

Public Accounts Committee

Oral evidence: [Whole of Government Accounts 2017/18](#), HC 2045

Wednesday 19 June 2019

Ordered by the House of Commons to be published on 19 June 2019.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Caroline Flint; Nigel Mills; Layla Moran; Stephen Morgan; Anne Marie Morris; Lee Rowley; Gareth Snell.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Linda Mills, Parliamentary Relations Manager, NAO, Nicholas Todd, Financial Audit Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 to 99

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 Finance Reporting Policy, HM Treasury.

Report by HM Treasury

Whole of Government Accounts: year ended 31 March 2018 (HC 2164)

Examination of witnesses

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

Q1 Chair: Welcome to the Public Accounts Committee on Wednesday 19 June 2019. We are here today to look at the Whole of Government Accounts. I will introduce that in a moment, but first I will introduce our witnesses—a full top team from the Treasury. Vicky Rock is head of financial reporting policy at Her Majesty’s Treasury, and therefore responsible for drawing up the Whole of Government Accounts. We also have Sir Tom Scholar, who is the permanent secretary at the Treasury—welcome back—and Charles Roxburgh, the second permanent secretary at the Treasury, who seems to have been a regular visitor in the last two weeks. If you are quick today, we will let you off early. James Bowler, the director general of public spending at the Treasury, is also a regular visitor. It seems to have been a Treasury fortnight.

We are here to look at the Whole of Government Accounts, which is a really important document for us and for the country. We are looking at the 2017-18 accounts today, which consolidate the accounts of 8,000 public sector bodies. We have been following this for some time; I think this is the fifth time this document has come in front of the Committee. There have been some major improvements since it first arrived, when I was first on the Committee, and this is the earliest it has been published. I do not know who claims credit for that but, as a team, well done. The document lays out the true budget of Government—the proper balance sheet: the assets, the spending, the balances and the risks in Government. We are keen to delve into some of how the document has been put together but also how it has been used by the Treasury and the Government to help plan.

Before we get into the detail, I want to ask you, Sir Tom, about the spending review. Do you have any update about whether we are going to have a spending review and, if so, when it might be?

Sir Tom Scholar: We will certainly need to set new spending plans for at least 2020-21, because we do not currently have plans for that year or any subsequent years. That has to happen at the latest by November in order to allow the devolved Administrations, local authorities and so on to make their own plans.

Q2 Chair: You told us that last time. It has been only a couple of weeks since



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we last saw you, but how far have you progressed the planning so far, and how much is dependent on who is the next Prime Minister?

Sir Tom Scholar: There is no news since the last time. We are conducting, with other Departments, all the usual technical preparatory work. The Chancellor said at the time of the Budget that he would make a decision in July as to whether to launch a one-year or a three-year review. Obviously, there are quite important changes coming along in the Government in the coming weeks, so I think July is the time—we will need to review all that with senior Ministers at the time.

Q3 **Chair:** You cannot comment on this, but the current Chancellor has indicated that he may not be around forever, depending on what happens—if we believe what we read in the press; that is not from his lips, I have to say. For him or for any new Chancellor in July, is there a point of no return? Would you be advising a Chancellor coming into the Treasury that there is a point at which they have to make that decision about a one-year or a three-year spending review?

Sir Tom Scholar: I do not think there is a precise point of no return. In the past, spending reviews have been done sometimes quite quickly and sometimes over a long period of time. Obviously, the longer we all have, the greater the opportunity to scrutinise all the bids, iron out any difficulties and reach a consensus and an agreement.

Q4 **Chair:** So Treasury officials are happy to burn the midnight oil over the summer or the early autumn if that is what it takes to get it through? You are saying your crack team will deliver it whatever the politicians demand. Is that the summary?

Sir Tom Scholar: We will be ready to do whatever the decision is, yes.

Chair: Well, there is your pitch to the new Chancellor.

James Bowler: It is probably worth saying that we are not twiddling our thumbs; we are getting on with it. We have written out the data and evidence we want to acquire, which includes some of the things we discussed in the session on spending about what we want to achieve in this spending review. Departments are getting on with that. We are discussing the spending review guidance in draft with financial directors across Whitehall, so that everyone knows what we are about and how we are planning. That would be the key thing that we would launch in the summer.

Q5 **Chair:** Although we are not talking about a change of Government, we are talking about a change at No. 10. In normal circumstances, if there was an election looming, you would be briefing the official Opposition with published information. Are you having conversations with the candidates for Prime Minister so that you understand their promises and how that might have an impact on the spending review? If they have made a major commitment in one area, that will take a big slice of the cake that could have been divided up elsewhere. Are you having those conversations, Sir Tom?



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Sir Tom Scholar: No, we are not. I understand that the Cabinet Secretary will talk to the final two candidates once that is known. Obviously, we will give him any support that he asks for.

