

Public Accounts Committee

Oral evidence: [Whole of Government Accounts](#), HC 464

Wednesday 14 November 2018

Ordered by the House of Commons to be published on 14 November 2018.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Douglas Chapman; Sir Geoffrey Clifton-Brown; Chris Davies; Nigel Mills; Anne Marie Morris; Bridget Phillipson; Lee Rowley; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Darren Stewart, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-156

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury, Charles Roxburgh, Second Permanent Secretary, HM Treasury, James Bowler, Director General Public Spending, HM Treasury, and Vicky Rock, Head of Government Financial Reporting, HM Treasury.

Reports by the Comptroller and Auditor General

PFI and PF2, Session 2017-19 (HC 718)

Evaluating the government balance sheet (HC 526)

Whole of Government Accounts: year ended 31 March 2017
(HC 1091)

Evaluating the government balance sheet: financial assets and
investments, Session 2016-17 (HC 463)

Evaluating the government balance sheet: provisions,
contingent liabilities and guarantees, Session 2016-17 (HC
462)

Evaluating the government balance sheet: pensions, Session
2016-17 (HC 238)

Examination of witnesses

Witnesses: Sir Tom Scholar, Charles Roxburgh, James Bowler and Vicky Rock.

Chair: Welcome to the Public Accounts Committee. We are here to look at one of our favourite topics: the Whole of Government Accounts. We are considering the 2016-17 Whole of Government Accounts, which provide us and the public with the most complete and accurate picture of the UK's public sector finances—that is why we like it so much. I think it is fair to say that we have been impressed by the progress that has been made, certainly since I have been on this Committee, when we saw them quite late in the day. They have become much better documents—much more useful. We are still concerned, as you know, that they are published late—these were not published until quite some time after the end of the financial year. That means that they are not as useful as a decision-making tool as they could be, so we will ask you a bit about that. We will also go into some other issues. We also want to talk about how you will account for Brexit in the Whole of Government Accounts, which is one of the biggest changes that you will be dealing with in future.

I welcome our witnesses. I will introduce them from my left to right. Vicky Rock is the Head of Government Financial Reporting at the Treasury. Sir Tom Scholar is the Permanent Secretary at Her Majesty's Treasury. Charles Roxburgh is the Second Permanent Secretary at the Treasury. James Bowler is the Director General, Public Spending, at the Treasury. Welcome to you all. We are quite well prepared on this and I am sure you are, so if we keep our questions quick and you keep your answers short, we can get through this in good time.



HOUSE OF COMMONS

- Q1 Lee Rowley:** This is a very interesting document. It is the first time I have properly read it as a Member of Parliament. Can you start by telling me what the purpose of it is? What should I expect people to use it for and who uses it?

Sir Tom Scholar: Let me start and then hand over to Mr Bowler, who is the accounting officer for the Whole of Government Accounts. We have been producing these for seven or eight years in order to improve the Government's fiscal transparency. It is by no means the only publication or tool that we provide to do that, but it is an important one. As I am sure you are aware, it is a unique publication worldwide in that it brings together the accounts of over 7,000 public sector entities, so it gives a very clear overall snapshot of the public sector balance sheet, and it does so according to standard accounting principles. I recall that 10 years ago we were criticised for not doing that and people said, for example, that it made it difficult to get a sense of the Government's pension liabilities. This was a response to that kind of criticism. It provides a comprehensive account of the public sector balance sheet according to standard and recognised principles. It is audited by the National Audit Office so that gives Parliament a very high degree of confidence in the numbers set out.

Its uses in some senses are quite specialised; it is not the main tool for fiscal decision making, partly because inevitably it is in large part a backward-looking document, yet fiscal policy tends to be forward-looking. As the chair said, that is due to the fact that it takes some time to prepare it after the year end, given that we have to consolidate 7,000 sets of accounts, whereas public finance figures on a national accounts basis are published monthly. We do all our budgeting and forecasting based on those. I would not want to detract from the importance of it in a whole host of areas, which I am sure we will discuss this afternoon as we try to improve the management of public finances.

- Q2 Lee Rowley:** Is it being used in the way that you want it to be used?

Sir Tom Scholar: I think it is. The Office for Budget Responsibility uses it when it prepares its fiscal risk report and fiscal sustainability report, and it does one of those each year. It looks at the public sector balance sheet and the sustainability of the public finances over a long period. We use it in our response to that. The Office for National Statistics uses it in some of the statistics that it is responsible for preparing. We use it in policy. We have recently embarked on a balance sheet review—we can take you through some of the important decisions that we have taken as a result of that. We use it with Departments, to help them to improve their management of their own departmental responsibilities, in particular the liabilities that they are responsible for. It is also quite widely used as one among a number of tools to get a good handle on the true state of the British public finances. We are very encouraged by that. We are also encouraged by the feedback we have received that suggests that people increasingly find it useful and user-friendly.

- Q3 Lee Rowley:** I went back to the original Treasury document from 1998, which explained the underlying objectives to how we got here. It talks



HOUSE OF COMMONS

about the main potential users of the Whole of Government Accounts as “key government planners”, which you just outlined in detail—that is probably a tick in the box—and also, “managers, including Ministers”. Do we think that Ministers are using this?

Sir Tom Scholar: They certainly will—

Q4 **Lee Rowley:** Are or will?

Sir Tom Scholar: Will in the sense of do. They will get advice from their Departments and their finance departments. I am not saying that a Minister will sit down and read it cover to cover, but if you are a Secretary of State managing a Department, you will take lots of decisions based on the advice that you get from your finance team. That team will be very familiar with this.

Q5 **Lee Rowley:** The next one was “Parliamentary Select Committees”. Other than this Committee, which Select Committees will use it?

Sir Tom Scholar: I do not know the answer to that, but I know this Committee is very interested in it every year.

Q6 **Lee Rowley:** “Groups outside government and Parliament, including taxpayers more generally”. Is there any indication that there would be other taxpayer groups that are looking at it or using it?

Sir Tom Scholar: Again, I am not sure. We have had feedback in the past that it would be good to make it more user friendly. There is some suggestion that that is in hand. Which particular groups are using it, I cannot answer.

Q7 **Lee Rowley:** “Academics and financial and other commentators in the media.” What is your view?

Sir Tom Scholar: Certainly, academics and think-tanks such as the Institute for Fiscal Studies would use it. The International Monetary Fund uses it. In fact, we had a conference last week in the Treasury with it and others such as the Institute for Government and the Resolution Foundation. Many academics, think-tanks or other bodies active in the field of public finance find this a useful and groundbreaking document.

Q8 **Lee Rowley:** I think it is a great document and it should be mandatory reading for everybody. I query whether it is. I googled “Whole of Government Accounts” before I came in today, and looked at the news section. Of the top 10 hits, eight were *Public Financial International*, which I think we would agree is a niche publication. One is *Forbes*, which again is a niche publication, and the other one is *The Economist*. Why do you think it is not getting into the mainstream media?

Sir Tom Scholar: If you look at media commentary on a private sector company, you typically find the commentary around the particular announcement that might be made at the time that an account is disclosed. You don’t terribly often find extensive commentary on the accounts themselves. Accounts and accounting standards are inevitably



HOUSE OF COMMONS

quite technical matters. The other thing I would say is that for a private sector company, the disclosure of its annual accounts—

- Q9 **Lee Rowley:** But it is a very non-technical document—that is the interesting thing about it. You have some really interesting stuff in there, graphically, and there are very pithy comments.

Chair: These are compliments, Tom.

Lee Rowley: Exactly. I am not used to saying this.

The other example I wanted to use is parliamentarians. I went on TheyWorkForYou and found out how many times “Whole of Government Accounts” had been referenced orally in the House of Commons. How many times do you reckon recently?

Sir Tom Scholar: I wouldn’t like to hazard a guess.

- Q10 **Lee Rowley:** Three, since 2012.

Sir Tom Scholar: We would certainly share your ambition to promote wider readership, but the accounting officer is desperate to get in, so let me—

Chair: I should just chip in and say, just to try to prove this point, that I have invited Members from the House to a briefing and there was a flurry of interest. We may even invite the Treasury to come and talk about it if you are willing to do that.

James Bowler: A couple of things. I don’t dispute your Google search statistics, but the performance report that we put at the front of the accounts is trying to bring the whole thing alive and we have done more this year to try to make it more user-friendly. More generally about where things are getting used, historically there is an enormous amount of focus on the £800 billion, roughly, that we spend and raise in tax, but the key thing that the Whole of Government Accounts does is go further than that on the assets underlying the Government’s balance sheet and the liabilities thereto. It is probably worth saying that there is a lot more conversation about that now, be it at Whole of Government Accounts level or in your Select Committees around clinical negligence, in liabilities around pensions, in Government borrowing or in Government property, and an increasing interest in the sort of intangible assets.

- Q11 **Lee Rowley:** I take your point that there is a wider hinterland of suggestions of where this is being used in a way that is beyond just crude googling, but I do wonder why it is not yet in the mainstream of conversation. In my view, it should be. The ACCA came out with a paper a few years ago and it said that there is a need for further research to ask users about how they use the WGAs—how useful they are, what type of information report they actually require. Do you think there would be some value in understanding that and in doing that in the Treasury, as the owner of this document?

James Bowler: I would be very happy to do that. As Tom said, we had an international conference last week in the Treasury where we said, "This is what we do and this is how we are doing it. What are other people doing and what can we learn from you?" So yes, any attempt to spread the word would be very welcome.

- Q12 **Lee Rowley:** You also said the primary purpose of the document is relatively specialist and it is not actually the main driver of decision making. Why shouldn't it be the main driver of decision making? I understand that in New Zealand they tried to embed their equivalent as the main driver of decision making over the past 20 or 30 years.

Sir Tom Scholar: Even in New Zealand, where they are actually introducing an even broader concept than a simple accounting standard and are trying to embed it in a broader sustainability framework, while they use it to inform decision making and public debate, as we do, when they are taking decisions, budget by budget, inevitably national accounts information is the information they are looking at, simply because it is just much more timely.

- Q13 **Lee Rowley:** But should it be? If we are being serious about dealing with our long-term fiscal challenges in western democracies, surely this document is more important than cash on a day-to-day basis.

Sir Tom Scholar: If you are just looking at cash, I agree that doesn't take you very far. You need to look at future cash movements, and looking at a balance sheet is one way of getting a sense of where the future cash movements are likely to be. Another way is through forecasts and long-term projections. Now, they are each useful and also imperfect, in their different ways, so we try to use both to get an overall picture of the public finances. That is also what we are trying to convey to others.

It is an inevitable fact that you get figures on the public finances every month. A document like this, which consolidates a large number of accounts, has to wait, first, until those accounts are produced, and then there is the whole process of consolidation and reconciliation. As the Chair said, we have an ambition to bring the timetable forward, but it is always going to appear with some considerable lag from the time it first did.

- Q14 **Lee Rowley:** I want to come back to timeliness in a minute. Your personal view on the weighting: do you think the weighting is right at the moment, whether or not it should be, or the politics and all the rest of it? Put that aside: do you think we are focusing with the correct weight on this versus everything else?

Sir Tom Scholar: One important factor to remember with the Whole of Government Accounts and standard accounting standards is that they do provide a comprehensive view of the balance sheet, but on the asset side they miss out on an extremely important asset, and that is the Government's ability to raise money in the future through taxation.

