also a word about the role of non-executive directors here who obviously bring private sector expertise and they are playing a role in changing the culture so that management information is given greater emphasis.

Q351 **Chair:** I agree with that and I think the development of the N-Ex lead role is very positive. Any non-executive directors in Government Departments have no fiduciary duties. They have no powers. They are a director in name only. They have no powers to direct and they are as influential as the Ministers or permanent secretary allows them to be. What would you make of the suggestion that in fact Parliament should endow non-executive directors and Departments with some fiduciary



HOUSE OF COMMONS

responsibilities, for example, for ensuring there is proper accounting information presented on a regular basis to departmental boards?

Mr Gauke: Given your earlier strictures, Mr Jenkin, I am loath to make up an answer on the hoof. I would want to give that some thought. I would say the objective has to be to continue to strengthen the significance of management information and we would look at ways we could do that.

Julian Kelly: I think you have to think through what they can direct and therefore the relationship between politicians, the Ministers and the officials and the board. It would clearly be quite a big change to the existing structure.

Q352 **Chair:** But it has taken 30 years to get this far from MINIS. Do we not need a big change?

Mr Gauke: I think on the wider point on—

Q353 **Chair:** Is it yes or no? Do we need a change?

Mr Gauke: We have significantly improved management information.

Chair: Yes, got that bit.

Julian Kelly: On MI I don't think there is a single thing you do that suddenly does a big change, we just have to continuously improve it. The more that we are questioned by Select Committees and others on the information the better.

Q354 **Marcus Fysh:** Can you say a little bit more about how the Treasury scrutinises the departmental performance against single departmental plans during the year? You alluded a bit earlier to your monthly meetings but following on from the Chair's point to what extent do you think you or someone else should have a role outside the actual Minister or the permanent secretary of the Department for holding the managers of those particular budgets and plans to account, either financially or in terms of career advancement, for the delivery on those items?

Julian Kelly: We hold them to account clearly for the money and we discuss with them the performance and programme management. There is a question that is how do we make sure the performance and the money and the programmes all come together in the conversations and how between—and I am talking more from the officials' side—the Treasury, the Cabinet Office come together to make sure we are having a proper joined up conversation about the performance, the change and the money at the same time? I think that is the question we are working through and we still have to come up with a polished answer. That is what I think.

Marcus Fysh: There might be more of a role for trying to make some of these things a bit more explicit.



HOUSE OF COMMONS

Julian Kelly: I think it is just constantly how do you make sure you sit the performance, the money and the big programmes all together in the conversations you have?

Marcus Fysh: At the end of the day everyone wants the same thing, which is more value for money out of the money you spend and more progress on the policies.

Julian Kelly: The resources are there to deliver a goal. It is not there just to spend for its own sake.

Marcus Fysh: Indeed.

Mr Gauke: That is the test for the single departmental plans we have brought in. To what extent can we increasingly strengthen those links between the policy objectives and the finance? It is one that I am very focused on and it is one that the Minister for the Cabinet Office is very focused on and at official level Treasury and Cabinet Office are working closely together and finding ways we can do that. But that is the big challenge.

Q355 **Chair:** Looking at question 24, who resists these changes, the changes to bring in single departmental plans? Using single departmental plans to measure performance is a good innovation. Where do you find resistance and what do you think is behind the resistance?

Julian Kelly: I will give my personal experience. My personal experience is there are some Departments that are already quite good at thinking into the medium term and there are some that just have not built up enough of what I think my colleague John Manzoni describes as the muscle, but the discipline of just constantly planning into the medium term. Therefore I do not meet anyone who says this a bad idea but it is getting really good practice embedded.

I think that is the best way I can put it, so we are working to bring people together so you can share best practice and help them see what it is possible to do and what they should be aiming for. That inevitably is the biggest challenge and then it is just keeping on that remorselessly year after year so you do not start an initiative and in 18 months' time it has died out.

Q356 **Chair:** It is a very honest answer. Thank you very much for that and by saying that I do not mean to get you into trouble. But there is a problem with leadership, is there not? If leadership in Departments, and it might be Ministers, it might be senior officials, if they do not think this is important then the officials trying to get this done will find it more difficult. How are you dealing with that?