- Q6 **Chair:** Is that normal practice? This occasion has happened before. Once the Cabinet Secretary has had those conversations, would you be modelling their promises about what they would want to do in office, so that you could present them with advice on arrival at No. 10?

Sir Tom Scholar: Normal practice in the run-up to an election is that permanent secretaries go to the shadow Secretaries of State to hear about any planned changes to the machinery of Government. That is not a vehicle for providing advice—that is very clear in the convention—but about elections. In the case of leadership elections, there is not any particular proceeding or convention. It will be matter for the Cabinet Secretary, in consultation with the Prime Minister, to decide how that should be handled.

- Q7 **Chair:** Our concern is that whatever the rights and wrongs, the reality is that we will have a new Prime Minister who may have quite trenchant views on particular issues, and therefore might have spending plans for those. To say “muddling through” is perhaps a bit unfair to you, because I am sure the Treasury is not muddling through, but there is no proper process for trying to model what those commitments are and what the impact would be on any spending review or the Government’s budgets.

Sir Tom Scholar: We will be ready with all the information, analysis and advice whenever it is called on. The nature of those conversations is very much for the Cabinet Secretary, so I do not want to get in the way of that. We are ready to support whatever is decided as the proper process.

Chair: Given that we have been through this process a number of times since the '60s, where a Prime Minister has become Prime Minister without going through an election, perhaps the civil service could think about having a plan to deal with it. But I appreciate that you are dealing with the situation and it is not quite your area of responsibility. Let’s leave that there for now; clearly, a lot more will come out of that. Mr Snell, could you kick off on the Whole of Government Accounts?

- Q8 **Gareth Snell:** Thank you, Chair. Sir Tom, what do you believe the Whole of Government Accounts actually tells us about the position and performance of Government and public sector finances for the year in question?

Sir Tom Scholar: They do three very important things. First, they provide a comprehensive, consolidated statement of income and expenditure for the whole of the public sector in 2017-18. Secondly, they give a clear and comprehensive statement of the balance sheet as at the end of the year—the full extent of the public sector’s assets and liabilities. Thirdly, putting those two things together, they are a comprehensive, consolidated set of public sector accounts according to internationally accepted accounting standards, and audited by the NAO, which gives a high degree of confidence, accuracy and meaningfulness of the published data.

Q9 Gareth Snell: You said that they provide a consolidated set of accounts. Who do they provide that information to? Who is the primary beneficiary of the quite weighty report that you produce? Who uses that information that you rightly say is of a very high international standard? In whose benefit is it produced?

Sir Tom Scholar: A number of different users. We use it very thoroughly internally, and in discussion with other Government Departments, which in turn use it for their own reasons.

Q10 Gareth Snell: What reasons would they use it for?

Sir Tom Scholar: An important part of our discussions with Departments is the management of their liabilities. One thing that you get from the Whole of Government Accounts is a comprehensive statement of those, and that is an important part of our financial risk management.¹ So it is used by the Treasury and Government Departments.

It is also used by the Office for National Statistics in producing statistics, and by the Office for Budget Responsibility in producing its forecasts. It is used by international bodies such as the IMF and the OECD in examining the state of the UK's fiscal position and in the advice that they give to other countries on how to approach those things, because it is generally recognised as being at the international forefront—the cutting edge. It is used quite extensively by commentators on fiscal matters, think-tanks and other forecasters—to give one example, the Institute for Fiscal Studies. It is used by this Committee, which is always very interested in it, and through that there is a clear reporting line to Parliament.

Q11 Gareth Snell: There is, but if I could just stop you there, because that is a nice list of internal bodies that also have their own departmental accounts, which presumably also help them to manage their liabilities and to be aware of their underlying potential threats and risks. The consolidated accounts bring them together, but they do not tell them things that individual Departments do not already know. If I were a Government Department, what would I learn from the Whole of Government Accounts in this format that I would not reasonably know from the consolidation of my own departmental accounts, which this Committee and many others scrutinise on a much more recent basis than the Whole of Government Accounts that we are looking at today?

Sir Tom Scholar: That is a completely fair comment—

Gareth Snell: It was a question, rather than a comment.

Sir Tom Scholar: Let me comment on the question as I answer. Every Department's primary tool will be its own report and accounts, clearly. At the same time, some of the work that we do with Departments—for example, the discussions that we are having under the balance sheet review, or our new and tougher approach to managing contingent liabilities or getting greater value out of Government assets—is informed

¹ The Department later stated that this should read 'fiscal risk management'.



by what we have learned through compiling the Whole of Government Accounts. When we are talking to Departments about those things, we use the Whole of Government Accounts very much as a reference point, alongside, of course, their own report and accounts.

- Q12 **Gareth Snell:** We are now in June 2019, so in the 2019-20 financial year. The Whole of Government Accounts that we are looking at now are the consolidated accounts ending March 2018. What reasonable benefit, in terms of dealing with the contingent liabilities that there are now and the departmental risks that exist today, is there from data that is 18 months old and that is presumably updated, refreshed and replaced by the consolidated accounts of the Department from the last financial year, let alone the financial year before that?