When you consider whether the public finances are sustainable, it is absolutely critical to look at what the potential is for raising tax, since tax



HOUSE OF COMMONS

is the main way in which we fund the activities of Government. Obviously, accounting standards don't cater for that because the Government is in a unique position in being able to raise tax.

When you consider long-term decisions you need to look at that, and the only way to look at that is through forecasts. Those forecasts are heavily based on national statistics information. The OBR also very much use the information that they get from the WGA as well.

- Q15 **Lee Rowley:** But it would be fair to say that in the most recent Budget that there was probably more discussion about beer and cider duty than about long-term economic challenges and fiscal problems.

Sir Tom Scholar: The Treasury would very much agree with you on that. We are trying, through every route possible, to promote greater public discussion and understanding of long-term fiscal issues. This is one way; another way is through the various reports we have asked the OBR to do and our responses to them.

- Q16 **Lee Rowley:** If we could move on to the timeliness point, how do you expect and intend to speed up the production of this document, so that it is more useful?

James Bowler: We are quicker than last year and we want to be quicker in the year coming and the year after that.

- Q17 **Lee Rowley:** Fifteen days quicker.

James Bowler: Fifteen days. We are aiming for May in the coming year and preferably by the end of the financial year thereafter. The two key things that determine this, as the Permanent Secretary said, is when we get all the other accounts. The two big ones are academies—well over 3,000 accounts come in from academies. They came in at April for these 2016 accounts; this year we are getting them in December, so we can do everything a bit quicker.

Similarly, we are moving the timetable forward for local government, which are the other large set of accounts, from September to July. Those are the two big blocks and, as they get quicker, we can do quite a considerable amount of work, which then gets audited by the NAO too, to ensure that we are not double counting things between all these accounts and that they are on the same basis.

- Q18 **Lee Rowley:** These changes are on track, are they?

James Bowler: They are on track, but I don't want to over-promise here. We were July last year; we were June for 2016-17. We expect to be May and then within the end of the financial year in which the reports end thereafter.

- Q19 **Lee Rowley:** So, you have managed to improve by 15 days in this most recent iteration and you are looking to improve it by at least 30 days and perhaps 50 to 60 days at the next iteration. You therefore must have a plan to do that. Is that plan on track?

James Bowler: Yes, it is on track. As you say, we are trying to move forward in two-monthly increments.

Q20 **Lee Rowley:** When do you get to a place when it is published by January?

James Bowler: Our expectation is the 2019-20 accounts.

Vicky Rock: We have a couple of projects in place and are monitoring how that is going. Where we are right now for producing the 2017-18 accounts is in excess of a month ahead of where we were with last year's publication.

When we look at the quality of the returns that we are getting in, we are seeing improvements. This was the first year that local authorities had an earlier reporting deadline for their own statutory accounts, which came forward from the end of September to the end of July. We also, therefore, moved our submission deadlines for when they needed to provide the Whole of Government Accounts, forward to the end of August.

After moving it forward two months, we have actually received better compliance than the year before. That was a big risk and a big worry for us—how the local authority sector would handle that earlier timetable—but actually we are incredibly grateful for the engagement that we have got from the sector.

Q21 **Chair:** Did you say that you were surprised that they were more compliant with an earlier deadline? Is there a reason for that?

Vicky Rock: It is a significant challenge for them as accounts preparers to move it forward by two months. We had done work with the local authority sector and have a lot of ongoing engagement with them. As of today, we have got audited returns from 86% of local authorities and unaudited returns from 98%. For us, that local authority population is a great step forward this year, and part of the reason why that move forward from July to May is on track.

The other element, as James Bowler mentioned, is the academy sector. Last year was the first in which the academies were taken out of the Department for Education's accounts. They produce their own consolidated sector account.

Chair: We are actually looking at those next week with the permanent secretary.

Vicky Rock: The impact for that for WGA was having to determine the methodology to bring them into WGA. That, having been done once before, resulting in a lot of delay to last year's account, took until April last year to get to a final position. We are really hoping to be there in December. That is looking realistic given that the Department for Education published that account last week.

Those factors help you to keep taking one to two months off the timelines. We then push up against what we do internally; we start to remove the



HOUSE OF COMMONS

blockers from the critical path of the returns that we receive. That is where we are looking to invest in a new IT system as well, as our current one is slightly creaking with the strain of consolidating over 7,000 bodies. We have that investment going alongside; I think the 2019-20 WGA will be the first account produced using a different system and internal process. There is a slight uncertainty as to the exact date for the change.

- Q22 **Lee Rowley:** So you are intending to bring the publication of this forward by three months on a new system? That is highly ambitious.

Vicky Rock: We are looking to do it in stages. First of all, to step forward from July to May, then May to March—in particular because the sector account is hopefully moving to a pre-recess publication—and then we are looking to go from March to January or December. I agree that that is a real ambition, and we need to look fundamentally at the methodology by which we prepare Whole of Government Accounts in order to achieve that.

- Q23 **Lee Rowley:** Just one question on the next iteration of the account. You say May—is that the start or the end?

Vicky Rock: It needs to be by the recess date in May. That is our cliff edge.

Lee Rowley: I don't know what the recess date is yet, so how do you know?

Vicky Rock: Realistically, I think we are targeting the end of May.

- Q24 **Lee Rowley:** The end of May—okay. So you are going to bring it forward by approximately 30 days next year?

Vicky Rock: Yes. If there is any scope to bring it even further forward, then we will absolutely do that, and we should have a clearer position on that come the end of December.

James Bowler: It is probably worth saying that we are going to supplement that with more transparency. The ONS is now publishing a series called “public sector net financial liabilities”, which includes some non-liquid financial assets. In it they publish those monthly. The OBR forecast those at the Budget for the first time and there is more ambition in the ONS as well, so you are starting to see a richer balance sheet publication—away from just national accounts—coming out of the ONS. We will perhaps come on to the fact that what we are doing with all this information and where we are stacking it up.

- Q25 **Lee Rowley:** On academies: you have described a landing path to get us to within a nine-month window, which is very positive. Do you think there will be an underlying requirement to change the financial reporting and the financial years of academies to make this work?

James Bowler: There are three issues with academies. The fact that there are a lot of them and they are growing; the fact that the year end is different; and the fact that some of the quality of their accounts of land and building is struggling. We are trying to progress all three of those.



HOUSE OF COMMONS

The changing of the financial year is not straightforward and is a lot of work for relatively small accounting units. We are looking through what we can do with that, and we have to make sure that it would be materially helpful for each academy to make those changes, so we are mainly working with DfE on what mechanisms they can use.

Q26 **Chair:** It is on the table as a long-term prospect or consideration?

Vicky Rock: It is not something that we think we will be required for the Whole of Government Accounts. We have set a very clear obligation on the Department for Education's permanent accounting officer for that sector account, to provide us with a Whole of Government Accounts return, which we can consolidate and have free from qualification. We are clear that that completely remains—

Q27 **Chair:** We recognise that there are bigger challenges than changing the whole financial year reporting, but is financial year reporting in the ether? Would you put it as definitely as that?

Vicky Rock: I don't think it would help from a Whole of Government Accounts perspective; I think it would hinder us on timeliness, and that that would be a bit of a blow for WGA.

Q28 **Chair:** Would it hinder your timeliness because they would not get them in on time?

Vicky Rock: Yes. At the moment, the Department for Education essentially has a head start on consolidating academies from the academic year. It is still a very long process, but it does at least mean that when we come to Whole of Government Accounts it has had that time period. In the future, if this methodology did not work for consolidating academics, you might consider changing the academic year. But right now we are trying to make it work with that academic year.

Q29 **Lee Rowley:** So on academies and financial reporting years, we can forget this as a discussion? You think you can fold in the academies on the current framework and still hit the January publication within the next couple of iterations.

Vicky Rock: That is exactly what we are exploring with the Department for Education and the NAO.

Q30 **Lee Rowley:** Yes, no caveats?

Vicky Rock: Yes.

Q31 **Lee Rowley:** Good. Can we talk about qualifications in the accounts, please? If we go to the Comptroller and Auditor General's report, page 7, we have academies there again and the Ministry of Defence accounts. Do we have an aspiration for the Ministry of Defence to correct qualification and how are you going through sorting that?

James Bowler: It's a long-standing qualification on leases. There is a large change coming to how to account for leases, with a big update on international financial reporting standards. The hope is to look at those



HOUSE OF COMMONS

two things together. I do not think that will change this year or any time soon. It is how they re-do their leases as they make this large accounting standards change. Obviously, it will be partly for the NAO to consider whether they have done that to a level that satisfies the need for no qualification.

- Q32 **Lee Rowley:** Sorry, can I just press you on that? The answer is either “We just don’t think this is going to happen, so let’s not worry about it,” so the qualification will continue, or that the qualification is likely to go in the next few iterations, because of the work you may have just described, or that the qualification goes immediately.

James Bowler: The middle one.

- Q33 **Lee Rowley:** By when?

James Bowler: I think the change in standard is due to come in next year—or is it two years?

Vicky Rock: The underlying qualification in the Ministry of Defence’s accounts is regarding when they enter into contracts and do not assess whether those contracts contain leases with an asset and a liability to be recognised on the balance sheet.

The question then is whether the Ministry of Defence is in a position to retrospectively assess all of the leases that it has, or whether it applies the standard prospectively. If they are in the latter situation, we would expect to see gradual improvement as they apply that standard to all of their new leases. But I think there could potentially be a long tail of historical leases.

- Q34 **Lee Rowley:** But have they closed the book on this? On all new contracts that they are now issuing, is this now resolved?

Vicky Rock: No. The new standard comes in in two years and that is the date from which we are seeking for them to apply it.

- Q35 **Lee Rowley:** Forgive me, defence is not my area, but why are we waiting two years for something that could be implemented into a contract? There is a contractual negotiation, right? It is just writing the contracts in a particular way. Why does it need two years to rewrite? Or should I be asking the Minister of Defence that?

Vicky Rock: I will just tease out the accounting point and the residual is probably for the Ministry of Defence. It is not necessarily about how the contract is negotiated, but the account is looking at that contract and whether it contains assets and liabilities that should be recognised on the balance sheet. But this is a fairly complex accounting problem and the rules around how that is accounted for are changing in two years, so I think they are probably slightly cautious to do one assessment only for it to then be superseded. We would very much like for them to remove this underlying qualification.

- Q36 **Lee Rowley:** Accountants deal with complexity all the time. Usually they deal with complexity because of the wrong simplicity at the front of



HOUSE OF COMMONS

somewhere else, so surely it must be simple just to change the way that the new contracts are written.

Vicky Rock: I don't—

James Bowler: It has been quite a number of years and they haven't managed to achieve what you are describing, Mr Rowley.

Chair: We are looking at defence equipment in a couple of weeks; we can put the points to them.

Q37 **Lee Rowley:** I am trying to tease out whether the reason is complexity or lack of will. I will derive from your comments that it is lack of will. But that's—

Chair: It's funny sometimes how the interests of the Treasury and the Public Accounts Committee occasionally overlap.

Sir Amyas Morse: Just to be fair, it is lack of money. They don't think it is worth expending the time and effort on identifying—getting all the detail of the leases. In some ways, I am not completely unsympathetic to that. It doesn't prevent me from qualifying my accounts, but I can understand that they made a decision that is just not worth devoting so many people to try to identify—

Chair: We'll put it in a few weeks.

