HOUSE OF COMMONS

Treasury Committee

Oral evidence: The UK's economic relationship with the European Union, HC 473

Wednesday 1 November 2017

Ordered by the House of Commons to be published on 3 November 2017

Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Mr Alister Jack; Kit Malthouse; Alison McGovern.

Questions 67 - 174

Witnesses

I: Sir Amyas Morse, Comptroller and Auditor General, National Audit Office.

Examination of witness

Witness: Sir Amyas Morse

Q67 **Chair:** Good afternoon, Sir Amyas. Thank you very much indeed for coming to give evidence to the Treasury Select Committee this afternoon. Perhaps just to start proceedings off, for the benefit of those watching, you could just introduce yourself and your role.

Sir Amyas Morse: Certainly. My name is Amyas Morse. I am the Comptroller and Auditor General. I am an officer of Parliament and my job is to help Parliament to hold the Executive to account. I am also Chief Executive of the National Audit Office and they exist to support me in my role.

Q68 **Chair:** Thank you very much. We have a number of questions for you, on Brexit, which it will not surprise you to know, and some other issues as well. I am conscious in asking about Brexit that the National Audit Office's role is to report to Parliament on the extent to which policy objectives and implementation have been achieved in a way that represents value for money, and we will try to ask you the questions very much on that rather than your general opinions on this issue, which I am sure that we all have.

You gave an interview back in July of this year, and it was stated that you had also revealed that a request to see a ministerial plan for the changes needed to leave the European Union had been met with only "vague assurances". I wondered if you could give us any update on that, or what you would like to see in terms of a ministerial plan.

Sir Amyas Morse: I will just say a little bit about what I said when. At that time I made a comment, which was that I was concerned that unless the response on the part of Government to Brexit was both unified and prioritised there was a risk, given the departmental system that the departments would pull in different directions, and I am afraid I used the expression "like a chocolate orange". Sometimes you reflect on these things later on, but anyway, that is what I said.

Those concerns were not unreasonable. There was not a plan as such, and what there is now is a much more evolved approach, it is fair to say. Is the fact there is not a plan terrible? Not necessarily, because there is a more evolved approach. Some things have not happened that I would like to see happen and they are on the verge of happening now. That is for the Government to recognise just the scale of some of the things they need to do, the amount of resource that will take and the fact that before Brexit the programme of reforms and changes that the Government were undertaking was already very substantial indeed, and the resources were under pressure before Brexit. I made that point a long time ago. As soon as I heard about Brexit, I said there was a need for prioritisation.

What we heard from Jon Thompson in his testimony to the Public Accounts Committee last week was that he recognises that he needs to prioritise in his department, and he plans to do that in about quarter 4 and actually go through and have a full prioritisation, because he does not believe all of the reforms the departments are trying to carry through and their Brexit responsibilities can co-exist.

There is beginning to be a realisation, which I did not feel there was, frankly, as to the scale of the task on the ground. It is not even just a question of doing the plans. Once you have done the plans you have to have people with the expertise to carry the plans out and those are, as you now see in the press, very substantial additional numbers of people. It is not just a question of numbers; it is a question of necessary skillsets to be successful in driving things through.

Q69 **Chair:** Thank you. We are going to ask some questions about the capability of the civil service in a bit. In terms of the evolved approach, I wonder if you also have a view on cross-departmental working. It is fair to say that much of Government happens in silos anyway, but leaving the EU is a particular challenge in getting departments to work together? Do you see more signs of a genuine cross-Government, cross-departmental strategy or work plan emerging?

Sir Amyas Morse: Yes, I do. It would be unfair to say otherwise. Some of the cross-cutting committees are quite effective now. Making sure that the resources are in the right place on a Government-wide basis, as opposed to a departmental basis, is still a challenge. Working across

Government is always a challenge because of the system of government that we have, and that will not go away. There may be some departments that are relatively not very much affected by Brexit that find themselves in a relatively resource-flushed position now. They will not feel like that, but relatively speaking they will be. It is important that there is some interdepartmental prioritisation from where I am sitting as well.

Q70 **Chair:** Are you clear who is, first, responsible and, secondly, accountable for co-ordinating that cross-departmental strategy?

Sir Amyas Morse: No, that is not quite as clear. I would expect it to be a combination of the Cabinet Office, DExEU and I guess Number 10 as well.

Q71 **Chair:** Do you get a sense of how much information is being shared? There are lots of people externally who want to share their thoughts about Brexit and the impact on their particular sector, who are feeding into myriad different Government departments. Do you get a view or a sense as to how much information is being shared between departments?

Sir Amyas Morse: First of all, I find it understandable that there is a concern about information security, to some extent, but I think there was a preoccupation with privacy and control of information. I was concerned about it from the point of view of the responses we were getting to our requests for information, and I feel it has got better. I had a meeting with the Permanent Secretary of DExEU in the beginning of October and since then I have found it better. There is probably a view that being very careful about information still seems to be prevalent. I am not complaining of it myself, but I do see it as a prevalent attitude. It probably makes things more mysterious than they need be. It is just not that complicated in some ways.

Q72 **Chair:** One of the sets of information that is particularly topical today is the 58 sector impact assessments that have apparently been conducted, which some Members of Parliament are asking for. The Select Committee shadowing the DExEU department has asked for those to be published. I wondered if you had either seen them or if you were aware of how they were being used in Government to check that the information being received by Government is being taken on board by the departments.

Sir Amyas Morse: I have not asked to see them, and the reason I have not is because they relate more to the conduct of the negotiations, which I do not see as my territory at all, than to the way in which, practically speaking, the Government are preparing to support and carry through Brexit, which I do see as a legitimate area for me to look at. I have not asked about them. It would be relevant for them to be available to those who are involved in the strategic process in particular.

Q73 **Chair:** There is preparatory spending for Brexit, but also contingency spending. I wanted to just turn to that now. I wondered if the National Audit Office is assessing the state of departmental contingency planning and any associated spending for that.

Sir Amyas Morse: We intend to. Can I say something for a moment about our approach in these circumstances?

Chair: Please do.

Sir Amyas Morse: We feel that there is not enough information among parliamentarians to be able to begin to form a view on some things, and what we are setting out to do is a series of briefings. Rather than writing evaluative reports at this stage, we are aiming to do a series of briefings on what we think are key areas, cleared by Government, which will simply raise up the level of understanding of what the arrangements for Brexit are. That can be done without having any negative strategic effect on our negotiating stance or anything of that sort. That is the process we are doing at the moment. Up until the turn of the year we are aiming to do that—to go through and publish a series of pieces in that style. It is likely that we will start doing more evaluative work after that when we and Parliament understand a bit more what we are looking at.

Q74 **Chair:** Is one of the things you expect to evaluate, as I say, the state of contingency planning for all eventualities?

Sir Amyas Morse: Yes.

Q75 **Chair:** Do you have a sense at the moment of how departments are preparing for there being no agreement between the UK and the EU by the time we get to March 2018?