Sir Tom Scholar: I am sure we will come on to the question of timeliness in a moment, but for us the value of the Whole of Government Accounts is not just that each year we publish it; it is that the whole process of compiling it and looking at the trends underlying it informs our thinking about managing fiscal risks over time. Of course, it is true that it is published with a lag. That is inevitable, given the work that has to go into preparing it.

As we have discussed with this Committee before, it is not at all the case that we use it for day-to-day decisions on fiscal policy or that Departments use it in day-to-day decisions; that is not its value. Its value lies in giving us a completely comprehensive overview, which helps us to look at trends, developing issues or areas of fiscal risk that, looking across the whole of Government, are undermanaged or could be better managed. From that, we take away that information and try to apply it to the particular Departments that we are working with.

It is very much a process over time. It gives you a snapshot. You are quite right that it gives you a snapshot based on, in this case, just over a year in the past. You do have the confidence that it is a completely accurate snapshot. Given the trends that you see, you have some sense of where it is moving it over time.

- Q13 **Gareth Snell:** Just to be clear, I wasn't questioning the accuracy of the report; it was more its immediate relevance. We will come back to the question of timeliness, with regard to trends and values. This Committee reported on this in 2019, and our report said: "The Treasury does not fully understand how the WGA is used, which means that the WGA still does not provide the public and Parliament with the information they need". The Treasury's response was: "The Treasury is planning to seek direct feedback from users and readers of the accounts, to see what additional information they would like to see." You said that you were hoping to carry out that survey alongside the publication of this report. Is that survey happening? Has it happened?

Sir Tom Scholar: It is about to happen. We are slightly late—I fully acknowledge that. The reason why we are slightly late is that we were extremely keen to get the accounts out in May, before the Whitsun recess,



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so we put all our resources into making sure that we had everything ready for publication in May. That means that the launching of the survey has been a few weeks delayed, but it is coming out shortly. We will certainly have it completed in time to inform the preparation of the next set of accounts, which is what we are turning to now.

- Q14 **Gareth Snell:** Going back to my first question about how useful it is, if you haven't done the survey of users and readers that you said you were going to do, and you haven't engaged with them in the way you said you were going to do, how can you be confident that the users you referred to earlier—mainly yourself, Government Departments, the ONS, the OBR and the IFS—are getting out of the WGA as much useful information as possible?

Sir Tom Scholar: We don't know that they are getting as much as possible out of it, and we don't yet know their views on how it could be improved and made more useful. That is, as you say, the purpose of asking them. We do know that the users I have mentioned find it valuable and make use of it in their work, because that is something they have told us directly.

- Q15 **Gareth Snell:** Finally, Sir Tom, how influential is the Whole of Government Accounts as a stand-alone publication in influencing policy makers? How much is it used by Ministers and people in decision-making processes to inform and change decisions that they may or may not wish to make?

Sir Tom Scholar: It has a serious and influential use, particularly in relation to the management of the balance sheet. The example I would give is the balance sheet review that the Chancellor launched a couple of years ago. We have been working on that, and it is one of the things that will feed into the spending review.

James Bowler: For years, the national accounts has been the driving thing that Ministers and Departments look at. That is essentially the sum of past commitments. The big thing that the Whole of Government Accounts does is set out the future impact of decisions already made. We would hold our hands up and say that for years we weren't focusing on that enough. That is where it can influence Ministers and policy makers. When you see debates about clinical negligence and what you need to do, or about learning from nuclear decommissioning—how it was done in the past and what you might want to do in the future—you are seeing that influence. The Whole of Government Accounts allows Departments to compare and contrast their liabilities with other things. We use it to make it very clear to Departments that this is a very big deal and has a very big impact in those kinds of areas.

- Q16 **Gareth Snell:** So you almost use it as a stick for the bad Departments to show what the good Departments are doing?

James Bowler: Well, we're the Treasury—so, yes, if we can.

Chair: What honesty.



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James Bowler: You would say to the Department of Health and Social Care and the NHS, as they are compiling their long-term plan, "Remember that you have £78 billion of clinical negligence liabilities here." You would say to BEIS, as they debate future nuclear things, "We've got £260 billion of current decommissioning liabilities on us; what can we do differently so that doesn't exponentially rise?" Public sector pensions is another example.

Q17 **Gareth Snell:** We are going to come on to some of those specific cases later. Moving on, Mr Bowler, obviously you are the accounting officer responsible for this. This is your baby in many ways.

Chair: Ms Rocks?

James Bowler: I wouldn't claim to have done much of the work.

Q18 **Gareth Snell:** I suppose it's a case of who wants their fingerprints on the problems, isn't it? You were able to publish earlier this year than you have been in previous years, although you still didn't meet the nine-month target. How were you able to achieve that?