Mr Gauke: My role here it is to raise awareness. We also apply this in terms of the efficiency review that we are undertaking and I am leading on. I am sitting down with Secretaries of State, talking through how they are going to identify and find further savings in their budgets for future



HOUSE OF COMMONS

years. It all comes back to that same thing of very clear thinking in terms of what a Department is there to deliver and how it does so in the way that achieves the best value for money for the taxpayer.

I do not think anyone is saying we do not want to do that but it is a question of making sure all Departments are focused on it, people are waking up thinking, "How am I going to deliver this?" Not just how we get through the next week or the next month but we are thinking where we are going to be in three years' time. Given that pressures on departmental spending will continue to be tight for the foreseeable future how are we going to deliver our objectives in that environment?

Q357 **Chair:** Is the problem not rather more prosaic? It is that the day job in Departments does not include management information. The day job in Departments is dealing with the latest crisis, dealing with the latest press investigation, dealing with the latest statement, dealing with the latest events. We know the pressures on Ministers and senior officials are very intense, so how do you get this embedded in the day job?

Julian Kelly: Just on your leadership point the key part for me of the leadership is to make sure the political and official leadership is all lined up and this is both the Chief Secretary and the Minister for the Cabinet Office writing out to their colleagues saying, "You are doing this; we are going to do it" and we did it last year. We are just about to write again saying, "You are going to do it again". My permanent secretary and the Permanent Secretary of the Cabinet Office similarly at official level writing out with exactly the same message and us just keeping going and making sure the political and official leadership is all lined up.

On your question I genuinely think a considerable amount of progress has been made in the governance of Departments. The routine monthly management accounts, the management information process so that every month you are getting the right senior management team together to go, "Hold on a minute, we have our crisis but where are we on the rest of our business?" Then getting the discipline of the planning, the accountability at least through the official and the ministerial machine so that you keep focusing on not just today's crisis but the major transformation programmes we have already begun, the running of the basic services. I think that in the end is the answer and it is not something you just do. You have to keep on at it.

Q358 **Kelvin Hopkins:** The Public Accounts Committee has called for much more to be published from the single departmental plans and with more detailed reporting against them. What do you think of this and would it not help Parliament in holding Government to account?

Mr Gauke: It comes back to a familiar issue this morning as to how much information is put out. You can put out too much information that just confuses and lacks the clarity and focus. As far as I am concerned I want us to put out information that helps Parliament and the public more widely hold Departments to account for what they are doing.



HOUSE OF COMMONS

The move towards single departmental plans are an important way, and it comes back to that earlier question of how we get Departments to focus not just on dealing with the day-to-day and fire fighting but thinking through if we are going to deliver our objectives in three or four years' time during a period of time in which budgets in most cases will be smaller.

Q359 Kelvin Hopkins: There is a certain logic in providing more information to Parliament that would help them to hold the Government to account. Sir Amyas Morse has suggested to us that progress against single departmental plans should be published on a quarterly basis. When would all Government Departments publish their data about progress against the existing plans?

Mr Gauke: One would look at that and see what is practical. I would have an open mind at looking at this in the future but single departmental plans are a relatively new process and I think we need to wait and see how they operate first before making any significant reforms.

Q360 Kelvin Hopkins: Just finally, would regular publication of single departmental plans and progress against them help keep the public sector committed to getting better management information?

Mr Gauke: It is possible and I would not want to rule that out but, as I say, I would come back to this is relatively new so let us get this properly bedded in and then see what the opportunities are to strengthen and improve it.

Chair: Thank you. Are there any further questions? Do you want to add anything?

Mr Gauke: No, thank you very much.

Chair: Thank you very much. I think it is the first time the Chief Secretary has appeared before this Committee or his predecessor. We chose to do this inquiry because we felt that the actual mechanics of accounting needed some scrutiny and attention and we find that other Committees are also interested so I hope we will encourage progress. Thank you.