Sir Amyas Morse: The one area, which I know this Committee knows about and the NAO is quite aware of because we already have published a report, is on the question of the borders and particularly the replacement border system. There I would say there is an understanding of what the contingency plan would need to be. As I listened to Jon Thompson's testimony, he said there is some question of whether there is another £7 million or something—not a very significant sum of money in the scheme of things—that needs to be agreed with the Treasury.

I would have thought that having a contingent plan fully prepared in these circumstances would be something you wanted to crack on with straightaway. There are things like that where I feel it is not a good idea to operate the accelerator and the brake at the same time. I would like to see things moving forward in some of these areas, and I suspect there is a bit of messaging there that if you study the testimony, you can pick up. In that one and in others, the question will be about how much prep can be done and how much can be done before departure date, which is now really not far away at all, and being realistic about what really the priorities are. Do I see that everywhere? No. Am I interested in it? Yes, I am.

Q76 **Chair:** Where do you not see it?

Sir Amyas Morse: It is too soon for me to really say that. Just to go back to what I am working on at the moment, the understanding of the issues is quite sophisticated, certainly around HMRC and their preparations for the border. My plans at the moment are to do additional work looking at some of the other most affected departments, starting with DExEU, for which I am going through clearance on a briefing at the moment, which I hope will explain how DExEU are working and co-ordinating for the exit.

I am also intending to do work on BEIS, which is very strongly affected, and DEFRA, which in many ways is absolutely in the middle of these areas. I intend to do some work on the Infrastructure and Projects Authority to understand their role, which is a little different from what it has been, just to make sure that that is clear. There are a number of things there where we are expecting to do work and we are trying to get that done really in quite short order. When I say I am trying to raise the knowledge base, that is exactly what I am trying to do because there are areas that strike me as critical to understanding the situation, and therefore that is our priority right now.

Q77 **Chair:** I am going to hand over in a minute to Mr Hammond. Value for money is a key part of what you as the Comptroller and the National Audit Office look at. When we had the Chancellor before us two weeks ago probably now, he talked about the £250 million that had been set aside from the reserves to start with preparations. I wondered what you felt was the balance between spending, in terms of preparations that might eventually not be needed, but also not spending now and having to perhaps pay more or play catch up later on.

Sir Amyas Morse: You need to see this in a moderately strategic and sophisticated way and not a simplistic way. I do not regard insurance premia as questionable. If there is a realistic risk and it is a big risk, even if it is not highly probable, when you discount that back it comes to a big number, so it is worthwhile. Only Government are in a position to make this judgment. If the Government think there is a significant risk of something that could be significantly damaging, then you can work out what is a proportionate amount that would be spent.

We are quite likely to examine this in future. If we look at areas of contingency spend where the risk being protected is not significant and it does not really quite make sense to spend as much as has been spent, we would criticise that, but I would not like to give the message at all that any contingent spending is in our view automatically suspicious. I do not see it that way. Nobody who has had a sophisticated business background would take that view.

Q78 **Chair:** Just finally, on 12 October you were copied in to a letter sent by Tom Scholar, the Permanent Secretary to the Treasury, and Philip Rycroft, relating to spending being authorised by ministerial direction. I just wonder, given your constitutional role advising on scrutiny of the Executive—this is about ministerial directions given in lieu of parliamentary approval—what your view is of the use of ministerial directions as opposed to parliamentary approval for such spending.

Sir Amyas Morse: So far I have not seen any practical examples of that. I have not seen that happening so far. If it happens in that way, first of all, the question will be about the specific circumstances. Does the case for expenditure make a lot of sense? Secondly, does it appear that it has been used so much that it might defeat normal parliamentary scrutiny, in which case the Chair of the Public Accounts Committee might be concerned by that on behalf of Parliament? If it turned into a coach-and-horses way of not being scrutinised then that might be a different matter, but I see no sign of that at the moment.

Q79 **Stephen Hammond:** Sir Amyas, good afternoon. Just to follow directly on from that point, would you take the view, as many would, that the multiple use of those ministerial directions would represent an undermining of parliamentary sovereignty?

Sir Amyas Morse: I see it as a risk and I would give advice on it once I saw the shape of it.

Q80 **Stephen Hammond:** Although we are talking in the hypothetical here, what objectives would you raise if the Government were routinely to make use of those directions?

Sir Amyas Morse: What objections would I raise if they were?

Stephen Hammond: What can and would you do in your role with the NAO if the Government were routinely using this as a method?

Sir Amyas Morse: I am not primarily there as an interpreter of parliamentary law. It is not my job to advise the PAC Chair on the question of parliamentary privilege, if I can call it that. My primary job would be to advise on areas where I thought this was being used as a method of getting something passed that was of questionable value. If I saw a lot of this happening, and insufficient scrutiny of what looked like questionable value-for-money decisions, then I would advise strongly against it. As I say, that is hypothetical. It is not what I expect to happen.

Q81 **Stephen Hammond:** Ordinarily if the Government wanted to spend money ahead of legislative approval, what they would do is use advances from the contingencies fund. The contingencies fund has two criteria and it has been suggested that the contingencies fund cannot be used because there is not as yet the near certainty that the EU (Withdrawal) Bill will become law. However, the other criteria surely should have equal weight, which is that it be genuinely in the public interest. Would the contingencies fund or advances therefrom not be a more sensible way of advancing money if Government departments need to spend it?

Sir Amyas Morse: That is a reasonable alternative argument.

Q82 **Stephen Hammond:** I will take that as a compliment from you, sir. The

Chair asked about the impact assessment and therefore the ability to track what is likely to be necessary spending in preparation. First, what efforts will the NAO be making to track and publish its assessment of Brexit-related expenditure?

Sir Amyas Morse: When we get to the point that it is a bit clearer how this is going to move ahead, it will be possible for us. Based on what I presently know—and I must admit things move around pretty fast in this area—it may be clearer how things are going to move ahead after we are through the Christmas period. I will want to frame pieces of work that are designed to start measuring the value of the effort being made and expressing opinions on it after that. The reason that I am not doing it now is because all of it is quite contingent on having to be in a very broad front. The arrangements have been evolving pretty fast, and to try to step in and make evaluations of them across the board is not practical right now.

Q83 **Stephen Hammond:** That is a very clear answer in terms of expenditure necessary for preparations. Can we look into the future and when there is a settlement delivered? How do you intend, in the case of settlement, to try to scrutinise that settlement to ensure that there is value for money and good use of the public money?

Sir Amyas Morse: I have given that some thought already and it depends very much on what the shape of the settlement is. If there is what is described as a divorce bill, how is that arrived at? If it is arrived at under a series of specific heads, each one of which supposedly has some value associated with it, then we would be in a position to do something in examining them. I would assume that the Treasury or the negotiating team would have their own advisers on all of this, but we would be examining from the point of view of reporting to Parliament whether these sums all appear to be within a reasonable range, looking at the circumstances and the legal position under each of these heads.

At present my thinking is that we would approach it quite like a normal large transactional deal, where you examine all the elements in it and then look at how they combine for reasonableness and range of value. It is quite familiar to people in the financial sector.