James Bowler: As the Chair mentioned, we consolidate 8,000 accounts and the main thing that helps us publish earlier is getting hold of those accounts quicker. We got hold of the accounts of academies, which make up many of that 8,000, and we got quicker and slightly better information from local government. As you say, our central Government information is pretty good. That's the main driver.

Q19 **Gareth Snell:** Are other people being more helpful in the processes?

James Bowler: We have tried to drive timeliness in our debate about that. There has been an explosion in the number of academies. We are trying to deliver that in the framework and get better at that. As the accounting officer, I should say—we include this in the governance report in chapter 3—there is a trade-off between raw speed and the quality of accounts. We debated that a bit for the first time this year; we are probably saying that our hope is to get a little bit quicker still, but there will be some trade-offs in that, because we want to take time to get it right and to draw out in the performance report—chapter 1 of this—the interesting issues and the key things in that account. Hopefully, with a view to transparency and honesty, we say that there is probably a bit of a trade-off from just charging to try to get these out as quickly as possible.

Q20 **Gareth Snell:** You pre-empted where I was hoping to take this. What sort of trade-offs are you talking about? Are you talking about a dilution of robustness in the data? Are you talking about consolidating from different sources? What is it that we can expect to not be as good in future WGAs, in order to get them out quicker than we have done this year?

James Bowler: Our hope is to continue to improve things without quality diminishing. Our expectation is that we are going to try to deliver this for March 2020, so that will be quicker still than the May we did this time. My expectation is that going considerably earlier than that would require a few things to happen and start to trigger some of these trade-offs. It

would require getting the academies and local government information even quicker—that is not a given, but we are working on it.

To answer your question directly, we are trying to deliver a product that isn't just a whole set of numbers but also an assessment of those, and bringing out the key areas. We have done some new things this year, and that takes a little bit of time. We are also in the process of an IT upgrade, which you will be pleased and surprised to know is not off track. That will help a little, but we need to deliver it.

- Q21 **Gareth Snell:** I am going to come to that later on, because Government IT projects are notoriously wonderful in coming in on time and on budget, aren't they?

James Bowler: I don't know what you mean.

- Q22 **Gareth Snell:** Can I clarify one point, Mr Bowler? You said March 2020. Just so I am clear, your aspiration is that the 2018-19 WGA will be published in March 2020?

James Bowler: Yes.

Gareth Snell: Within 12 months of the end of year.

James Bowler: That is our aspiration—that is probably a good word.

Chair: Ms Rock is nodding vigorously.

- Q23 **Gareth Snell:** Ms Rock, is that doable and achievable? Is that something you are working towards?

Vicky Rock: It is what we are working towards, but it is at the limit of what is achievable with the current technology and the current processes. From our perspective, we have started the planning from that year. The earlier publication this year helps us, because it means that we can move team members on to preparing for that year. There are some real dependencies there. Mr Bowler mentioned the academy sector. They are looking to take four months out of their own publication timetable, which currently they are on track to do. It would be a really remarkable achievement for them to move their publication from November forward to July, at which point they then need to do the consolidation with the Department for Education. They are one of our largest components, so getting that in on time will be a big boost. It is about getting the compliance continuing to improve from the local government sector. We were really pleased with how the sector responded to the earlier deadline last year, but keeping that engagement with the sector going will be critical as well.

- Q24 **Gareth Snell:** We will move on to academies separately, but I will first refer to a point that Sir Tom made. You have published the 2017-18 accounts and you are now getting a user survey to see what necessary changes or improvements might be made to the next WGA in order to make it more accessible and friendly to your anticipated audience. At the same time, you are trying to reduce the timetable on which you will



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publish that. Is there not a danger that you get feedback from your users that builds an additional time for compilation and publication, in order to meet what they are asking you to put into the WGA, or have you factored that potential challenge into the timetable?

Vicky Rock: I agree that it is a risk and a challenge. I would add that there is the further risk that, as well as responding to the feedback, we might end up with a shopping list, and although each individual idea might have merit, taken as a whole they would make the accounts harder to use for our core audience. So we will need to be very careful in reflecting how to do that. We will need to look at options that we have for phased implementation of recommendations and different priorities to assign them, but yes, we know how important timeliness is, and we do not want to sacrifice that, so we will need to look at how to approach the improvements that we are going to make.

James Bowler: Another way of looking at it is that we will also, by the time of the next accounts, have had a new Prime Minister, potentially left the European Union and done a spending review; but we have allocated the resources ourselves to make sure that we aim to do those accounts by March 2020. So we are prioritising it too.

- Q25 **Chair:** Just to be clear, if there is any change to that 31 October date, or there is some shock to the system, that could mean that that deadline is not met, for pretty obvious reasons, because there could be big shocks.

James Bowler: The people that Ms Rock has working for her have the ability to work on this to deliver it to March 2020. We are not intending to pick them up and place them elsewhere.