Q38 **Lee Rowley:** May I ask the same question about the academies qualification? What is the progress on removing that?

James Bowler: On academies, we have said that there is limited appetite to change the year end. We know that the DfE has taken the qualification off its account, partly by separating academies out of it, so there is progress there. I would say that from what we have described to you to what we intend to do and how we intend to fold it in, we are at least two cycles away from that qualification disappearing.

Q39 **Lee Rowley:** And the other broader qualifications that the Comptroller put down—your intention to alleviate, mitigate or remove?

James Bowler: There is a qualification on the boundary, which the NAO has advised on. The big thing outside the boundary of the Whole of Government Accounts is Royal Bank of Scotland financial assets. To be blunt, our plan is to sell the Royal Bank of Scotland and to put it outside the boundary by 2023-24, thereby dealing with the main thrust of that qualification.

Q40 **Lee Rowley:** The logical extension of that, however—just to be flippant—is that you could put all your student loans outside the boundary, because you are intending to sell all those off.

James Bowler: Student loans are inside the boundary—

Lee Rowley: I know, so there's an interesting—



HOUSE OF COMMONS

James Bowler: If we did put the Royal Bank of Scotland in this, you would be seeing some really weird and wonderful changes to the accounts, which I don't think would be massively helpful.

Sir Amyas Morse: We don't want them to do it.

- Q41 **Lee Rowley:** Are you anticipating any additional qualifications coming from your work in future years?

James Bowler: Last year we got rid of a qualification about the elimination of intra-boundary changes, and we are very much hoping to continue to have eliminated that qualification with our accounts that we will be putting to the NAO this year, so that is a hope for continued improvement. I am not expecting any new qualifications.

- Q42 **Lee Rowley:** Expenditure in the regions is another commentary to have been raised. How has that information improved in recent years? How do you anticipate it improving further?

James Bowler: We have in the performance report that I mentioned earlier, published on pages 10, 11 and 12—well, for the regions, pages 11 and 12—the expenditure information that we publish broken down by region and per head. We hope that that is dealing with the thrust of your desire and your recommendation to know more about what is going on in the regions.

I shall be open with you that that is different from a regional Whole of Government Accounts. It is not a regional balance sheet—it is just expenditure and expenditure per head—and we do not have the information to deliver a regional balance sheet.

- Q43 **Lee Rowley:** Is that, you don't have the information or the desire, or that you have the desire but not the information?

James Bowler: It is that we don't have the information. We—Departments—are made up of 7,000 accounts, and we would need all of those accounts to publish their information on a regional basis for us then to be able to consolidate that.

- Q44 **Chair:** What about the regionally elected Mayors? I have been having some interesting conversations with them about how they see their money. They have bits of national Departments disaggregated to their local level. Is there any scope for doing anything more, so that if you are looking at regional spend, you can actually use the Whole of Government Accounts as a document, even giving partial information?

James Bowler: We hope that the expenditure is a big start. I think particularly with regional Mayors and most public services it is the expenditure side and the budgeting side that they most focus on, but when you start to break some of the assets and liabilities down it gets more difficult; but on Government property we are coming forward with a digital database and regional hubs, and all that.

Chair: We are coming on to property.



HOUSE OF COMMONS

James Bowler: So I think that will be more obvious at a regional level.

Q45 **Lee Rowley:** So I am clear on regions: are you intending to do anything further in the next set of accounts?

James Bowler: We are going to carry on updating the spending side of the allocations, but no more.

Chair: Nothing on assets?

James Bowler: No.

Q46 **Lee Rowley:** Finally, for now, the Comptroller and Auditor General also talked about goods and services and expenditure, nearly £200 billion, with a question about the depth of the understanding and the disaggregation of information. Are you anticipating doing anything on that?

James Bowler: We would like to try and get further to disaggregate the very large blocks of spending. The difference is that central Government says what you spend by area—staff, goods and whatever—but local government tends to do it by functions, social care, for example. When we try to aggregate it, that is where we get frustration in trying to go below what we have got here. Again, I do not want to over-promise. It is difficult to get further than that. You would have to ask local government. You would have to put quite a large burden on local government to change the way they do stuff, and report it differently, but we are continuing to talk about that; but I am afraid I do not want to promise vast improvement.

Q47 **Lee Rowley:** Are you promising any improvement?

Vicky Rock: We are actively working on it, but, to be honest, we have been working on it before this year as well.

Q48 **Lee Rowley:** We can save ourselves the bother of the wording. Are you intending to do anything next time, at the next iteration, that materially changes what is in there this time?

Vicky Rock: We actually collect more information on breakdown of purchase of goods and services. The problem we have got is that it is not of an auditable quality.

Q49 **Lee Rowley:** So I should not expect to see anything materially different.

Vicky Rock: But when we are introducing our new IT system, actually that is exactly one of the areas that we are trying to improve the data returns on.

Q50 **Chair:** When do you think we will see this?

Vicky Rock: That is the 2019-20 accounts.

Q51 **Chair:** So we should see more.

Vicky Rock: It is exactly our aspiration to do it for that account, but we struggle with the audit quality of this disclosure, and we have not



HOUSE OF COMMONS

bottomed out how to guarantee that we can get that to a disclosure that can be audited.

- Q52 **Chair:** Okay, so it is the raw information coming in: you are going to get a new computer system which will help, but you have still got issues with the raw data coming in.

Vicky Rock: We do, and the amount of expenditure that our underlying entities classify as “other” or “miscellaneous”—we just get such large amounts.

James Bowler: “Other” and “miscellaneous” remain the most frustrating elements of the account.

- Q53 **Sir Geoffrey Clifton-Brown:** Can I just ask a question of Tom Scholar? Is not the whole issue of disaggregation going to become even more prescient, because the Government has announced £600 billion expenditure on infrastructure? Shouldn’t that really be disaggregated in these Whole of Government Accounts, and shouldn’t we be giving this more urgent consideration?

Sir Tom Scholar: The first thing to say—then I will perhaps hand over to Mr Roxburgh—is that in preparing these accounts we are consolidating from departmental accounts, and they follow accounting standards.

- Q54 **Sir Geoffrey Clifton-Brown:** This is across Government.

Sir Tom Scholar: Right across—so in a sense it is not really our choice. It is what the standards dictate.

Charles Roxburgh: If I can pick up that point about the £600 million, the Chancellor referred to it in the Budget speech, but it is a figure from the Infrastructure and Projects Authority, setting out what they believe to be the 10-year programme of investment in the nation’s infrastructure. That covers both purely private and public investment so, as the Chancellor said, about half of that will be publicly funded. We will come, maybe later, to PFI. In the sense that it is publicly funded it will go on the public balance sheet as an asset; but all of the private investment in that infrastructure pipeline, whether it is a private port or a private offshore wind turbine, will not show up in these at all. They will be in the private company accounts.

- Q55 **Chair:** I want to pick up on the issue about the increase in liabilities. We have seen an overall increase in liabilities by around 48% over the last five years. Mr Bowler, can you explain why that is, and whether there are any areas that we should be alarmed about?

James Bowler: You are right that, over the last five years, net liabilities are up more than £800 billion, which is the difference between liabilities being up £1.4 trillion minus assets of £600 billion. The areas that I think we are most alarmed about is the Government borrowing side of that over the last five years. That feeds into all the work that we do in the Budget in trying to control the Government’s long-term finances. The other areas are less alarming, and it will take me a little while to explain why.

Chair: Do your best.

James Bowler: I will try to do it simply. Many of the changes on the liability side are because of a large increase in pension liabilities, due to the discount rate that we use for pension liabilities. The vast majority of the £400 billion increase in pension liabilities this year from last—I think £370-odd billion—is because of the discount rate change. We measure, under accounting standards, the pension liability using corporate bond yields, which have fallen quite significantly in that year, so the liability has gone up.

However, the reason why we are less alarmed by that is that it does not mean that we will spend more on pensions in the future. The better way of looking at the affordability of pensions is to look at how it compares to GDP. The Government have taken quite a few measures to try to reduce the increasing impact of public sector pensions, and we therefore include in the performance report the fact that we expect pensions to fall as a percentage of GDP going forward.

So, much of those liabilities are in pensions. They are also in some of the Bank of England's holdings, which we are also not overly alarmed about. I would say that the focus is on Government borrowing.

Q56 **Chair:** In terms of those liabilities, is there any material impact on Government and the 7,000 organisations feeding in, and on their ability to manage? The liabilities have to be covered. To put it into layman's terms, what is the practical impact on the citizen of having increasing liabilities? Is there any? There will obviously be some that you can tackle more easily than others; it is difficult when it is about accounting procedures.

James Bowler: The ones we are focused on a little more are Government borrowing, as we said; clinical negligence, which is rising, which you might want to delve into—

Chair: We are coming to that later.

James Bowler: Nuclear decommissioning, because we have a different way of accounting for decommissioning in new nuclear buildings—

Q57 **Chair:** I suppose what I am driving at is that there is a difference between, say, clinical negligence or Government borrowing, which you can look at trying to reduce with practical, definite measures. There are others that are dealt with that have gone up because of accounting procedures—the discount rate. Is there any material impact on a Government's ability to do its business because of the increasing liabilities over which you have no real control?

James Bowler: It depends which discount rate you use, but the answer is no on something like pensions. It is one thing you want to look at when considering your pensions policy going forward. We would also look at affordability and the percentage of GDP. We do not think that we need to



suddenly adjust pensions because the discount rate has changed, because the amount of cash we are going to spend on that continues unaltered.

In other areas, such as clinical negligence, when the discount rate changes, we worry that, in this instance, the impact of that is potentially to overcompensate people, because how you pay out on clinical negligence is set by that. We are legislating the Civil Liability Bill to redress that. We will still fully compensate people, but we will change the way we do that, because of the way that there is a direct link there to how the liability changes and the money that goes out the door, whereas there is not on pension liabilities.

Q58 Chair: That is very helpful. I will just move on to Brexit. When will the Whole of Government Accounts show any Brexit costs, and how will you record that? Clearly, some of it will come through Departments. I will bring in Vicky Rock, because she has the magic task of bringing these numbers together. She is shaking her head. Sir Tom?

Sir Tom Scholar: Next year's Whole of Government Accounts will show the Brexit costs that Departments have incurred during 2017-18.

Q59 Chair: Will it be labelled as Brexit costs?

Sir Tom Scholar: As to how it will be set out, I am slightly in the hands of my accountant colleagues here to my right and left, because as I said earlier, in preparing departmental accounts and the Whole of Government Accounts, we follow accounting standards. As you will see already in this year's and in earlier years', that means setting out expenditure by broad category: staff costs, procurement costs and so on. It is of course always open to us to provide supplementary information through the performance report or through boxes in the main text, which add to that. They are not actually part of the accounts, but it is additional information.

I think my main point here is this. We had a session in April to discuss the financial settlement that the Government negotiates as part of the overall Brexit agreement, and we had a long discussion then about those direct costs and other costs that will fall to the Government as a result of leaving the EU. I took from that discussion a very strong desire from this Committee for clear information setting all that out. That is something that we will be doing both through the information that is provided to Parliament ahead of a meaningful vote, which we made a commitment on in the Treasury minute in response to your report, and, in the future, through—this is something that will go through Parliament in the withdrawal Bill, but the Government has proposed in its White Paper an annual report on the financial settlement. Obviously, if Parliament wants to extend that and bring other categories in, we will certainly be ready to do that. But I think what would be most useful for Parliament scrutinising this in a timely fashion would be that annual process, which will give more accurate information—sorry, not more accurate but more timely information. Then in the Whole of Government Accounts we will be looking at the year previously.