Stephen Hammond: Indeed. If you were then to split that settlement down into departmental segments, which you will probably potentially need to do—

Sir Amyas Morse: That is possible, but all of this is quite based on the shape of what that settlement is, how it is expressed and what explicit considerations are stated.

Q84 **Stephen Hammond:** I take that point in regards to the settlement. Just moving back to preparation again, there is a requirement for departments to show segmental reporting expenditure. Would you expect them, in their departmental reports, to be showing in the segmental information provided what expenditure they are expending on preparations?

Sir Amyas Morse: Yes.

Q85 **Stephen Hammond:** I have two last questions, if I may. We were talking about value for money in the final settlement. The multiannual framework shows at the moment commitments of €960 billion in the period ’14 to ’20 and payments so far out of €909 billion. It suggests that there are quite substantial unspent commitments. In terms of public value and the fact that we are a net contributor, how do you as the NAO intend to make advice to Parliament about how we should analyse that?

Sir Amyas Morse: You really are taking me quite a long way from the present day, are you not, Mr Hammond?

Stephen Hammond: We are being asked in the withdrawal Bill to look at all sorts of things, and your expertise in this area is unparalleled, Sir Amyas.

Sir Amyas Morse: Let me answer your question as best as I can. If I was looking at a normal transaction and there was expenditure being cited—and as we know, in EU accounting expenditures are allocated but not paid for quite long periods—that is normal in EU accounting. If you find that they were not only not paid at that time but not paid within the expected period, you might think that that was a consideration.

Q86 **Stephen Hammond:** I have one final question. You will be aware of the evidence Sir Ivan Rogers gave us last week, in which he suggested that the final settlement may not really be based on a legal accounting process but on something political. If that is so, does that make it impossible for the NAO to take a judgment because it is in the realms of Government policy rather than the realms of legal and accounting process?

Sir Amyas Morse: That is certainly a consideration that has already occurred to me.

Q87 **Charlie Elphicke:** Sir Amyas, would you agree that leaving the European Union is probably the most significant project this country has undertaken since the Second World War?

Sir Amyas Morse: It is certainly a very significant project.

Q88 **Charlie Elphicke:** From your assessment, writing a report on the Customs Declaration Service, do you believe that we will be ready on day one of leaving the European Union, deal or no deal?

Sir Amyas Morse: What I will do, if you do not mind me doing this, is just to read out a carefully balanced statement that I got from Jon Thompson’s testimony about this: “On the basis of all the information we have now, what we have done so far and what we plan to do between here and the end, we are reasonably confident that we will get there for January 2019”. That is what he said. It is rather more interesting to think about what he says, because he is much better informed than I am. That is what he said.

What he is carefully doing is keeping a significant measure of risk involved in what he has to say. I would not go beyond that myself. As I listened to his testimony, I realised that what he was saying—he was speaking in a bluff, reassuring style, as he normally does, which was very good—was in essence that since the last time we heard from him, and six months had passed, fundamentally the risk rating on the project had not changed, the way the project was being run as one of seven priority projects in HMRC had not changed, and there were still significant things that had to happen towards the end of the project that could disrupt its final delivery.

The final thing to say is I listened to his concern to preserve that understanding that there is a significant risk. This is a substantial IT project and it is not unheard of for them to run over, let us say. We all know that, so why not say it?

Q89 **Charlie Elphicke:** He says "reasonably confident". What would you advise me as a parliamentarian to look for to lose the word "reasonably" and get "confident"?

Sir Amyas Morse: One of the other questions that was asked by the Committee was, "If you treated it as an absolute top priority, would it make any difference to your level of confidence?" and there was an answer; "No". However, the contingency programme has not been fully triggered off yet and I would have thought that should happen. If I was giving advice to a parliamentarian, I would say, "Push that forward".

Q90 **Charlie Elphicke:** There are a whole load of people who say, "We should not be spending money on contingency. It might be wasted", to which I argue that you get house insurance before your house is burgled, and much of this is spending we should have had to have tip-top borders in any event. Where would you say the balance of convenience and policy lies on that?

Sir Amyas Morse: I am in favour of insurance.

Q91 **Charlie Elphicke:** What do you think of this idea of running CHIEF alongside CDS just in case? Do you think that would work?

Sir Amyas Morse: They would run the new system on what I call remote clearance and run CHIEF physically at the border. That gives them a greater degree of confidence of handling the volumes that might occur. That sounds like a pretty sensible plan to me, and I would get into a state of preparedness as soon as possible.

Q92 **Charlie Elphicke:** We heard from Jon Thompson. It is not just the issue of CDS and CHIEF. We heard that there are 57 HMRC systems—so CDS is just the 58th—that need updating in order to be ready. Are you going to look at those in a future report, or are you already investigating that?

Sir Amyas Morse: We are not as yet. As I have explained, what we are focused on is raising the fact base in Parliament at the moment, but we are quite likely to look at them in future.

Q93 **Charlie Elphicke:** You also recently published a report on immigration. Customs is one thing; immigration is another. Will we be ready on day one to take back control of our borders, or however one wants to phrase it, whatever the eventuality, deal or no deal?

Sir Amyas Morse: We published a report on borders, not only immigration, if you do not mind me pointing that out, which tried to show all the complex interactions there are regarding the border. There are many interests, not just the one that we have been discussing in regard to HMRC, and by the way nobody disagrees with that. That was not an evaluative report, so we have not looked at whether you are going to be ready in every single way. It would be pretty impressive if we were ready in every way. The thing is to be ready in the ways that matter the most and have made a prioritised effort, I would say. That is my view. I do not have evidence to support that because I have not done a piece of work on it, but that is what I think.

Q94 **Charlie Elphicke:** There are some 20 agencies operating at the border. Singapore has a single-window system. America has the Department of Homeland Security. Australia has a similar setup. Do you think that there is a case for what we might call a department of the borders—"one department to rule them all", one department to bind them and make sure that our borders are safe and secure?

Sir Amyas Morse: I am showing my generation by being quite familiar with your quote from *The Lord of the Rings*. Again, I am going to say to you I find it quite interesting making sure I look very closely at officials' testimony. I know Jon Thompson thinks that is a good idea. I am sorry to keep on talking about him but he is in a position to know, and it must make more sense to pull everything together and to have a single window at the border if that is achievable. Is it achievable in the timescale we are talking about? That is a different question.

Q95 **Charlie Elphicke:** Looking at the whole situation with our borders—what you might call the Home Office Border Force side of things, rather than the customs side of things—have you done any reports or inquiries looking into the systems that they have and how they might cope with a situation where you increase the number of people you are checking thoroughly from, say, 12 million to 36 million, which will be the case if we leave the European Union and free movement of people were to come to an end?

Sir Amyas Morse: We have not done work on the Border Force or systems explicitly in connection with Brexit, but you may know we have done work on e-borders. The situation as far as the immigration border systems is certainly a lot better than it was, but it is not comprehensive. That was the finding of the piece of work we did last year.