Chair: Ms Rock, you are a rare island from Brexit.

James Bowler: But it is over a very busy time.

- Q26 **Gareth Snell:** Can I ask—I apologise to my colleagues around the table—what contingency are you making for the potential for a general election within this compilation and publication time? That could have an impact equivalent to Brexit, with a new Prime Minister.

Sir Tom Scholar: A general election would not have any impact—

Gareth Snell: Nothing whatsoever?

Sir Tom Scholar: It would have a big impact on the Department in many other ways, but not in the compilation of the Whole of Government Accounts.

Vicky Rock: Mainly it would be that obviously we would have to respect any purdah periods so we would sometimes be caught out by a cliff edge on publication.

Sir Tom Scholar: That is correct.

Chair: So Government carries on even when we are not here.



Vicky Rock: We do.

Q27 **Gareth Snell:** There is something in there, isn't there? I can't necessarily think what it is.

Just on the final point, Ms Rock, regarding the phased implementation of the user feedback, has the Department got a timetable for when it needs that feedback back by, in order to start that, and what will your methodology be for saying, "Actually this is something we can do", "This is something we might do later on," or, "This is something we reject as being helpful"?

Vicky Rock: Certainly. In order to meet the March publication date, we are actually targeting to have a complete account prepared as at the end of December, so that NAO colleagues can really start the audit in earnest. We will still be working on the performance report, most likely up until the end of January, so really we will be looking for—

Q28 **Chair:** When you say the performance report, you mean the sort of narrative.

Vicky Rock: Sorry, yes; the front half of the document. So we have a little bit longer for that—most likely until the end of January. We would really be looking to lock down feedback, our planned responses to that, in the autumn. We would take that to our audit committee, present them with our strategy and get feedback on how manageable it was from their perspective.

Q29 **Gareth Snell:** Obviously, you mentioned academies and local government, which are all things outside the immediate sphere of influence, in terms of reporting, of the Treasury, so what are you going to be able to do with those individual reporting units to say, "Actually, you need to be a bit quicker," or, "You need to be a bit better"? Given that you are going to be implementing a new IT system, which, regardless of Mr Bowler's optimism towards its implementation, will undoubtedly involve some problems to start with, even if that's just about user error, what are you building into your timescales and what conversations are you having with academies and local authorities now to say, "This is what you might be expecting from us, to get this on time"?

Vicky Rock: With local authorities, we reach out to them very directly. We have local authority user groups. We test our ideas with them before making anything compulsory, to check that they are feasible and realistic for the sector. We have a very good level of support from local authorities and from our central Government Departments as well, in terms of supporting the Whole of Government Accounts.

With central Government, we work one on one with Departments on their timescales. Elsewhere in my team, we provide a lot of support and guidance for Departments on the year end and cross-cutting issues, to try to help people to get their own accounts prepared before recess, because that is such a key dependency for them doing their Whole of Government Accounts return as well. It is very active management—engaging beforehand, tracking compliance, and one-on-one management for the



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largest components, which have the biggest ability to disrupt our timescales.

It is worth saying that when it comes to academies, we meet with the Department for Education monthly. When it comes to the plans for removing the qualifications on academies, that is very much a joint project between the Department for Education and the Treasury. I would hope not to be surprised by anything that came out at a later date.

- Q30 Gareth Snell:** In terms of the data that comes from external sources into the Treasury to allow you to consolidate, whether that comes via a departmental consolidated account or is something that you get in directly, how much are you anticipating that the new IT system will basically take out some of that manual work and make it just an automated process? You have mentioned that this is a risk. How much of a risk actually is it? What are your contingencies?

Vicky Rock: We are working on the new IT system at the moment, and it will be introduced for WGA using a phased approach between January and March of next year. This IT system is not going to be the one that we use for delivering the '18-19 accounts; it is the one we are going to develop during that time to launch afterwards.

There is, of course, an additional demand on the teams in developing it, but when it comes to actually implementing it, the big step forward that the IT system gives you is this. At the moment, we collect spreadsheet returns from hundreds of different bodies, and they are all in different IT environments. There are problems with macros. We can lose weeks through the time needed to fix issues. Our existing consolidation tool uses quite old technology. It is not always available. Again, what project contingency we build into the Whole of Government Accounts is often taken up by IT failures right now. So that will be a big benefit just from having a more reliable system and a web-based system instead of spreadsheets.

Then we have the additional opportunity to look at the methodology that you put into the system itself. Are there manual tasks that we do now that you could automate, particularly when it comes to eliminations? That is such a large part of the consolidation process, as you can imagine.

- Q31 Chair:** Will it be easy to interrogate this IT system? Will it mean, if there are other questions—not just the published accounts—that it will be easier for that financial management information to be available across Government?

Vicky Rock: It will be much easier to interrogate, will have better availability and will not suffer from the same lags as we have right now.

Gareth Snell: That sounds—well, you said the word “hope”.