Q60 Chair: But it will be identified as separate—there is a pot of money,



HOUSE OF COMMONS

obviously, that the Treasury has been distributing to Departments, so it is an earmarked budget that is part of the spend on exit. There will be bits of Government Departments' spend that they might allocate directly, and obviously there will be stuff that's a little bit more grey at the edges, a bit blurred at the edges, which will be business as usual, but slightly differently focused—maybe more expensive, maybe less expensive—because of Brexit. That bit we understand might be difficult, but will we still be able to trace the actual Brexit expenditure through the Whole of Government Accounts? I hear what you say about the annual reporting being more useful to us, which I don't doubt it will be, but seeing it in the whole and seeing the liabilities and so on is important, I think.

Sir Tom Scholar: First of all, there is no IFRS category of expenditure called Brexit spending, so in terms of the accounts, formally speaking the answer is no, you won't be able to.

Q61 **Chair:** So it will be in the commentary that presumably Ms Rock will be putting together.

James Bowler: Suffice it to say that the Whole of Government Accounts will not be the place for breaking news on Brexit. Parliament will hear it first; then there will be the annual accounts of each Department; and then those will be consolidated in the Whole of Government Accounts. As to where that would be, in 2017-18 we spent, I think, some £700 million on Brexit preparedness, but that would just appear in staff costs and goods and services spending by Departments. What we will do, and what we did this year, is show what we are doing on Brexit in three places. In the performance report, we will just set out all the things that we are doing on Brexit this year. Then, most importantly, events after the reporting period is a category for accounts where you declare all the things that have happened since the accounts shut down, and we will set that out in full. The three categories that, going forward, we are likely to need to report on are the expenditure of Departments, the financial settlement and replacement of EU schemes.

Q62 **Chair:** So a reasonably educated person could look at the annual reporting, the commentary and the Whole of Government Accounts and begin to make an assessment of the cost of Brexit.

James Bowler: Yes, the Whole of Government Accounts will not be the most useful area for that, but we will make sure in the commentary on the Whole of Government Accounts, given that everyone is interested in this, that we make it nice and clear.

Chair: Well, I am now going to bring in the expert on Government reporting, Sir Amyas Morse.

Sir Amyas Morse: I don't know about that, but anyway, I just want to raise this point. I rather think you might be underestimating the significance of the Whole of Government Accounts, in terms of that being the first set of accounts likely to report, if it sticks to the normal schedule, after we leave the EU. So, far from being not very interesting, I think you may find yourself quite a media star.



HOUSE OF COMMONS

James Bowler: I was not trying to belittle my cherished Whole of Government Accounts, but they will be the 2017-18 accounts—year end 2018. They will be accounts for when we were still full members of the European Union, so we will need to use the commentary to describe what has happened since then.

Sir Amyas Morse: That is true, but there will be quite a lot of expectation of the commentary with the benefit of quite a lot of hindsight, I suspect.

James Bowler: Okay, yes.

- Q63 **Chair:** The commentary is not regulated, so how are you going to make sure there can be comparison from year to year? With a commentary, you can choose to do it or not to do it, and you can comment on something more one year than another. Are you going to have an approach that allows the average citizen to look and say, “Well, last year they did this, this year they did this; we can see a comparison,” even though they are not necessarily looking at the figures but at the topics you are commenting on?

Sir Tom Scholar: In terms of the accounts, next year’s, being for 2017-18, will include—although in terms of the accounts it will not be separately identifiable, but we can supplement that—spending on Brexit preparation taking place in 2017-18. I think what the Comptroller and Auditor General was driving at is that there will be a rather large post-balance sheet event that we expect will have happened almost a year after the end of the accounts, which will need to be disclosed in the normal way in those accounts. Having said that, it will not be news at that point.

- Q64 **Chair:** But also, if your commentary is consistent from year to year, it is a bit like habit reading the newspaper. If you know the page your favourite columnist writes on, you go to that page. Will people reading the whole of Government accounts be able to go to the commentary they want? We on this Committee all look at the C&AG’s commentary because we know that is a key place to go for an overview. Will commentary be consistent so it is easy for people to follow through? That goes back to the transparency points Mr Rowley raised.

James Bowler: I think we will use two areas. It will plainly be important to do it in the performance report—the performance report is precisely the place to do that commentary, so we can commit to continuing and adding to the commentary there—and in the events after the reporting period in the accounts themselves. Those will be the two places.

Chair: So there will be consistency—that is fine.

- Q65 **Douglas Chapman:** There is much talk about a Brexit dividend. Is any Department looking towards that? How will that be reported back within each Department’s accounts?

Sir Tom Scholar: That is more an issue for the future than the past. The place you would most naturally see that is in the projections by the Office for Budget Responsibility. What they have done so far, including in the report they published last month, is set out what they describe as a



neutral assumption. They assume in their forecast that the money the Government currently spends as a net contribution to the European Union will continue to be spent in some shape or form, either as—at least initially—part of the financial settlement or, as that reduces over time thereby freeing up money for other uses, in some other way by the Government. They have done that deliberately because they are not yet able to make an assumption about what that money gets spent on, but they assume it gets spent one way or the other.

- Q66 Douglas Chapman:** This is not quite a follow-up, but on devolved issues, as powers return to the UK, presumably starting next March if discussions go well today—I do not know how well they will go—some aspects of responsibility will pass directly to the devolved Administrations. How will that be reflected in the financial reporting you need to consider, and how are you thinking about reporting that back? Looking at agriculture, for example, some of the payments for that presumably will return to Wales or Scotland. How are you thinking about having that kind of discussion, and how long will it take to reflect that in the Whole of Government Accounts?

Sir Tom Scholar: That is a good example of what I am talking about. In terms of the Whole of Government Accounts and departmental accounts, it will only start to appear once it has happened—once the UK has its new arrangement with the EU and that is in place. That includes whatever is decided on devolution of responsibilities. Once that is decided, you will see that spending in effect moving out of the EU net contribution line and into whichever Department or Administration it is responsible for spending it. That will be after it has happened. In terms of setting out projections for the future, the OBR will do that once they have a clear view and set of assumptions—or a clear policy, if you like—from the Government, which in turn will be once we have got the arrangement agreed, which we do not have yet.

- Q67 Sir Geoffrey Clifton-Brown:** Following on from Mr Chapman's questions, Sir Tom, once an agreement is made on Brexit, once Parliament passes it, and assuming for the purpose of this question that it is the £39 billion that we have to pay over a number of years, as soon as Parliament has passed that, it effectively becomes a liability because we are obligated to pay it. How will that be reported on? I accept that it might not come into Whole Government Accounts in 2017-18, but surely it will have to come in in subsequent years.

Sir Tom Scholar: Yes, that is absolutely right. That will be reported as a liability.

- Q68 Chair:** And the pension bit is obviously a long-term liability. That is the longest-range one, I think, in that settlement.

Sir Tom Scholar: There are three elements to it. There is the budget contribution 2019 and 2020. There is the UK's share of the outstanding financial commitments at the point of exit. Third, there are the liabilities, which as you say, Chair, are principally the case of pensions. That will all become, exactly as you say, a liability of the UK Government, to be paid

down over time, but it is a liability, and that will need to be declared in the accounts in the normal way.

- Q69 **Sir Geoffrey Clifton-Brown:** Would it be reasonable to expect to see a line on that in the 2018-19 accounts, which will take us to 5 April 2019, which will be after 29 March? When will this appear in the Whole of Government Accounts? That is what I'm really asking.

Sir Tom Scholar: The first time it will appear in the accounts as a liability will be in the 2018-19 accounts. My expectation would be that in next year's accounts we would need to declare it in the notes to the accounts, as an important event that had taken place after the closure of the accounts.

- Q70 **Chair:** Talking about contingent liabilities, what are you expecting to disclose around those that arise from the legislation that is going to go through, regulation and other funding arrangements? What other contingent liabilities do you envisage that will need to be reflected in the WGA?

Sir Tom Scholar: The financial settlement relates to the direct settlement agreed in the negotiation. I think what you are driving at is that there will be other costs that will fall to Government, in respect either of functions that are currently carried out by EU agencies that in future will be UK agencies or spending in the UK.

- Q71 **Chair:** Exactly. Not all of them will be set up. My point is that not all of them will be set up straight away. We don't know exactly what the deal will be. There may be a shadow running or the transition period may maintain. It is how you account for them when they kick in at a future date in particular.

Sir Tom Scholar: I will turn later to Ms Rock, who wants to add something to what I said earlier. My understanding is that that would not be a separately identifiable liability, but it would be treated as part of the ongoing costs of Government. To take one example, payments that are currently made under the common agricultural policy will in future be administered by DEFRA under a different scheme and will be part of UK Government expenditure. We would expect that to continue into the future, but you wouldn't disclose it as a liability because it would just be treated as future Government spending.

- Q72 **Chair:** I could perhaps ask Ms Rock. Is there anything that would be seen as a contingent liability that you would need to look at?

Vicky Rock: We work closely with Departments, and really help them with the guidance, in ensuring that they are assessing all ministerial statements that get made, to see if any of those give rise to contingent liabilities.

Where we are with Whole of Government Accounts, we obviously at the moment have the flow of EU income and expenditure passing through the accounts, and right now we have a contingent liability disclosed in the accounts for the exit moment and for the ministerial commitments that have also been made. When we have the final settlement, we have not



HOUSE OF COMMONS

done the analysis and approved it with the NAO yet to determine which element of that will be on the balance sheet. If, for example, we take the element of the ongoing contribution to the EU budget, right now our multi-year contributions to the EU budget are not a liability on the balance sheet, but they are absolutely disclosed as they are paid for the year to which they relate, in which case we may continue to recognise in the year to which they relate. We will be quite careful in how we analyse those liabilities. We will be very clear about what is going on the balance sheet and what will flow through in the period to which they relate. That will be picked up in the contingent liabilities disclosure.

- Q73 Chair:** Going back to what you were saying earlier, Sir Tom, about the annual reporting to Parliament being useful and perhaps more directly related to Brexit, then you have the WGA. I can see that the detail could get lost. How will you make sure that you have consistency in the annual reporting of Brexit costs and the reporting of the WGA, given that they are on different timetables at the moment, or will be? I am assuming that the annual reporting will be on the normal reporting schedule for Government departmental accounts.

Sir Tom Scholar: I think that is still to be determined, and actually will be legislated, so—

Chair: Probably in Parliament's wisdom we are going to say something like February, are we?

Sir Tom Scholar: As you know, at the moment we produce an annual report on EU finances that sets out not just the aggregate figures but the figures by Department and by Administration in the different component parts of the UK. We publish that now. I think we produce that in February every year, if my memory serves me right.

- Q74 Chair:** Is it just that we do this at different times because Parliament has a habit of passing legislation and plucks a month out of the year that seems sensible to Parliament but is actually difficult for you? This is your chance to bid. When would be a good time to tell Parliament about European spending in the annual reporting?