Q96 **Charlie Elphicke:** Just following up on that, we have e-borders being discussed. Many countries now have a system of digital borders. Australia leads the way on that. Do you think there are efficiency savings to be had in terms of having such a digital border system, and security improvements, because the IT can be used to alert warnings more effectively, and economic benefits come from having faster flow-through at borders?

Sir Amyas Morse: There certainly are benefits to be had from having a digital border.

Q97 **Charlie Elphicke:** Would you advise me as a parliamentarian that that would be something that we should consider investing in?

Sir Amyas Morse: I would. It has taken us a long time to get to where we are and the Home Office needs to be encouraged to keep it moving forward.

Q98 **Rushanara Ali:** I am going to turn civil service capability, Sir Amyas. You have talked about the situation evolving since your comments immediately after the referendum, but you did suggest a need for urgent reprioritisation of programmes to cope with the pressures that Government departments are going to face. That included projects like Hinkley Point C and the Northern Powerhouse. In the light of more recent reflections, are you more confident in seeing the Government deprioritising projects before the referendum, and is it high up on their agenda? Could you give some examples of the kinds of projects that would be deprioritised?

Sir Amyas Morse: No, I am not going to do that. Thank you very much for that last invitation to step into a manhole—if you do not mind, I will pass it by. I did not even recommend that for the ones that were quoted. There were a lot of other reasons to think carefully about Hinkley Point.

What I see is that some of the departments are now recognising this need. That is why I quoted that HMRC is doing so, because they have a massive series of transformation programmes going on, which are already engaging a lot of their skilled people. It is a massive change and a massive new estate programme, with technology transfer and just about everything is changing, and therefore thinking about how much they can handle at one time is something all Government departments should be doing.

You also need to couple that with having careful consideration of some areas where you may not be able to slow down because of the acute state of those areas. We have for the last few years done a series of reports on sustainability of local government and sustainability of the health service. It is quite clear that you can see a lot of issues. You have a huge demand growth in the health service. It might not be convenient, but it is going to continue. Prioritising among some departments that may need funding more than others is something that only the Government can consider. I do not even have a view on it. To say what we will do is top-slice every department seems like an odd way of approaching it given, as I said earlier, that some are much more affected by Brexit than others, and therefore their free budget is much greater.

The other point that I would make, if I may, is the parliamentary time point. There just is not going to be an opportunity to introduce very much legislation on any other matters but Brexit for quite a serious period of time. Instead of seeing that as a problem to be overcome, it might be seen as an opportunity to go through a reprioritisation exercise and think, "Do we really need to bring all these changes forward just now when we are going through such a large change process with Brexit?"

Q99 **Rushanara Ali:** Would you say that that process is now more robust and systematic or not?

Sir Amyas Morse: People are beginning to understand the scale of the task. The reason you are hearing about very large numbers of additional staff being needed is because it is beginning to be understood that it is not just a question of planning something; it is a question of having people on the ground with the skillsets to carry out very major change projects. They are in short supply.

If I go back to the capability of the civil service examination I did, the skills groups that the Government agree are short are in digital, commercial and project delivery—just exactly some of the areas that are most needed to carry out many of these projects. I am not trying to be a doom-monger. I am just saying these are the words of the Government, so there is a real need to focus on where you want to put the resource to get the best result for the national interest.

Q100 **Rushanara Ali:** Do you feel that the Government have heeded those concerns enough to create a more effective cross-departmental process to get there?

Sir Amyas Morse: It is starting to move in that direction. What we are hearing is that there are plans to do this in quarter 4 of this year. I am not telling you it is the quickest thing in the world. These are plans going forward to do it. It is not being done right now. I just cannot see how Government can manage all it has. It was probably under the "too difficult" category for a while and now it is becoming visible why it needs to be done.

Q101 **Rushanara Ali:** I know you do not want to cite any specific examples, but there are infrastructure projects—Heathrow, Crossrail 2, HS2. There is a whole series of potential projects that could fall into that deprioritisation list. There are implications for the public. Do you think the Government should be much more open about that exercise, because the potential for some of those projects being delayed is huge, both for the economy, but also people's expectations of what was promised?

Sir Amyas Morse: The main thing is that saying that not only should they carry out a prioritisation exercise but that they should do it in public, is probably at this stage asking a bit too much.

Q102 **Rushanara Ali:** At what point should they be talking to the public about it?

Sir Amyas Morse: I will carry on for a second and then answer that. What they should do is to understand what projects are the most absorbent of scarce resources—which includes but is not exclusively money—how much will take up huge amounts of senior management time, how much will take up scarce skillsets and how much will take up funding that is badly needed. They must make a rational choice rather than it being based on people wanting to protect their pet projects. I would like to see a process like that going forward. Having gone through that process, if they were to be open about it, if they felt they had to make those decisions, most people would understand it as being a reasonable way of doing it. Of course, whoever was affected by it would not like it and would fight against it, but at least most people would understand the justification, which is just one of common sense.

Q103 **Rushanara Ali:** At what point would you?

Sir Amyas Morse: That is really not my business.

Q104 **Chair:** Just to press on that, there must be some major projects that are being done for purposes of achieving savings or moving a technology into the 21st century—what has been a very expensive computer system, for example that has to be modernised in order to cope with the demands of today. Some of those potential savings or certainly costings must be baked into departmental accounts, future budget projections and everything else. Is that not something that you eventually would be looking at as the National Audit Office in terms of value for money?

Sir Amyas Morse: Yes, we would.

Chair: It will eventually cross your desk.

Sir Amyas Morse: In the end, whatever prioritisation decisions were made, if they resulted in nugatory costs and things being cut off we would examine them. Yes, we would.

Chair: You would then at some point have to pass a judgment—

Sir Amyas Morse: We would look to see how reasonable the approach had been. What I am just trying to say in a few words is that we would look for a reasonable and rational approach that maximised public value.

Q105 **Chair:** But recognising that, because of the enormous demands of leaving the EU on Whitehall, even if there are some projects put on hold, and, if it is not value-for-money that they are put on hold, it is rational because of the enormous demands put on Whitehall.

Sir Amyas Morse: Yes, that is right.

Q106 **Rushanara Ali:** In a sense there is a tension between your role and value for money and where we are with Brexit and the necessity of Whitehall having to make those adjustments to cope with one of the biggest challenges we face.

Sir Amyas Morse: Honestly, I do not think there is a tension. My previous life was as Global Managing Partner of PricewaterhouseCoopers. We did not take "penny wise, pound foolish" decisions and the Government should not either. I am not here as a champion of asking after every penny if you are losing out strategically in a big way. Public value runs alongside making what are generally common sense, good strategic decisions. It is not contradictory.

Q107 **Rushanara Ali:** Do you think that the Government continue to suffer from optimism bias on some things they are doing?