Chair: It sounds so positive.

- Q32 Gareth Snell:** Let's say, hypothetically, everything goes to plan. Every



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Government Department delivers; the new web-based system is adopted without complaint or issue by those that have to use it to submit their data; and your team are able to interrogate, compile and audit—no, not “audit”; what’s the word I’m looking for?—consolidate that data accordingly. Everything goes to plan. What do you then need to do within your team and within the Treasury to meet the 12-month deadline? If everything happens, that deadline is pretty much a given.

Vicky Rock: Yes. In fact, we are trying to achieve the 12-month deadline without the IT system. We see that as the upper limit with the existing processes.

Q33 **Gareth Snell:** Could you meet the nine-month deadline that the Committee has previously asked for?

Vicky Rock: We could not do it without the IT system. We do not yet know with certainty whether we can do it with the IT system.

Q34 **Chair:** Would it be much more useful if it came in at nine months, compared with 12, for the effort involved in that?

Vicky Rock: It is an interesting question, and one that our own audit committee asked last week. When it comes to WGA, a lot of the benefit is in the underlying data. It is that focus on managing the balance sheet, instead of always just managing the current year. The numbers don’t always change radically year to year, so to me the focus on the balance sheet that WGA has brought, alongside other publications from the OBR that use its data, is the biggest success. Publishing it quicker would be a great achievement, and one we would be very proud of, but I don’t see delivering it by itself as a radical step change compared with how it is used right now.

Q35 **Chair:** It is difficult to tell, because you have the new IT system—if it all works—potentially coming in, but how much extra resource would it take you to deliver something in nine to 12 months? Are you making that assessment?

Vicky Rock: I am. I am not looking to change our core resource but to use more reciprocal arrangements with Departments. We have a lot of consolidation expertise across Government, such as in the Department for Education, the Department for Business, Energy and Industrial Strategy and the Department for Digital, Culture, Media and Sport. We have offsetting peaks in the year, so rather than each Department having to staff up to each of those, we can use reciprocal arrangements—as we have this year with BEIS—to lend people to Departments during their peak periods, which is reciprocated. It is also very good for the development of our staff to have that opportunity to be seconded into the Treasury and to work on a project like this. I would explore those flexibilities before exploring changes to the core team.

Q36 **Gareth Snell:** If that all works, I think we would all be happy with that; it is an impressive way of going forward. However, I want to understand the risks around this. What—if any—resistance are you getting from the original compilers of the spreadsheets about having to now use a web-



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based system? How are you managing expectations around some of this all-singing, all-dancing new technology that is going to make this all much easier?

To ask questions in rounds of three, will you do this in parallel with the traditional system, using that as a contingency in case the IT does not work, or will you say, "In for a penny, in for a pound. This is it and now we are going to do it"? If you are running it in parallel, what is the cost implication, the risk and the resource demand that you will have to manage?

Vicky Rock: First, I would say that there are multiple risks. If I take the first, around users, this is a very big change. The current IT system has probably around 400 users, but that will go up to several thousand, so a big part of our work is the training and roll-out strategy for local government. We are involving them in the design. That work kicks off in earnest later this summer.

It is not the first process that we are doing with this IT system. We picked a simpler one to go first, to test and to learn from—a much more discrete one. I would certainly say that there are risks around user acceptance that we are actively aware of and looking to manage, particularly in the local government sector, although elsewhere there are others who cannot use our IT system right now.

I also highlight that preparing the 2019-20 accounts will very much be a transitional year, when we move from using our current spreadsheet-based system to the new system. It will be really challenging to get all the benefits out in that year. I am not convinced that we will. I sincerely hope to not take a step backwards, by way of timing, but I don't think we can guarantee that that will be the year that we see a significant movement. For me, it would be much more important to guarantee the minimum level of quality that users of the account expect and to deliver that.

You asked a specific question about the potential for dual running: it is possible and we have a contingency budget within the project that could meet the cost of it. The cost would depend on which processes we would need to keep from the old system and for how long, but it is something we know is available from a commercial and financial perspective if we were to need it. The decisions on that would be taken towards the late autumn and winter, rather than at this stage.

Q37 **Gareth Snell:** But from the Treasury's perspective, the plan is to stop using one system and migrate to a new system without any concurrent running?

Vicky Rock: The old system will be sitting there in the background for a period. It will still be available, but once we are happy that the new system is up to existing quality—we have governance and assurance processes that tell us whether to go or not go, so it is not that we are facing a cliff edge; we have a decision on whether it has passed our testing and to what extent there are defects—we will decide whether to adopt it.



- Q38 Gareth Snell:** Finally on this particular series of questions, do you believe it is practical to be trying to publish WGA quicker while at the same time trying to embed the new IT system? Going back to Mr Bowler's trade-offs, is there a risk that there are such significant trade-offs to meet the time deadline because of the new IT system that you end up with a less user-friendly product at the end of it?