Sir Tom Scholar: I do not know that answer to that off-hand.

- Q75 Chair:** If you could let us know what would work. What would work most cohesively and coherently with the work that you are already doing so that we get the best figures available? That is probably most useful to Parliament—the month is immaterial. It is getting the right information that matters to us.

Sir Tom Scholar: The financial settlement with the EU is—or payments under it will be—based on annual data and calendar year data, because the calendar year is the time period that the EU uses. The reason I am hesitating is that I am not sure how long in the future it will take the EU after the end of each period of account—the calendar year—to close the accounts and work out what that means for UK payments.



HOUSE OF COMMONS

The other critical thing to say is that under the agreement that we have negotiated, we do not make payments based on a forecast. We make them only when they actually crystallise and happen, so the timing that would be most useful for Parliament would be when there is certainty as to what the payments for the year that has just gone are. I am not quite sure what that would be, but I can certainly look into it.

If I may, one thing that would be very helpful, as we enter this process now that ultimately goes through Parliament in the shape of a Bill, is some further discussion with the Committee and perhaps with the Clerk as to what kind of information and on what timetable would be most useful. I am very conscious that EU finance is a hideously complicated issue. There are so many different ways of measuring it, different accounting standards and different time periods are used and it has always been very difficult to reconcile different numbers. It would be very much in everyone's interest to have as much clarity as possible.

Chair: We sing from the same hymn sheet on that. We—not this current Committee—visited Brussels to hear about how they work, the budget and the accounting processes. We think you are absolutely right. We will work on that offer and we will certainly have a conversation with you and any other Select Committee Chairs as appropriate about that.

I speak personally here, and I have not discussed this with the Committee, but it is important that we have a financial accounting process, that we have the right financial reporting to Parliament and that we take the heat of politics out of that. It is about getting the right information at the right time, and then people can make their judgments politically about that. That is me speaking personally.

I will move on to Lee Rowley, who will touch on some of the issues that are not included in the Whole of Government Accounts.

Q76 Lee Rowley: I will start with a general question. From your perspective, what is missing in this big document that could be put in? What are the liabilities that we have missed?

James Bowler: Gosh—that is a big question. The big thing missing—why you see a large net liability—is that international accounts that we follow do not score as an asset future tax revenue. If you really wanted to see the health of the whole thing, you would want to understand the extent to which future tax revenues are going to cover future liabilities. If you like, a good way of looking at this is the national accounts of, say, public sector net debt, which tell you the cost of all the things that have gone past. The Whole of Government Accounts net liabilities tells you the future cost of all the things that you have committed to already—do you see what I mean? There is a past and future. The thing that is missing is the extent to which tax revenues cover those future liabilities.

Q77 Lee Rowley: What about on the other side of the balance sheet? What is outside the envelope or the framework that you are currently dealing with?



HOUSE OF COMMONS

James Bowler: On the asset side? I would say—we did a report on this at the Budget—that we are not confident that we fully score intangible assets. We said at the Budget that if you look at the biggest private companies in the world, a vast amount of their assets are intangible, not physical. If you look at the Whole of Government Accounts, I think 2% of our assets are intangible assets. I think it is around £30 billion. It is a lot of defence intellectual property. We did a report at the Budget which suggested that that number, rather than around £30 billion, is potentially more like £150 billion. We do not think that the public sector is very good at even identifying its intangible assets, let alone protecting and managing them.

Q78 **Lee Rowley:** But that is probably a very sensible place to be, because otherwise you get into massive write-downs on the basis of stuff that you cannot quantify in the future, so there is probably a benefit to that. What about pensions?

Chair: State pensions.

James Bowler: Public sector pensions are very much part of the Whole of Government Accounts. With the state pension, were you thinking of triple locks and things like that? It is not part of the—

Chair: We were puzzling why it is not part of the accounts.

Vicky Rock: It is certainly an area that we assess, because it is an area that you would want to know which side the line comes down. It is not obvious, so we have done work in this area. The WGA shows the state pension liability as it is paid to existing pensioners. It does not have a liability on its balance sheet for those entitlements that have been built up for future periods. The simple answer in accounting terms is that that is because you are only entitled to the state pension if you are alive, so there is a condition there.

Q79 **Lee Rowley:** On the assumption that there will not be nuclear armageddon in the next few years, there will be people still alive in the future, so why is there an omission?

Vicky Rock: This is purely a narrow accounting view. The accounting community has taken a step back to ask, “Is this the right thing to do?” The International Public Sector Accounting Standards Board has had a research programme looking at social benefit payments, looking at the state pension and other areas, such as unemployment benefits, which, again, are recognised for the months that they relate to, because you are only entitled to it if you are unemployed in that month. They have been looking at—

Chair: I get the unemployment one—that makes more sense—but not pensions.

Sir Amyas Morse: Just treat it like a benefit.

Vicky Rock: Just to reassure you, it is looked at and assessed, and the



HOUSE OF COMMONS

international community, having looked at it, is much more in the space of not recognising that future liability, but improving the disclosures. Again, the sort of disclosures that we have in the OBR fiscal risks report is where the international community as a whole is moving to on this.

Q80 Nigel Mills: I assume that I am only entitled to any of the civil service pensions if I am actually alive.

Chair: Widows and widowers can claim.

Vicky Rock: It is because they fall under different accounting standards. Because you are employees, they fall under IAS 19, whereas because the state pension is not paid to employees, it comes under a different accounting standard.

James Bowler: It is probably worth saying—just to get out of the accounting for a minute—so that we are all aware of the very large future commitments, including on the state pension, particularly with an ageing population, that we have done an in-depth look at that. We asked the OBR to do an in-depth look at that—their fiscal sustainability report. You might have seen their report. It says that if the Government continues with its policies unchanged, debt will rise to some 280% of GDP—the Treasury loves that. The two big drivers of that are health spending and pension spending. That is a very big part of our fiscal risk architecture. We ask the independent Office for Budget Responsibility to forecast what the implications for our public finances are of an ageing population, in particular.

Q81 Nigel Mills: My constituents think they have a legal entitlement to a state pension because they have paid into it, so they would expect it to be an obligation on the state. I presume you have a calculation for what average life expectancy is so you can work out the average liability, like you would for any other pension calculation. I assume that the only reason why you don't put it on the balance sheet is that technically the Government could just decide to stop paying it, so it is not actually a legal liability. Is that really what the position is?

Vicky Rock: The reason is that it is not required under accounting standards. There is a question, which the accounting standards community have looked at, of how useful that number on the balance sheet would be. It would dwarf what was happening, and again we would be missing the future tax receipts from which it is met. That is why the consensus view is that the performance report information is of more value.

Q82 Lee Rowley: For basic consistency, you need tax receipts for everything that is on there at the moment. If you followed that to its logical conclusion, you wouldn't put anything on it, right? We therefore have to say, "What are our future requirements to pay?" We can play around with the edges, as my colleague has done by quite rightly pointing out that, technically, you could not pay the state pension, but we are going to pay the state pension. If you go back to the original objectives of the Whole of Government Accounts, which we were talking about at the top of the session, is not the omission of the state pension, in your view, a material



HOUSE OF COMMONS

omission?

James Bowler: The important thing to say is that we do follow what international accounting standards tell us to do. We may or may not like each of the things they tell us to do, but it includes being able to compare the public sector to the private sector, for example. Where there are material issues—tax is one and the state pension is another—we need to use some of the commentary we use over and above the accounts to make sure we fully disclose that. I made reference to the fiscal sustainability report because it is not something we are trying to ignore. In the future, we could put much more in about the state pension and our expectations—

Q83 **Lee Rowley:** Do you accept that this is not whole without the state pension?

James Bowler: It is a set of accounts, and we do have to follow the international accounting standards. That comes up in a number of areas and is why we do what we do.

Q84 **Lee Rowley:** But it is not whole. We all agree that the Whole of Government Accounts is not whole.

Sir Tom Scholar: No, it is the Whole of Government Accounts, in terms of a snapshot of the balance sheet at a particular point in time.

Q85 **Lee Rowley:** But for the man sat in North East Derbyshire tonight, the omission of the state pension would make it not whole. Correct or incorrect?

Sir Tom Scholar: Correct, but so would other things, too, such as other future expenditure that the Government will have to incur. The Government in the future won't just be paying the state pension. It will be funding the police, the health service, schools and everything else, and will be taxing.

Q86 **Lee Rowley:** So how do we fix that?

Sir Tom Scholar: If you want to look at our best sense of where the public finances are going over, say, a 50-year period, you look at the OBR's fiscal risk report, which takes the Whole of Government Accounts, uses the information that is in there to the full and says, "Over 50 years, assuming unchanged policy, this is what we expect to happen to tax receipts. Some will go up; some will come down. This is what we expect to happen to spending—in particular, age-related spending, pensions and the health service. We expect that to grow rapidly. Looking at that, if the Government doesn't change anything, the debt level will rise and rise and rise." That is the place to go for some dynamic, forward-looking sense of what the pressures on the public finances are. The Whole of Government Accounts feeds into that, but it can't, by its construction, answer the question, "Where do we expect to be in 50 years' time?" It is a snapshot of where we are today.

Q87 **Nigel Mills:** That is not a great comparison with future levels of spending.



HOUSE OF COMMONS

My entitlement to a state pension is based on the national insurance I have paid over the last 23 years since I started work. There is a liability on the state to meet a promise that has been made to me based on past events. Future police spending is not a liability based on past events.

Sir Tom Scholar: The Government, through future policy decisions, can change your pension entitlement, too. Indeed, it has done by raising the state pension age.

Q88 **Nigel Mills:** So that is the point. The reason why it is not on the balance sheet is because, in theory, the Government could choose not to pay the state pension, so it is not actually a liability. Is that what you are saying?

Sir Amyas Morse: If I may, it can decide that you are not going to get the pension for several years longer, which it does constantly. This is not some far-fetched example. It is really how it is at the moment.

James Bowler: We are not trying to dispute the liability to your future pension. All of what we do with fiscal and financial reporting is to try to give the richest picture possible. The Whole of Government Accounts follow these international accounting standards that say not to include that there, so we make sure that we include it elsewhere. If the international accounting standards change, we will change. It would be interesting to see what that would look like because, again, without tax revenues included, you would just get vast liabilities in a small asset base.

Q89 **Lee Rowley:** But the purpose of this document was not just to base it entirely on international accounting standards. That was not the original objective when I read the 1998 document. Those were transparency, monitoring, decision making and so on. I completely understand your point, but the omission here is material, right?

James Bowler: Yes, but the accounts themselves very much have to follow international standards. They are an amalgamation of other accounts that follow those standards. The DWP's accounts does not have a— In the commentary we absolutely have the ability to say more. What I was trying to point to is that we have actually said a lot more about the impact of the state pension on the public finances. We could willingly bring that into the commentary even for the next set of accounts—we have done that work; we are not trying to hide anything—which I think would give you a better picture.

Q90 **Chair:** It could change. If the state pension age changes, the liability would change.

James Bowler: Because of the future costs of the state pension in an aging population, the Government have repeatedly increased the state pension age.

Sir Tom Scholar: I am not quite sure which document from 1998 Mr Rowley refers to.

Lee Rowley: I have it under my chair.