Sir Amyas Morse: Yes, I do. I see a lot of optimism bias in most of the programmes that I see that go wrong. Despite the titanic efforts of a lot of people in the civil service who are driving those programmes, they go wrong at the very beginning because they set themselves goals that are simply unrealistic, and because quite often you have projects that are far too gold-plated. Instead of picking a project that is the least risky way of getting the functionality you need, I quite often see projects that are setting out to be world-beating, astonishing projects, and really in the business world people do not like that stuff. They want things that get the job done at the lowest risk and the lowest cost. I do not see that influencing thinking very often in the public sector. People get excited and enthusiastic about projects and they do not have that very tough, hardnosed view that I would really much prefer them to have.

Q108 **Rushanara Ali:** What would you change? What would you recommend in terms of change to have that much more hardnosed, strategic objective that the business world benefits from?

Sir Amyas Morse: First, I am very supportive of what John Manzoni is doing in building professional and business skills in the civil service, but also having people who are credible at the top of the civil service who champion this sort of attitude and who therefore are giving Ministers authoritative advice about this.

Q109 **Rushanara Ali:** I just have a couple of final questions on this section. Do you feel that the Government are sufficiently aware of the areas where there is a competency gap? You mentioned IT. Are you confident that they can now see what else they need to do, where they need to fill that gap and, if it is not within our country, given the broader context of broader anti-immigration sentiment, which I am going to come on to in a second, where they need to go to meet that skills gap as required?

Sir Amyas Morse: With some of the things that we are hearing at the moment, it is likely that the Government have fully woken up to the gaps or are waking up very much to what those gaps are. What I quoted to you was a report we published some time ago now, which expressed what Government acknowledged to be a skills gap, so it was not just our idea. We probably put the skills gap a bit higher, but the Government agreed that these were areas where there were substantial skills gaps. They do know there is a problem there.

Question: how do they supply those needs? I do not know quite what state this is at, but there was a need to develop workforce planning capabilities, and I am interested to see how that is progressing as well. If they are capable of planning the workforce skills they need to carry out particular tasks and they have that in place then they should know what skills they need and then the question is where in the world they can get them from. I would look around the world and attract the people that you need to get these things done.

Q110 **Rushanara Ali:** Given the focus on having more stringent immigration controls and certain sectors being quite dependent on having some level of migration, could you say a bit more about how the Government might square that?

Sir Amyas Morse: I find that quite difficult because I am not really particularly knowledgeable about immigration controls in detail. I am really not prepared for that.

Rushanara Ali: There are some implications in health and social care, for instance.

Sir Amyas Morse: I understand what you are saying. There are implications about not being able to access pools of skillsets that you were able to access before. I understand the point you are making, but I do not have much to add to it, I am afraid. Sorry, I am not being unhelpful; I just do not have much more information on that.

Q111 **Stephen Hammond:** I just have two questions. In terms of governance statements and how they show risks, are you concerned, or what advice will you be giving, about how many departments should have put more into their governance statements?

Sir Amyas Morse: Yes, I give advice on governance statements. Do I think that departments could put more into it? Yes, they could. Could departments take their governance processes more seriously? Certainly, in some cases they could do and get more value out of the governance available to them. Nowadays there are some really quite sophisticated people in the non-exec ranks. Lord Browne achieved a lot there. They have skills that could be drawn on quite a lot more than they are in some cases. I am in favour of that.

Q112 **Stephen Hammond:** In response to Mr Elphicke's question about the radius of HMRC, you said that in his bluff way Jon Thompson reassured us that it would be in place for day one. Earlier in his evidence, when he was discussing future relationships—either a customs partnership or a special customs relationship—it is true, is it not, that he said that HMRC would not be ready for those for between two and five years?

Sir Amyas Morse: Yes. I read out to you exactly what he said in testimony.

Q113 **Stephen Hammond:** He said exactly that point about day one, but there was a point earlier in his evidence where he was talking about future relationships. What he was saying then was that while we would be ready for what we currently have, were we to put in place either a customs partnership or a special customs relationship—

Sir Amyas Morse: It would take longer, that is right.

Stephen Hammond: He said readiness for that would take HMRC up to two to five years after the moment of decision on that.

Sir Amyas Morse: Absolutely.

Stephen Hammond: I just wanted to get that on the record. Thank you.

Q114 **Kit Malthouse:** Hello. May I first of all congratulate you on showing up without a great retinue of advisers? Very few people do. I would expect no less from a fellow chartered accountant. I just wanted to take you back. I was going to ask some questions about the Bank of England, but I just wanted to take you back a little bit to Stephen's questioning about the lump sum payment. My assumption so far is that there would have to be a scientific basis to the payment; otherwise there may not be a legal basis for making the payment. Is that correct?

Sir Amyas Morse: Whether it is correct, it is what I think as well, if that is helpful. My informal comments fed into this have been in that direction: that it would be much better to have some clarity about what the construction of such a payment would be. It is much easier for people to be comfortable that it was correct and not just a sum of money.

Q115 **Kit Malthouse:** You advised the Government that that would be something that you would be looking for.

Sir Amyas Morse: If I am expected to assure Parliament about a payment I would want to enquire into how it was arrived at and if the answer was, "It was not really arrived at. It was just a whack up", that is a bit of a strange conversation. I can imagine that being quite a strange conversation.

Q116 **Kit Malthouse:** If it was just an ex gratia payment, are you aware of any legal basis for that being made?

Sir Amyas Morse: No. I do not want to be annoying by saying I am not a lawyer. I am not.

Kit Malthouse: I am just asking.

Sir Amyas Morse: No, I am not. Is it illegal? Probably it is not, but it would raise questions at the time of the transaction and later about what value had been achieved.

Q117 **Kit Malthouse:** When that payment is made—and it seems to be accepted that there is going to be some form of payment—I guess you and your organisation will be providing some kind of value-for-money opinion. Would you place yourself in that position?

Sir Amyas Morse: Yes. It would be very odd if we did not think we had a duty to examine such an enormous transaction on behalf of Parliament, and we would do that. We would not be advising the Treasury or anyone. What we would do is act on behalf of Parliament and make a report to Parliament as to what our views were.

Q118 **Kit Malthouse:** In the same way that you might talk before you get there about the scope of an audit, you might advise the Government about the scope of the—

Sir Amyas Morse: You are right as it happens, yes.

Q119 **Kit Malthouse:** Have you already given that advice?

Sir Amyas Morse: I have given some indicative advice at quite an early stage, because I do not know the shape of it at all. I have given some "for instance" advice.

Q120 **Kit Malthouse:** Is this a one-off letter from you or is the discussion ongoing?

Sir Amyas Morse: There is going to be a discussion.

Q121 **Kit Malthouse:** Are you able to share your advice with us?

Sir Amyas Morse: It is not so much advice as indicating what I would normally expect. Making the assumption that this was a payment under a series of heads and not very startling information was given, I would examine each of the heads, examine the estimation basis, see if the action amounts attributed to it fell within a reasonable range, see how all that was aggregated, look at any discounting factors, and look at whether, when you brought it all together, there was more over the top than the payment. It is just a normal approach.