Vicky Rock: That probably relates to an earlier question; if we need to get some dedicated resource in to help us during this transition period within the project, we would do so. We are not looking to increase our headcount as a permanent means of delivering a faster timetable, but if we needed to get some resource so that we could have our core, very experienced team delivering some additional resource and doing some testing for us, that will be available to us as an option as well.

James Bowler: In full disclosure, as a summary of this discussion, we are saying that we hope and aim to get the next thing out by March. You have encouraged us in the past to be quicker than that, and we are being slightly cautious about being quicker than March. One of the reasons is that the change in the IT system, which we hope will have medium-term benefits, might not be the year where we suddenly also get big timeliness improvements—if that is a useful summary of the debate.

- Q39 Gareth Snell:** It is. You are talking March '20 for '18-19, aren't you? Then it will be '19-20 when the full IT roll-out works, so you have time for that.

Going back to the earlier question I asked Sir Tom about user engagement, how much of the user survey will inform what the IT system will be able to achieve? Again, I fear that you have an IT system that can generate an output, but you have not yet asked your users what that output should look like, and we could end up potentially having to re-engineer the software to make the output they actually want. Is there not some misfiring here between asking people what they want and having the software available to produce something that might not be what your user has told you is the output they need?

Vicky Rock: It is a good question. Our IT system and the Whole of Government Accounts will both be able to work with all the information available from an underlying departmental set of accounts. The area where I worry about not being able to meet users' expectations is where it is a new data collection requirement that just does not yet exist for the public sector. The IT system will have a whole universe of data available to it that it can apply. There is still a risk that things will come out of the user survey that it will not do, but because the IT system is the consolidation tool for what exists in underlying entities, it is not the primary source of data. If something comes out of the user survey that we do not know how to collect, we have to go back a step further to see whether there is an appropriate data source for that or whether, when we start to trade off time, cost and quality, we say that that is not feasible.

James Bowler: Again, full disclosure: the IT system is necessary but not sufficient. For example, we would all like to get more information on the minutiae of spending underneath the totals we currently give you. The IT



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system itself will not do that; it will align standards across central Government, and potentially local government and the wider public sector. That aligning is not happening and it would be more difficult.

- Q40 **Chair:** I'm going to jump in, if that's all right, Mr Snell? On page 199, paragraph 1.14, there is one example of what you are talking about, and perhaps you can elaborate. It says that sometimes there is little information, and that "£212.2 billion of spend (Note 8 to the WGA) is classified as simply 'purchase of goods, services and other expenditure'", and there is some other information. What the CAG and the NAO point out is that we cannot tell how that very large sum of money is broken down. You are saying that a step further back needs to be sorted before the WGA can reflect it.

James Bowler: I recognise that there are very large amounts of money, but we are quite a long way from saying, "What does DFID spend on its travel expenses compared with Department X or local government Y?"

- Q41 **Chair:** What needs to change to make that happen? This IT project is not going to do it.

James Bowler: You would need to align a lot of standards, and they are not aligned.

- Q42 **Chair:** We had this the other day with the Cabinet Office—what is consultancy and what is contingent labour. HMRC was arguing about the definitions. That is quite a big job, given we have been talking about doing something like that since I have been on the Committee, which is eight years. Where are we at?

James Bowler: I am afraid—in the full disclosure thing—we are quite a long way from making rapid progress.

Chair: I hope it is full disclosure Mr Bowler, because if it were less than full disclosure, we would be very concerned.

James Bowler: I'll remember that. Even central Government do not have the same sets of below top level.

- Q43 **Chair:** When will we know? For example, when we looked at police costs at one point, we discovered that there were 10 or 14 different prices for police boots. I guess in Cumbria they may have different boots from in Shoreditch, but you never know. There was a wide range of costs, going up to well over £100 per pair of boots to much lower. If you are a citizen, you might want to be able to see how much it costs to kit out a police officer, or how much it costs to empty the bins in Stoke compared with Doncaster. Mr Snell believes Stoke is doing a good job. Will the system, as a result of this consolidation, be able to make that type of assessment to a common standard? It would be an incredibly useful tool in Government if it were available.

James Bowler: It would, and I think the answer is that at departmental level, progress is being made on standardisation in a whole set of areas, although I will not be able to quote a lot of examples. There is another job



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at departmental level to align standards there, and an even bigger job to do that across local government and central Government or public corporation or the public sector. We are a long way away from being able to, for example, Hoover up that data right up into the Whole of Government Accounts. That is the honest truth of it.

Q44 **Chair:** Is it an aspiration, or is it too big a job?

James Bowler: It is an aspiration, but not one I would be able to put a date on.

Q45 **Chair:** In your lifetime in the Treasury, or in your life time full stop?

James Bowler: That doesn't seem—

Chair: Hopefully the latter will be longer than the former.

James Bowler: Why not? I'll be dead by the time I have passed or failed that.