HOUSE OF COMMONS

Sir Tom Scholar: I was going to suggest that, if you can give us the precise reference, or perhaps if the Clerk can after the hearing, maybe we could take it away and review it. The basis for the Whole of Government Accounts is set out in statute, so the purposes and the requirements are set out in statute—subsequent to that publication, in fact. However, we could perhaps look at the statement that Mr Rowley refers to and then write to the Committee with our views on how we are delivering on those objectives.

- Q91 **Chair:** May I ask about further education? That is also off the balance sheet. In England and Wales it is not included, but in Scotland and Northern Ireland it is. Can someone explain why?

James Bowler: It is the classification of those areas as on or off balance sheet, which we follow accordingly. The classification says that those are private sector bodies that are delivering those services.

- Q92 **Chair:** We have done a lot on further education. Is there no prospect that that will ever change, because of the way they are classified?

James Bowler: The Office for National Statistics is the guardian of what is on and off balance sheet. As you will know in the Committee, housing associations have at times moved on to balance sheet. Network Rail has moved on to the balance sheet. Things can change, but there is no immediate prospect of that for further education.

- Q93 **Chair:** We touched on RBS earlier, and we understand why it is only a temporary Government asset. However, in accounting terms—I look to Ms Rock for this—would it otherwise be on the books? Is it a sort of fudge by not having it on the accounts?

Vicky Rock: It is a pragmatic solution.

- Q94 **Chair:** We understand that but, to be absolutely clear, in accounting terms it ought to be, because it is—

Vicky Rock: Yes, and it is correct that we have a qualification on that matter.

James Bowler: I don't want to misquote the NAO—they can correct me—but in disclosing, I think they qualified the accounts for that but accepted the treatment we have done.

- Q95 **Chair:** We understand. I want to move on to property, particularly the Government Property Agency. We are swimming in acronyms and initials—it is an alphabet soup of the number of property bodies that exist across Government. Nearly every time we meet a Department, they tell us that there is a new one set up, and now we have a Government Property Agency. First, can you tell me how setting it up is progressing?

James Bowler: It exists; it came into existence on 1 April 2018.

- Q96 **Chair:** Has it done anything yet?

James Bowler: They are doing a number of things. The successes they partly inherit are that since 2014, I think, 1,000 Government properties



HOUSE OF COMMONS

have been sold, which means £2 billion of assets and saves £300 million of running costs each year. Whitehall in London is down from 180 sites to 70. The ambition for the GPA—that is the acronym—is to do two things: to manage the remaining property better and, particularly in the regions, to ensure that the Government are not operating with multiple places in the same city, but pulling them together into regional hubs. I think those are just coming under way. We announced in the Budget, as part of the balance sheet review, that we want to move all Government property into one balance sheet so that it could be seen in one place and therefore managed more effectively.

- Q97 **Chair:** We have been talking to the Department for Education about its property work. It has been doing a big, important and useful piece of work, pulling together the property assets and who owns what—so credit to it for that—and it has been quite complicated because of some complexities in ownership of schools. I imagine that is not only the case for schools. What complexities have you come across—for example, land that is owned by a regiment but used by the MoD, or where there may be partial or shared ownership? How far has the Government Property Agency got in disentangling those complications? Or am I over-egging it? Are there not so many complications?

James Bowler: With schools in particular there are all sorts of ownership structures, as you said.

- Q98 **Chair:** We can cover off schools, because we have done a lot of that separately.

James Bowler: The way the GPA will progress that, which we also announced in the Budget, is through a digital asset register. It will produce a digital register of all Government properties, central and local, and try to cut past a number of the silo issues here. That will be the key public and transparent way of understanding exactly what—

- Q99 **Chair:** Where would you rank the Department for Education? It is doing this work and it is the first time it is being done, so it is a credit to the Department that it has finally got on to it, but let us compare it with other Departments. We look a lot at the MoD, for example, which talks about selling assets but sometimes does not have a strategic plan, so it sells an asset that seems expensive but then it has to re-set up some of those services somewhere else, so it is not always saving as much as it could be. First, will the Government Property Agency deal with that, and secondly, are there other Departments that are doing a particularly good or bad job in terms of asset management and asset registering?

James Bowler: The MoD has a fairly advanced programme of asset sales. I was trying to find the numbers—

- Q100 **Chair:** There is a difference between asset sales and good asset management.

James Bowler: Some of the proceeds of those asset sales go back into the management of that estate. They own, I think, 1.8% of the landmass of the country, so they need to have that. Where do I rank DfE? Not



HOUSE OF COMMONS

because of their efforts, but because of the complexity, I rank them much lower down than that. We have talked about the qualifications you get on land and buildings of academies and the growth in the sector, so it is coming along behind. The whole purpose of the Government Property Agency is to provide the professional expertise at the centre to mean that classically the Government are not all trying to do similar things in different silos. The person appointed to be the CEO, Mike Parsons, is making progress on trying to bring consistency to that, and this register is one way of doing that.

Q101 Chair: Of course, in the NHS you have individual trusts. You have got PropCo, which is taking land. I have heard a lot of bad reports and problems from across the House about PropCo's ability to manage the assets. Does the Government Property Agency drive and push policy shifts, in terms of decisions about buildings, or is it simply to provide that skillset to make sure that when an asset is being disposed of, that is done effectively?

James Bowler: There are two elements there. It is not just an advisory body; it is going in and helping Departments to professionalise how they do things. On your second point, on disposal, there is a big programme on the NHS gearing up on capital expenditure and disposal and recycling those receipts. On disposal, we are just bringing in a new framework for asset sales that will say that when you sell a material asset you will need to disclose to Parliament the impact it has on the fiscal aggregates and on your balance sheet. That framework is very much there to show everyone.

Q102 Chair: That is very interesting, because we were looking at police sustainability the other week and we have come across examples of forces that have sold their physical assets—their buildings—and are renting off another authority. In Hampshire we saw that they are then renting off the fire service—I think it was the police headquarters in Winchester, but I might have muddled up my examples. That meant that one body had no property assets on its books, so it has no solidity in its balance sheet. Is that something the Government Property Agency or the Treasury have got an eye over? This can have a material impact on the sustainability of individual organisations. Obviously a school would tend to keep its assets because they have to physically have them, but there is a lot of scope for that kind of approach.

James Bowler: Absolutely. The aim of the new framework we are putting in on asset sales—as you know, it comes off both sides of the account, so for material sales you have to disclose the impact that has on the account—is that you will be able to see whether people are selling it at less than the value of the asset.

Q103 Chair: It is not just the sale price is it? It is the loss of that asset on your books.

James Bowler: Yes.

Q104 Chair: We were worried about some of those police forces in particular,



HOUSE OF COMMONS

because that is what we were looking at, really reducing their sustainability by this route. In the short term it might have given them a quick win financially, but in the long term we thought there was a risk. Do you share that concern?

James Bowler: We very much share that concern. All of the work that we do on value for money is about getting value for money and managing assets to get that value for money. The disposal of assets needs to be value for money. The framework that I have been describing has to disclose the extent to which the balance sheet is affected.

Q105 **Chair:** Do you think that the Home Office is—I was going to saying “being a good enough police officer”—policing it well? We were concerned that this is under the Home Office’s purview and we did not feel that they had a very good grip on the risks that were arising because of this approach.

James Bowler: I am not an expert on police stations or other sales, but with the rise of the Government Property Agency and the Crown Commercial Service, what you are seeing is that Departments, and indeed the Treasury, now have a much larger set of experts and professionals to call on in the property and commercial functions, rather than going at these things alone. I do think—I very much witness this—that the advice to Departments and the steering is getting a lot more professional and a lot better.

Q106 **Chair:** Then you hit the problem that I gave you as an example, because it is a current one, in that you have police and crime commissioners and you have independent fire authorities in some areas. You have got a group of people making decision under the aegis and oversight generally of the Home Office, but the liability if something goes wrong is with the public sector, which will ultimately have to bail it out, which hits the public through tax, but the Treasury would end up being very much involved in that. Do you have an overview of where those risks are? How do you make sure that Departments have an overview? That is one Department I have mentioned but there are others where we are concerned that they do not have a strong enough overview of where the risks are.

Another example is where local authorities are buying properties that are not really core to them. Three local authorities were bidding to buy a shopping centre in Darlington, none of which was Darlington Council. We have no understanding of how many local authorities are exposing themselves to buying shopping centres, when they might not really have a full understanding of the value of that asset over time and what it might do to them if it went bust. If we suddenly had a downturn in people using shopping centres and that bit of the economy was not very strong, that asset could devalue very quickly. We are concerned about whether there has been an overview of that. How are you watching that at the Treasury?

James Bowler: The Treasury is concerned about those things too. There are two aspects to the answer, if I may. On the commercialisation—the borrowing for commercial investment at local government level—the

Treasury has done a number of things to tighten the rules and is working with HCLG, the local government sector and CIPFA, the accounting framework, to tighten those rules as to what a local authority can do within its auspices there. We have been concerned about some of the deals you refer to.

More generally, which I think is relevant to the Whole of Government Accounts, it used to be the case that you could enter into a contingent liability—pretty much, you just did it—but we now have a framework where you have to agree formally with the Treasury that you are entering into a contingent liability. That framework is proving very helpful to try to make sure that either we do not enter into those contingent liabilities at all or, more likely, we design the policy to limit the future liability. There are some statistics about the money that we feel we have already saved. The kinds of examples we refer to, which Mr Roxburgh is well aware of, are things such as Pool Reinsurance. We have increased the price at which we deliver that terrorist insurance to the private sector to make sure that that liability is better managed. We quite specifically operate a much higher bar now to entering into a new contingent liability.

Q107 **Chair:** That is heartening, and I think we will keep an eye on that, but we are watching the Government Property Agency with interest. We keep coming across examples that worry us on the Committee.

James Bowler: There is a lot going on, so it is worth saying—I have mentioned the balance sheet review a number of times—that one of the big assets on that balance sheet is property. We are going into a spending review cycle next year, so we will be reporting more on what our intentions are on Government property.

Q108 **Chair:** What is the expected date for the balance sheet review to be completed?

James Bowler: We did quite a full update for it in the Budget just gone, but it reports as part of the spending review.

Q109 **Chair:** But will it be in time to influence the spending review? We very much—

James Bowler: Yes, and it will be part of it, because you will need to have that discussion.

Chair: Mr Rowley may wish to pick up on some of this.

Q110 **Lee Rowley:** Can we talk about PF2? What will replace it?

Charles Roxburgh: The Chancellor set out the very clear decision that we will not be using PF2. There will not be a single replacement, because there is a vast range of different projects out there that require different financing solutions. As I informed the Committee last time, we were not using PF2 much at all. We have done only six projects since 2012 and none in the last two and a bit years—it accounted for less than 0.5% of public investment over that period. The answer is that it will depend on the individual projects.



Q111 Lee Rowley: Let me change the question then. There may be other ways and other methods by which you finance things. Are you anticipating developing a new method of financing to replace PF2, or will everything go into existing other ways in which you already finance things?

Charles Roxburgh: The Chancellor made it clear, as did my answer to Sir Geoffrey's question about £600 billion, that there is a large pipeline of investment in infrastructure over the next 10 years. Some of that will be purely public—classic CDEs, as we call them—and about half of it will be through public investment. We are also keen to use private approaches for financing infrastructure, as we already do. Things such as contracts for difference, concessions, co-investment and things such as the digital infrastructure fund. There is a wide range of areas.