Q122 **Kit Malthouse:** No, I get it. I am not pressing for anything particularly, but have you dropped them a line, then, saying that this is what you are looking for?

Sir Amyas Morse: A preliminary line, yes.

Q123 **Kit Malthouse:** Are we able to see that letter?

Sir Amyas Morse: That is confidential advice, but I have pretty much told you everything that is in it.

Q124 **Kit Malthouse:** Have you had a reply?

Sir Amyas Morse: Yes, I have had an invitation in reply.

Kit Malthouse: An invitation to go in and talk about the scope.

Sir Amyas Morse: Yes, which I am really encouraged to have had.

Q125 **Kit Malthouse:** On the Bank of England, what kind of shape is the old lady in? One Bank, one mission—all that mission-statement newspeak stuff. How are they getting on? £120 million.

Sir Amyas Morse: I actually think they have made good progress. There are areas where I think there is more to do, and "more to do" is not a subtle way of taking away the praise I have just given. I genuinely think they have set out with a true intent of making progress and they have done so to a significant degree in unifying the Bank and making it less silo-ised, and they have made a lot of other changes. There is something to do with addressing the culture. The Bank has been there for a very long time. It has a very strongly concentrated culture and the Bank needs to continue to consider whether the culture encouraged is as inclusive as they would like it to be.

Q126 **Kit Malthouse:** When you say a strongly concentrated culture, what does that mean? Does that mean it is a fiefdom?

Sir Amyas Morse: We must have met people who have been in the Bank of England for most of their working lives. They are very bright. They have been there for a long time. It is naturally and appropriately a conservative institution, so there is a powerful culture in those areas. What it wants to do is to make itself more unified, for people to have more interesting career paths and to be able to bring people in more readily. All of its aims in this strategy I would support and they are sincerely pursuing them, but one of the things that will help them to do that they could go even further with would be cultural change.

Q127 **Kit Malthouse:** One of the issues that is often raised about the culture of the Bank of England is that it is a fiefdom that the Governor's writ runs—certainly in the past it has—and that everything points towards the Sun King. Is that your perception or is that changing?

Sir Amyas Morse: No, that is not my perception. That would not be fair.

Q128 **Kit Malthouse:** You have a memorandum of understanding with the Bank. When I discovered that you have an MOU I found that slightly strange. Why does your relationship with them have to be on a contractual basis?

Sir Amyas Morse: An MOU is not a contract, is it? You know that. I am afraid I am the guilty man who suggested an MOU, because I did not want to find that everything had to be spelt out in legislation. I favour MOUs because what they allow you to have an exchange with the counterparty to say, "How are we expecting this to actually work?" and try to get that worked out between you, instead of trying to express it all in legislation; we would have had a very long section in the Bill otherwise. There were a lot of concerns about having the Government auditor involved with the Bank, and I thought it was absolutely fine. It should be clear what we were intending. I was very happy to enter into that.

Q129 **Kit Malthouse:** Obviously you want co-operation with the Bank. Have they been cooperative?

Sir Amyas Morse: Yes, they have.

Q130 **Kit Malthouse:** They have given you everything that you want to see.

Sir Amyas Morse: That is right.

Q131 **Kit Malthouse:** Great. There are other organisations that need to go through cultural change, like Revenue. Do you think there are lessons to be learned from the Bank of England?

Sir Amyas Morse: There are always lessons to be learned, and there are plenty of organisations that need to go through cultural change. We are going through a process of cultural change in the NAO at the moment. Any culture that you have will only carry you so far, and you need to think about it and see how you need to change it from time to time.

Q132 **Kit Malthouse:** Do you have a priority list of Government organisations?

Sir Amyas Morse: No, I do not. I know the next question would be, "Can I have the list?" I do not have the list.

Chair: We can borrow you for cultural change in Parliament.

Q133 **Kit Malthouse:** You must have a priority list in your mind.

Sir Amyas Morse: No, I really do not.

Q134 **Kit Malthouse:** You must have a risk register.

Sir Amyas Morse: Do you mean for the whole of Government?

Kit Malthouse: Yes.

Sir Amyas Morse: No, I do not.

Kit Malthouse: You do not have a risk register.

Sir Amyas Morse: I do not run Government. I am the auditor of the Government but I do not run Government, so I would not have a risk register.

Q135 **Kit Malthouse:** My dim memory, having been an auditor for whatever it was—four years—is that we would analyse the organisation that we were auditing and decide where the risk was. We would concentrate our work there.

Sir Amyas Morse: That is true.

Q136 **Kit Malthouse:** You must do the same with Government, do you not?

Sir Amyas Morse: The Government is not a thing. This is a departmental government system and we audit a series of departments. There is not a thing called "the Government" that is a single unified body.

Q137 **Kit Malthouse:** You must surely say, "This department is well-run, efficiently managed and has a good culture, and therefore we do not need to do that much work on them for a bit, whereas this one is chaotic and not running that well and so we do need to do more work there".

Sir Amyas Morse: We do a risk assessment of anything that we audit. That is correct. If I can summarise what you said, that is correct.

Q138 **Kit Malthouse:** Some departments will get more attention from you than others.

Sir Amyas Morse: Different attention, yes. I am actually just being accurate. It also makes a difference: if departments have been cutting the size of their finance department, you might find—and we have found this in the last year—that you will have to do much more work because everybody has cut back on their finance departments and they cannot get their accounts done without us doing quite a lot to help them over the line.

Q139 **Kit Malthouse:** There must be other things. If there is a department that is trying to bring in a huge, risky IT project, you would keep more of an eye on them.

Sir Amyas Morse: Yes, we will. If they are doing a transformation project or if there is something difficult, we will look at it. We might do a value-for-money study. We also do investigations, which are simply fact-finding rather than expressing an opinion. We will also look at it from the point of view of financial audit and verifying the accounts.

Q140 **Kit Malthouse:** You do have a risk register then.

Sir Amyas Morse: I do not have one.

Kit Malthouse: I am not trying to be difficult.

Sir Amyas Morse: I do not have a risk register. I make a risk assessment. These departments have their own risk registers. They are obliged to have a risk register. I do not have a risk register for them. I make an assessment of the audit risk. That is not the same thing.

Q141 **Kit Malthouse:** You have an audit risk register then.

Sir Amyas Morse: I have a list of audit risks.

Kit Malthouse: Enough of that cul-de-sac then.

Sir Amyas Morse: Thank you.

Q142 **Kit Malthouse:** I want to ask you a bit about the conflict of interests issues at the Bank of England and whether you had had a look at that and their governance arrangements. Obviously we had an issue with a deputy governor that arose from questioning on this Committee, and obviously the Bank has done a fair amount of work on that area.

Sir Amyas Morse: That is right.

Kit Malthouse: I wondered what your opinion was on what they have done so far.

Sir Amyas Morse: I have not looked at the work that they have done so far but I have contributed thoughts on what a conflict of interest approach should be. I am afraid that it is some time ago since I wrote that memorandum but I have contributed to a memorandum, saying what I would expect there to be, which would be to provide independent challenge on the appointment and independence of senior people at the Bank.

Q143 **Kit Malthouse:** Are you planning to have a look at what they have put in place?

Sir Amyas Morse: That is quite likely, yes.

Q144 **Kit Malthouse:** Is that a yes?

Sir Amyas Morse: No, it is quite likely, because I have not actually decided yet.

Q145 **Kit Malthouse:** Oh, right; so you may not look?

Sir Amyas Morse: I may have a quick look at it and, if I am unhappy about it, I may do a full examination on it.

Kit Malthouse: Okay, thank you. I was not trying to be tricky.

Q146 **Mr Jack:** As the only remaining Scot on the panel today, I will be very kind to you.

Sir Amyas Morse: Thank you very much. I will see if I can tell the difference.

Mr Jack: He started off with a compliment. Local councils have been borrowing money to invest in commercial property, shopping centres, offices, et cetera. Do you think that is a substantial risk they are taking that the central Government are not recognising or not accounting for?

Sir Amyas Morse: Just to be clear about what my role is in terms of local authorities, I set the audit code that is carried out by auditors who are auditing these entities. I do not directly examine them myself. It is worth saying that at the beginning.

Q147 **Mr Jack:** Would you agree that there is a risk potentially falling back to the Treasury?

Sir Amyas Morse: Yes, and I did not wish to avoid that at all. I do observe that local authorities are trying to supplement their income by making investments that are designed to generate income, and there is a question of how much risk they are taking when they do that, and whether it is a sign that they are in financial difficulties. If they are very good at it and they are successful, then that is great, but does it make their financial position a bit more precarious than it otherwise would be? There needs to be some careful examination of that. I know DCLG is quite well aware of it, as I actually happen to have discussed it with them.

Q148 **Mr Jack:** I would put it to you that there is potentially a double risk in as much as the Public Works Loan Board can get cheap money from the public, and therefore the Treasury has a responsibility to that as a Treasury agency. However, if they are also going out and taking loans from banks—if you go back to the crash in 2007 and 2008, a number of banks, not least the Bank of Scotland and the Royal Bank of Scotland, have lost billions to highly geared commercial property transactions, which of course has had a knock-on effect to the Treasury as well. Would you agree that there is a risk?

Sir Amyas Morse: Anything that is highly geared and makes assumptions about what the market will be like, which is at all in the nature of betting where the market will go, has to be thought about extremely carefully. That is particularly the case now where we can see interest rates starting to inch up a bit.

Q149 **Mr Jack:** That is right. When that crash came, commercial property prices dropped about 40%. If you buy something based on the strong yields from a tenant and the tenant goes, the value of that property without a tenant, as you know, changes.

Sir Amyas Morse: You are quite right. I absolutely do not disagree with that at all.

Q150 **Mr Jack:** Do you think central Government understands the level of the risk? Does the Treasury understand it?

Sir Amyas Morse: I do not know if the Treasury does. It is fair to say that DCLG knows that the risk exists and is thinking about it.

Q151 **Mr Jack:** Right. I just want to move on to additional housing, which is obviously a challenge for the country. The Prime Minister has announced a bidding process. She has announced, in October, an extra £2 billion to take it to £9 billion. Do you think that a bidding process is the right process to distribute central Government funds?

Sir Amyas Morse: I can understand, as a way of prioritising, why, depending on what you are prepared to do with the money, you would use that approach to say, "If you are offering to create more homes, we are more likely to give the money to you". I can understand that. The only question I have about all of this is that I have not had a chance to look yet at what research has been done to believe that this amount of funding will actually make that big a difference to the provision of homes, and that is really the crucial question. This is a really difficult problem and I know all sorts of stimuli have been tried that have not produced, including releasing publicly owned land and so forth. The question is: how much of a difference has any of that really made? I do not know what evidence this initiative was based on, and I would be interested to see that.

Q152 **Mr Jack:** Would you agree that there is a risk that the money follows the best return on investment rather than the areas that have the greatest need for housing?

Sir Amyas Morse: That is absolutely right. It always does that. Money will always follow good return.

Mr Jack: We do face areas that have a greater need.

Sir Amyas Morse: I agree with you.

Q153 **Chair:** I want to ask about student loans. As you know, the Committee is holding an inquiry into student loans, not in terms of policy but rather the funding of the student loans policy. What work does the National Audit Office do regarding the national accounts as opposed to Government departmental accounts?

Sir Amyas Morse: We do not audit the national accounts. They do not come under our purview. I am aware of the fact that they produce a different result in regard to the Student Loans Company. If there was a disposal of the Student Loans Company, it would produce a different result, as well as I understand it. If the loan book were sold, they would not be obliged to book a capital loss in the national accounts.

As far as the whole of Government accounts are concerned, or the accounts of the departments that we audit, obviously those are all done on normal accounting standards and therefore everything would be booked. However, as far as the national accounts are concerned, yes, that is right, and that is a bit concerning. The fact that, effectively, the write-down in the value of the loan book does not have an impact on the national accounts until the loan is actually written off means that it is all too easy to manage the impact.

Q154 **Chair:** Is that fair on the taxpayer in terms of trying to understand the impact? We had evidence that within six years there will be £160 billion—someone will correct me if I have that figure wrong—outstanding in student loans. However, exactly as you have said, we heard evidence last week about the accounting treatment of student loans meaning that the money spent on lending to students does not hit the deficit in the national accounts, nor the does the write-off, until they are written off in 25 or 30 years' time, which is exactly what you have just said. However, those numbers do appear in the Department for Education accounts. Going back to my first point, does the taxpayer have full transparency of how the funding of student loans is impacting on this country's financial position?

Sir Amyas Morse: First of all, it is at least confusing. In other words, if they look in the whole-of-Government accounts, they will see something that I would regard as a normal accounting presentation of the results but they will not see that in the national accounts. That is odd, that is different, and that must make for some confusion. More than that, I am concerned about the risk that it might have some elements of perverse incentive about it.

Chair: Can you expand on that?

Sir Amyas Morse: It is important that it not be a position where the department come out taking a loss and, actually, in the hands of the Treasury, it is not a loss. I would like to be reassured that that could not have any negative results. We are concerned by that, yes.

Q155 **Chair:** Have you made representations to the Treasury or to anyone else in Government about that?

Sir Amyas Morse: I am in discussions with people in Government about it. I do take it seriously. I am halfway between talking with the department and talking with the Treasury about it.

Q156 **Chair:** You said at the start that the National Audit Office obviously does not look at the national accounts, but is there a role for the National Audit Office in doing that?

Sir Amyas Morse: If somebody is watching this from the Treasury, I am sure they will be trying to mentally control what I say now. I am sure that they will have arguments as to why it should not be that way but, in this case, it is not producing the greatest result.

Q157 **Chair:** You will agree, given your remit, which is to help Parliament to scrutinise the Executive, that not having some sort of remit over the national accounts—this is a good example—means that, potentially, although we are both interested in this, there is no formal way for you to point out that the student loans are not there in the national accounts.