We are not expecting to produce a PF3 as a single preferred approach. We will work on what the right way is—is it purely public or are there other ways to use existing successful structures that work for having private capital building infrastructure? It will be a range of solutions. We felt that one of the problems of PF2 was that it was a one-size-fits-all solution, which made it overly complex and inflexible.

Q112 Lee Rowley: Sorry to push, but is the answer that you are not expecting to develop a new framework because your existing options are sufficient, or that a new framework will be developed to replace PF2?

Charles Roxburgh: We are not expecting to develop a new single framework. We are using a range of existing frameworks. If people come up with another idea, we may look at it—if it is good value for money, if it works, if it has the right sort of flexibility and if it is appropriate. So we are not ruling it out, but we do not have a PF3 project on the way.

Q113 Lee Rowley: You mentioned the large amount of infrastructure a moment ago—spending that is coming up, and what is anticipated afterwards. You therefore have confidence that that infrastructure spending can be funded through the existing models that we have in place.

Charles Roxburgh: Yes. A large part of that will be private capital. That is why you need to think through each category. In the energy world, other than nuclear, which is a separate category—there is a debate about nuclear going forward but other than that—energy is entirely privately financed and we have structures such as contracts for difference, which have worked very well. In the fibre roll-out, which is a very important part of our national infrastructure, it is a case of the Government setting the regulatory direction and creating regulatory certainty, within which private investors are investing in fibre.

So we think the money is there. There is a lot of private money looking to invest in infrastructure. We need to give it the right regulatory structure. We also need to make sure that if it should be funded with public capital we have a big increase in public capital in the forward plans. So in the spending review we will be able to allocate that public capital to the best projects.



HOUSE OF COMMONS

Q114 **Lee Rowley:** Are you expecting or planning for a greater burden to be picked up by public financing over private financing, now that PF2 is not available?

Charles Roxburgh: As I said, PF2 was a very small part. The Chancellor set out in the Budget a very significant increase in capital expenditure. It is going up 30% in real terms. It is going to be sustained at an average of 2.2% of GDP over this period, so there is more public investment. That said, there is a huge demand, so I am sure there will be quite a lot of prioritisation needed to make sure that all the public projects can be financed, but there is more public capital now as a result of the Chancellor's decisions in recent Budgets.

Q115 **Lee Rowley:** Forgive me, but that is not really an answer, so could I ask the question again: are you expecting a greater burden? Strip away all the environmental factors you have just described. Are you expecting a greater burden to be placed upon public financing now that PF2 has gone?

Charles Roxburgh: The fact that PF2 has gone is not material because it was such a small part of our plans, especially in the context of an increase in capital, so no, we are not expecting a material increase.

Q116 **Lee Rowley:** Can we talk about Stonehenge for the moment, or the lower Thames crossing? How are they going to be funded?

Charles Roxburgh: The A303 is the project you are thinking of. That is going through the business case process at the moment. It is a project that we had considered as a potential PF2 project. At this stage the Government remain committed to that project. It will go to the business case. The business case was never dependent on the method of financing and the final decisions on that will be taken in due course, but it would be premature to commit to it before we have completed the business case process.

Q117 **Lee Rowley:** The chief executive of Highways England seems to think that there is a dependency here—that, in order to hit the times that have been announced for the tunnel, you can only now do that on the basis of public money, now that PF2 has gone. Is that correct?

Charles Roxburgh: We will be considering the financing of it when we have completed the business case. We have considered these, but I do not want to prejudge where we get to on the business case.

Q118 **Lee Rowley:** I am not asking you to prejudge the business case; I am asking you to tell me whether the method that you can fund that business case on is going to be entirely public because there is no time—

Charles Roxburgh: We are not evaluating alternative private solutions for that.

Q119 **Lee Rowley:** Okay, so it will be publicly funded.

Charles Roxburgh: If it is funded it will need to compete for public funds, alongside other projects.



HOUSE OF COMMONS

Q120 Lee Rowley: On that basis, in relation to my previous question about whether there would be greater reliance on public funding, that assertion is correct. It would not necessarily have been publicly funded before, and now it is definitively going to be funded publicly, if it is funded at all.

Charles Roxburgh: First of all, that is one project. We have a second project, the lower Thames crossing, which may have been funded, but these are small projects in the context of a significant increase in capital spending over the forecast period. So these are two important projects but in the context of the £70 billion or £80 billion a year of capital expenditure that the Government have committed they are not material ones—

Q121 Lee Rowley: Let's talk absolutely, not relatively. In an absolute sense, prior to this, the Stonehenge tunnel—the A303 tunnel—had the potential to be funded privately. Now it no longer has the potential to be funded privately. Therefore, there is a greater burden on public spending as a result.

Charles Roxburgh: On that individual project, but I took your previous question to mean in aggregate, overall. I am saying not in a material sense, given that we have increased the envelope. This was a very small portion of capital spending.

Q122 Lee Rowley: Mr Roxburgh, we were here a few weeks ago debating student loans, and the very strong view that I got from you and others on the panel in front of us was that there is a desire to get things off the balance sheet. That is why we sold student loans off for "lower than we perhaps could have done." The first chunk was roughly the same amount of money as Stonehenge will be. Why are we now putting stuff back on the balance sheet as a result of this?

Charles Roxburgh: I would not accept your point about selling it for below what it could be. The testimony I gave was that we were confident that we had sold the student loans for more than the retention value. We have written—

Lee Rowley: We had a long debate about that.

Chair: You can respond in the Treasury minutes.

Charles Roxburgh: The reason the Chancellor gave for ending PF2 is that it was proving inflexible and overly complex. This Committee, in its recommendations, said that we needed to have a clear strategy for when we should use it. We responded to that by saying that we concluded that it was overly complex and inflexible, and that we would not use it. The Chancellor has also made it clear that we will look for ways to get private capital to support infrastructure projects. There is a range of ways of doing that. We will be looking to do that. As you said, we expect about half of the £600 billion pipeline to come from private capital.

Q123 Lee Rowley: So when the DFT said in August that the private financing of Stonehenge will allow it to invest the capital that is no longer needed for that on other important strategic road schemes, does that mean that there will be other important strategic road schemes that are no longer



HOUSE OF COMMONS

done?

Charles Roxburgh: In the spending review, we will need to consider all the various projects that are being presented. It would be premature to commit to one project ahead of another project. The whole spending review will look at our capital plans, as it should. As this Committee would expect, we will want to prioritise investment against the best-return projects. Inevitably, there will be more projects than can be funded, but if they are good projects with good business cases and good relative returns, they should get funded.

Q124 **Lee Rowley:** The chief executive of Highways England said that it would be good to get some sort of decision on the A303 by January. Are you expecting to be able to make a decision by January on the business case?

Charles Roxburgh: I believe that the business case is proceeding on time. I don't know quite when the decision will be taken on when it will be approved.

Q125 **Lee Rowley:** On the wider point, PF2 has been stopped, and we have just had a discussion about the merits or otherwise of that. Can I derive from this a wider point that the NHS will stop using capital budgets to finance revenue costs as a result?

Charles Roxburgh: That is a separate point from PF2.

Q126 **Lee Rowley:** It is related.

Charles Roxburgh: I will answer and then perhaps Mr Bowler can fill it in. There was only one PF2 project in the health service, which was Midland Metro hospital. Due to the failure of Carillion, it has now been restarted with public money. We did not expect there to be a lot of PF2 projects in the health service. The Government have set out a very ambitious plan for funding the health service as the No. 1 spending priority. James is the director of spending and might want to pick that point up.

Chair: Could you keep answers quick?

James Bowler: I will give a very quick answer. The resource spending on health should mean that they need to move money from capital to resource far less. Indeed, we wouldn't be encouraging it. Indeed, we are encouraging them to invest more in capital, because that is the way that they can deliver greater sustainability. There has been an increase in capital spending in the NHS as well in recent years, but their capital budget is yet to be set. The short answer is yes, we do expect them to do this less.

Q127 **Anne Marie Morris:** I think you said right at the start that you feel the Treasury has a role in helping Departments manage their liabilities. We have briefly referred to clinical negligence, which is going up. What are you doing in the Treasury, or with other Departments, to get it to come down?



HOUSE OF COMMONS

James Bowler: It is rising. It was £66 billion in this Whole of Government Accounts. The number of cases is falling, but the value of those cases is rising. We are doing four things. First, there is a Government cross-cutting review due for publication, which the permanent secretary of the Department of Health and Social Care wrote to the Committee to say you could expect in January.

Q128 **Anne Marie Morris:** Before you move on to the next one, when you say cross-cutting, what Departments are involved?

James Bowler: The Department of Health and Social Care, the Ministry of Justice and the Treasury. Secondly, Jeremy Hunt, as Secretary of State for Health, last year published a maternity strategy with £250 million behind it, with an aim to halve stillbirths by 2025. Of clinical negligence, maternity is a majority of the pressure on that side of things.

Q129 **Anne Marie Morris:** Before you move on, why is that the major cause? Have you or the Department of Health and Social Care looked at that? Is it equipment, training or a lack of staff? What is it?

James Bowler: It is the major cost because the implications last throughout the life of the child. If there is an issue, the clinical negligence claim therefore pays for the implications for the life of that child. That is why the cost is high. I am not an expert on the standards.

Chair: I think those standards are beyond your remit in Health.

James Bowler: Thirdly, you will be aware that around a third of the costs are legal costs. There is work going on, particularly for legal costs under £25,000, to make them a set cost, rather than a percentage of the fee. That should save funding.

The last point is one I referred to earlier. The Civil Liability Bill going through Parliament now—I think it is in its final stages—says that the discount rate for pay-outs should be different. It uses a conservative, index-linked gilt, which means, to be blunt, that you can overcompensate. It is suggesting, on Government actuary advice, that the Lord Chancellor sets a different rate. That is just going through Parliament now and will help to limit the costs. Those are the four things.

Q130 **Anne Marie Morris:** That is helpful. What do you think the Ministry of Justice will do to help?

James Bowler: The MoJ is doing that Bill. It obviously owns the relationship with the legal fraternity, who are a large proportion of the costs of this stuff because it all goes through courts. The lawyers will set fees and potentially get a return, depending on the outcome in court.

Q131 **Anne Marie Morris:** So there are no plans, specifically on this type of claim, to change what the maximum claim could be?

James Bowler: No. The two things that we are working on are that those legal costs should be a set cost, rather than a percentage, for claims under



HOUSE OF COMMONS

a certain amount, and the discount rate point. I am not aware of those meaning changes to the maximums. Those will affect pay-outs.

Q132 **Anne Marie Morris:** What are the NHS and the Department for Health and Social Care looking to change to reduce the level of negligence claims?

James Bowler: I am not an expert on that.

Q133 **Chair:** We have done a report on that. There are things that we recommended that you are hopefully looking at. How are you pressing the NHS to make these small changes that could make a big difference?

James Bowler: I know that Chris Wormald has given evidence on that. The Treasury is very much involved in that, from the angle of the extent to which this rising liability is sustainable and the extent to which the Department of Health and Social Care can, ultimately, stop the liability arising in the first place by introducing the standards, commitments and whatever else. That is the main thrust of this, particularly for maternity. Where claims arise, the Treasury is also involved in making sure that they are compensated fairly.