Sir Amyas Morse: That is true.

Q158 **Chair:** Do you think that it would be more helpful if it was clear to everybody, for example, that the write-off—the annual impairment of the student loan book which was about £3.9 billion last year—was factored into the Government's scorecard?

Sir Amyas Morse: Yes, I do think it would be.

Q159 **Chair:** What response have you had in making this case?

Sir Amyas Morse: When I say that I am in the middle of discussions, I really am that; I am not in a positon where I have really had a response yet. I have talked to the department about it; that is how far I have got.

Chair: The Department for Education?

Sir Amyas Morse: Yes.

Chair: You are waiting to hear from the Treasury?

Sir Amyas Morse: Yes.

Q160 **Rushanara Ali:** I will focus now on universal credit. David Gauke has said that reducing the six-week waiting period for universal tax credit would cost money. While reducing the six-week period would certainly increase the welfare bill, is it possible that it would lead to additional costs in other areas, such as local authorities or emergency accommodation?

Sir Amyas Morse: Yes, it is possible.

Q161 **Rushanara Ali:** Do you have a sense of the scale of that?

Sir Amyas Morse: Not yet, but we are going to do a report on universal credit next year. We have just started work on it, and this will likely feature in that.

Q162 **Rushanara Ali:** Is that an analysis of savings versus costs?

Sir Amyas Morse: This report has a benefit recipient orientation to it, so, yes, I hope so. The reason I am expressing myself conditionally is because I do not know exactly what evidence we will be able to get or how good it will be. I am afraid that what we put in our reports rather depends on whether I can get some really convincing quality evidence that I can support some comments upon.

Q163 **Rushanara Ali:** What sort of evidence would you be looking for?

Sir Amyas Morse: Whether there are organised facts that directly associate features of universal credit with results in terms of emergency accommodation and things of that sort. Just taking the example you cited, can I find facts that strongly make a bridge between those two, or is it a story that people will tell you that may be convincing but is actually no more than an expression of some people's experience? That is always what we are looking for: how can we support a more strongly based statement? That is how we do our work.

Q164 **Rushanara Ali:** On the financial hardship element at the moment, during the waiting period and the discussions about advanced payments, do you think that the universal credit application process could be made more efficient if it provided for an advanced payment immediately on application? Or do you feel that you need to do the assessment before you can make that judgment?

Sir Amyas Morse: It would certainly be different if you did that. I cannot go further than that.

Q165 **Rushanara Ali:** Would that be something that the study would look at?

Sir Amyas Morse: What I will try to look at is what the effects of the system are as it stands and what considerations the department is taking into account to improve the system.

Q166 **Rushanara Ali:** In relation to that, would it also look at the institutional capacity of things like JobCentre Plus? One of the things that is coming through in terms of constituency casework is that, even when the Government say that there are these other provisions, because of capacity constraints at the local level, people's experience of the things that should happen do not happen, which then leaves them in very vulnerable circumstances. Is that way beyond the remit of what you do?

Sir Amyas Morse: Let me make a suggestion, if I might, and I would say this to any MP. We have a study starting up on this subject. Please write to me with any issues that you would like me to look at. If I can look at them in my study, I will. If they do not fit in, I will explain why they do not.

Q167 **Rushanara Ali:** Thank you. On 18 October, at the Work and Pensions Committee, David Gauke stated that the department was improving the payment system to allow social landlords to be paid directly for alternative payment arrangements, which helps with rent arrears and eviction threats. Do you think that that could be extended to other landlords or would that pose some significant risks?

Sir Amyas Morse: I really have not given that any consideration at all, if I am honest with you.

Q168 **Chair:** I have some final questions. You or the National Audit Office expressed concerns about the way that applications were announced and decisions made in relation to the LIBOR fund. I wondered if you could just set out what those concerns were, which I think you covered in one of your annual reports, as well as what has happened since to perhaps provide you with further reassurance. The Treasury asked the MoD to conduct a review.

Sir Amyas Morse: We did an investigation on the use of the LIBOR fund. That is a significant amount of money—£973 million—that was paid into that fund. The majority has gone towards the armed forces and emergency services charities. What we were concerned to find was that £196 million of the grants allocated on behalf of the Chancellor were given out without any terms and conditions at all. At the moment there is an investigation going on by the MoD to see whether that lack of conditionality has actually led to anything not being spent in a way that would have been regarded as desirable. It may be that it is all absolutely fine, and I sincerely hope it has been, but we just do not know the answer to that yet.

Q169 **Chair:** Will the MoD report back to the National Audit Office when their review is completed?

Sir Amyas Morse: I believe that is right, yes.

Q170 **Chair:** Is there a timescale for that? If you do not know, you are welcome to write to us.

Sir Amyas Morse: All I have here is "not yet". This has been running for a little bit so I would expect to hear pretty quickly.

Q171 **Chair:** Could you let the Committee know and just write to us about that?

Sir Amyas Morse: Yes, of course.

Q172 **Chair:** Do you expect then, on the basis of that review, to offer some guidance to the Treasury in relation to any other money that is remaining in the LIBOR fund or, potentially, further funds that might be received, as to how things could be done better next time?

Sir Amyas Morse: I will if I think that they have not learnt the lessons but I have a feeling that they have already got the point. As long as I am happy with the point that they have got, I will probably leave it at that.

Q173 **Chair:** Excellent; that is great. Can I just ask one further question, just going back to the questions earlier about the eventual financial settlement with the EU? Obviously we do not know if there will be one but let us say that there is. I wondered, in assessing the reasonableness of that settlement, whether you would be looking at what the Government might get back from the payment, i.e. market access, transition arrangements or something else, or will you just be looking at whether it can be objectively justified?

Sir Amyas Morse: It is really interesting. Before coming along here, I was exactly thinking about that. It may be that we get to something where it is an almost impossible task to evaluate it. I will make up an answer, which is that we might find that we could look at each of the specific elements and work out whether the amount paid in aggregate reflected just those elements or whether there was a bit on top for whatever other consideration; but then, having been told what they were, we might look at them and think, "We really cannot evaluate this". How do you go about valuing access to the EU or the marketplace? If there is a way we can evaluate, we will try to do so. However, it would not surprise me if our approach only took us so far up the structure, with a bit at the top that we felt was too nugatory to associate a value with, where any value might be a bit arbitrary. If we can find a way, and it is a supportable good-practice way of doing it, we will do the whole thing.

Q174 **Chair:** Presumably, in terms of the general NAO work in looking at value for money, there is always an element of some kind of judgment when you are reaching that value-for-money judgment.

Sir Amyas Morse: That is absolutely right; there is. Just drifting into my mind is a business case for HS2 where you have quite remote economic benefits being cited as part of the justification for the project, and you try to arrive at some means of assessing what value should be associated with them.

Chair: We are approaching the time when the bell will ring anyway. Colleagues are very grateful to you, Sir Amyas. Can I thank you very much indeed for coming along this afternoon and giving your evidence to the Committee? It is very much appreciated. Thank you.