Q134 **Anne Marie Morris:** Given that the population is growing, and growing older, how will you provide for this? Are you going to put the provision—presumably, you will rate clinical negligence up? Or do you feel that the steps hopefully to be taken by the Department of Health and Social Care and the Ministry of Justice will mitigate that otherwise expected increase?

James Bowler: There are certainly all sorts of age-related cost implications for the health service. This is not necessarily straight age-related, but as it stands, as the Whole of Government Accounts show you, the future costs of existing clinical negligence are growing and it will be a growing part of the Department of Health's budget, so we are trying, through the four things I have mentioned, to address it.

Q135 **Anne Marie Morris:** What is the timeline for these initiatives hitting the ground?

James Bowler: The Bill is very much in its final stages in Parliament. On the cross-Government strategy, I think I'm right that Chris Wormald has promised that for January.

Q136 **Anne Marie Morris:** What will be your response, as the Treasury, once that comes out?

James Bowler: Well, we are working with these Departments, as part of it, to inform it before we publish it.

Q137 **Chair:** Before I hand back to Mr Rowley, I want to pick up on PFI. One of the other things that the Chancellor announced was a centre of best practice in health. We are puzzled about what this will be doing and how any costs can be saved on existing PFI contracts. We have looked at that before and it's very difficult to do. So, Mr Roxburgh, what will the centre of excellence do?



HOUSE OF COMMONS

Charles Roxburgh: We think there may be opportunities. It is a pilot, but we want to see whether there are opportunities to improve contract management. We did an exercise in 2011 that did find significant savings through contract management. We think that there may be an opportunity to extend that further, across the 128 PFI contracts in the NHS. It is a pilot. We think that if there are opportunities to work through better contract management, making sure that both parties to the contract are doing what they should do and, if not, making sure that they either fulfil their side of the contract or pay compensation—we are going to look to see whether we can find opportunities there. As I said, the exercise in 2011 did find quite significant savings in some Departments, but less so in these ones.

Q138 **Chair:** Have we got an idea of the order of savings that could be made? I think Northumbria did this under Jim Mackey, didn't they? They did some interesting work there; they renegotiated.

Charles Roxburgh: We do not want to over-promise. The one in 2011 found savings in single digits—single percentage points. But it is still, across that base, useful to do, so we think it is worth a pilot. It is not going to cost very much to do the pilot, and then we will see whether we can find anything. And if we can replicate it across the whole—

Q139 **Chair:** What is the timescale for the pilot?

Charles Roxburgh: The Department of Health and Social Care are setting up the pilot now, and we hope it will be up and running within a few months.

Q140 **Chair:** How long will it take to realise the benefits of the pilot? A year of running it?

Charles Roxburgh: It is for the DHSC to lay out the plan. We expect they would want to pilot in a few high-priority areas first and then roll it out, so we don't have a timetable for how—it's a question of seeing whether it is worth doing it across all 128 contracts and, if so, on what timetable. We want to prove the concept with some pilot cases.

Q141 **Chair:** And then it will be rolled out to the other 500-and-something projects in other Departments?

Charles Roxburgh: Yes, if it works in this area, we would look at others. Some Departments have done this very thoroughly already, so there may not be scope there, but particularly in these decentralised departments—there may be value in replicating it where there are decentralised contracts.

Q142 **Chair:** When you were last in front of us discussing this, the IPA had, if I remember rightly, one man—it was a man—going round with his briefcase to analyse the costs and benefits of PFI. Is he still doing that or has that now bitten the dust?

Charles Roxburgh: We have committed to working out more information about the stock, and that work is under way, but—

Q143 **Chair:** So that is continuing?

Charles Roxburgh: I can check with my colleagues in the IPA, but—

Q144 **Chair:** There has not been a directive from the Treasury to stop that or anything—it is continuing?

Charles Roxburgh: No, it's building that information base.

Q145 **Chair:** Presumably that will feed into the pilot as well.

Charles Roxburgh: Yes, to the extent that it is relevant information for the DHSC.

Q146 **Lee Rowley:** Let's move on to a new subject—energy. Approximately 50% of the £300-odd billion of provisions that in this report are down to energy are nuclear. Can I ask you not about nuclear, but about fracking? When can I expect to see a provision for fracking in these accounts?

James Bowler: Sorry, but I will have to think about that. I think the nuclear decommissioning provision is £185 billion. On fracking, I can't give you a very good answer as to what that would do in the Whole of Government Accounts without some further thought.

Lee Rowley: I am happy for you to think out loud.

James Bowler: The provisions in the Whole of Government Accounts on energy are—well, the liabilities and provisions end up in a couple of buckets. There is a contract for difference, which is particularly about renewables. That is the difference between what the Government commits to paying and what it actually pays. Then there is the costs-of-future-decommissioning side of things, so if—

Q147 **Lee Rowley:** I am thinking more about future decommissioning for fracking.

James Bowler: I am not sure, on fracking, because I am not an expert on fracking, the extent to which either of those two things particularly applies. I imagine these are private sector companies and the issues in Whole of Government Accounts would be any public sector implications or costs.

Q148 **Lee Rowley:** Let me try to help, because as you can probably guess, I have an interest in this. You have ceded the point, as a result of nuclear, that you are responsible for large-scale clean-up of energy when others cannot do it—and because it was created by the public sector, mainly, in this instance. For fracking, the contracts that have been issued require the companies to which they have been issued to clean up and to hand back, and at the point where things are handed back, the infrastructure that remains in the ground passes to the ownership of the Minister. On that basis, if that ever leaks or if the chemicals that have been put down into the ground ever go anywhere they shouldn't, it becomes the property of the state and there is a requirement for the state to clean it up. If anything got into the water table, that would involve a substantial sum. Given that the Government has—in my view, foolishly—determined



HOUSE OF COMMONS

that it is going to put thousands of these wells around the countryside, because the Minister for Energy has said that she wishes to do that, I assume it would be important, in the next Whole of Government Accounts, for you to make a model of how much fracking is likely to happen and how much the cost is likely to be in the event that there is leakage.

James Bowler: There is a crossover here to new nuclear and how we are doing new nuclear contracts, learning very much from the fact that we sit on £185 billion of decommissioning costs. For new nuclear projects, we have a funded decommissioning plan. The issues sound similar to some of the fracking issues that you are covering. It says that—we are talking particularly about Hinkley Point C here—the private company must fund the costs of any expected decommissioning. As part of the contract, there is a cap. If memory serves, the expected costs of that for Hinkley Point are £2.9 billion, but the cap for where the public sector would then come in is five point—

Q149 **Lee Rowley:** So there's a model that—

James Bowler: I am no expert, but I would expect that any contract that the public sector has signed with the private sector on fracking would not pick up the liability of the costs of any clean-up immediately, but there would be in the contract quite a bit of specification as to the fact that the private sector company needs to do most of the—well, all of the costs of the cleaning up, but I don't know whether there is a cap under which then the public sector would come in.

Q150 **Lee Rowley:** You would accept there are some scenarios where the private sector would not be able to clean up, such as if there were a catastrophic failure, so we should make a contingency for that in the accounts.

James Bowler: Obviously, it depends. The thing that springs to mind is BP and Deepwater Horizon. I don't think the UK public sector had to pay for any of the costs of that clean-up on the eastern seaboard, but BP is a very large capitalised company. I am no expert, but if it is the case that the public sector has entered into contracts to be a backstop—to coin a phrase—for that private sector thing, then yes, that can be a contingent liability.

Q151 **Lee Rowley:** On the basis that two of the three fracking companies do not have a huge amount of capital behind them—one of them currently has financial problems and is not allowed to frack at the moment—it would seem sensible to put into the WGA in future years a provision on the basis that they would not have the capital to clean up catastrophic failures and losses.

James Bowler: You can see I am basing this on theory rather than knowledge, but if it is the case that the public sector has entered into a commitment with the private sector on that basis, you would, first, expect that to be recorded in BEIS's accounts. It sounds like a contingent liability. And yes, the WGA would then pick that up. I'm saying that in theory.



HOUSE OF COMMONS

Q152 Lee Rowley: If the scenario that I put forward were the case, we would expect to see that in the accounts. Could you write to me explaining whether you and BEIS intend to put a provision in future years as a result of the Government's policy dramatically to increase fracking across the country?

James Bowler: Yes.

Q153 Chair: It seems there are parallels here with the coalmining industry, so it is probably well-worn territory somewhere in Government. We just want to see whether it is recorded anywhere.

A couple of very quick final questions from me. First, in a previous Report, we talked about interest-only mortgages. The response came back that you were working to protect consumers, but one of our concerns about interest-only mortgages is that there is going to be a generation of people who have no home when they finally pay off their interest—they are paying interest only, so they actually never own the asset—so they may become a liability to the state. We wonder whether you are looking at anything to record that or to examine the risk of those people to the public purse.

Charles Roxburgh: The issue of interest-only mortgages has been looked at in detail by the Financial Conduct Authority to ensure that there is a policy so that, as people approach that, there are strategies for them to manage it. It is probably more a matter for the FCA to explain how they are handling that policy area. In terms of the question on the Whole of Government Accounts, I am not aware that we are recording that as a liability in the Whole of Government Accounts.

Q154 Chair: The FCA can do its job, and I am sure it does it well, but if you have no capital to buy the property that you have been paying your interest-only mortgage on for years, you will potentially be homeless at the end of that, and there will therefore be a cost to the state of providing you with housing or housing benefit, or with other on-costs if you find yourself actually homeless. We are not that far off that materialising for the first people to have only ever had an interest-only mortgage—a decade or two. Is it something you are looking at anywhere in the Treasury? Is it on your radar? It is not about consumer protection, really. It is like people without pensions—we have auto-enrolment precisely as a guarantee to try to limit a liability later, so what about interest-only mortgages?

Sir Tom Scholar: It is something I will have to check. The issue would arise first in the DWP accounts, because that is where the future expenditure, if it materialised, would be incurred. But I will have to check with our spending team.

Q155 Chair: I appreciate that. It would appear in the accounts somewhere, but there is cost-shunting. You have this latent problem looming for a lot of people, because they will not be able to find alternative accommodation. I just throw that out because we have asked about it and had responses before. We may write to you just to clarify our points on that.



HOUSE OF COMMONS

We talked earlier about Brexit and the Whole of Government Accounts. Sir Tom, when do you expect the Whole of Government Accounts to reflect the so-called Brexit dividend? How long will it be before the country can see how much Brexit is either costing or benefiting the UK?

Sir Tom Scholar: The accounts for 2019-20 will show what the UK's net contribution for that year would be.

Q156 **Chair:** That is the settlement figure.

Sir Tom Scholar: In the year 2019-20, we will be paying the same contribution that we would have paid had we been a member. The first year when that will be different will be the calendar year 2021 and the financial year 2021-22. From the financial year 2021-22 onwards, there will no longer be a net contribution to the EU; there will be a payment under the financial settlement, which will be less than the net contribution was and will gradually come down over time. You will see it starting from 2021-22.

Chair: There is lots more we could go into on that, but we will be pursuing that, obviously, when we find out what happened in Cabinet this afternoon and what happens with Parliament's vote. Thank you very much indeed for your time. Our Report will be out possibly before Christmas—I cannot absolutely guarantee that—and, as ever, the transcript will be up on the website uncorrected in the next couple of days. I am sure you have people who will look at that to see whether there is anything you wish to correct. Thank you very much indeed.