Chair: That is one way of dodging accountability, Mr Bowler.

James Bowler: Vicky, is there anything more that I have missed on that?

Vicky Rock: It is worth saying that the private sector has always had a problem here, which is that there is not a common taxonomy of all those terms, and there is great interpretation and variation. The IT system helps a small amount, but at the moment, when we do try to collect data on the purchase of goods and services, we get around 90% marked as just "other".

Q46 **Chair:** How much?

Vicky Rock: About 90%. We get huge percentages mapped to "other". We do not get very good compliance right now. The IT system will help us with validations and being able to do more checks within it, or to return items to Departments to look at again. The implementation process gets slightly easier, but we still have the definition problem.

Q47 **Gareth Snell:** Whose responsibility is it across Government to start that process of harmonisation of reporting, so that I can look at a set of accounts relating to the public sector and spend in Staffordshire hospitals or at the council and do a cross-Department comparison? Or so that I can look at a set of accounts for the hospital in Stoke-on-Trent and a hospital in Stoke Newington and say, "On paper I can see one is more efficient than the other," or, "One is spending more than the other." Whose responsibility is it? Who owns that in Government?

James Bowler: It is probably a dual role. At the top-down level, there is the Treasury and the finance function, and the finance function gets together all finance leaders across Departments. One of the core things that it does is get the basics right, which means common data and common standards.

Q48 **Chair:** Is that Mike Driver?



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James Bowler: That's Mike Driver, yes. And that is something we are progressing. We are trying to make progress on that.

Q49 **Gareth Snell:** At pace, or are you getting resistance?

James Bowler: No, I think people can understand the objective, but it is probably slow-going to make changes. IT is necessary, but not sufficient. You need the IT there, but you need the standards to follow that. There is a programme of work led by a set of finance directors across Whitehall reporting to Mike and the finance leadership group that is doing that. So that is the top-down level.

At the bottom-up level, to take your example, it would be for the Department of Health to make sure that comparisons between hospitals can be standardised.

Q50 **Gareth Snell:** Are they doing that?

James Bowler: Yes, I think they are doing that, but I cannot give you examples. That is why I said that there is a whole set of things.

Q51 **Gareth Snell:** And in local government?

James Bowler: On the comparisons between the police, hospitals or local government, the bottom-up progress is better than the progress we have made between different organisations, Departments and bits of Government. There is a set of comparative data that you are given on performance planning and budgeting in hospitals, for example.

Q52 **Gareth Snell:** Okay, but that is still a long way from being able to be consolidated at one level in the Treasury to allow your active citizen to go and do some proper citizen scrutiny on public spending and expenditure.

James Bowler: Yes. Page 199 sets out the fact that the spending in the Whole of Government Accounts, for the reasons that Ms Rock has pointed out, is high level. We try and make the report as useful as possible. In the narrative on the report, we then pull out, for example, spending by function and by region, which we collect in a whole set of comparable ways, precisely to try and give the reader more information than the accounts in and of themselves give them.

Q53 **Gareth Snell:** I suppose this is a good point at which to move on to you, Ms Rock. In terms of that wider working with Government bodies and Departments, what is the Treasury now doing to try to resolve audit qualifications within that reporting mechanism? Obviously there is some issue, particularly with defence liabilities and also academies, but more broadly what are your teams doing to make sure that the WGA next year, or even the year after, has significantly fewer qualifications within it?

Vicky Rock: Yes, those are the two examples. I might start with academies, if that is okay. On academies, there are two qualification issues: one is the underlying accounts and one is more specific to the year-end that appears in the WGA. On your question about qualifications and the underlying accounts, the Department for Education has managed to resolve that qualification on land and buildings in the closing balance.



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Their issue was that they were consolidating academies. Academies use a different accounting framework—they use the charity SORP instead of IFRS—so they have different recognition points for land and buildings.

The Department for Education looked at 13,000 accommodation arrangements individually. As a result of that, they were able to get to a correct closing balance, as at 31 March 2018, which led to a derecognition of about £8.4 billion-worth of land and buildings. That was posted as an in-year adjustment, instead of being allocated to the correct period and the account to which it relates. The actual closing balance is now materially correct and has a clean audit opinion. As that closing balance becomes the new opening balance, that qualification will be resolved. Then you have to take a further year, and you no longer have the qualification on your comparator. That is a really great achievement. The Department for Education took it very seriously and invested a lot of time and resource in resolving it.

The other example is the MOD, which has a qualification in relation to leases. It enters into contracts and doesn't always assess whether those arrangements contain a lease. We work with the Ministry of Defence on its planned approach and what it sees to be a value-for-money approach to resolving this qualification. As you may know, there is a new leasing standard, which comes into effect for 2020-21. The Ministry of Defence is reviewing all its leases at the moment as preparation for that standard to see whether they meet the recognition criteria, and whether there is an opportunity to remove that qualification from 2021. Whether it is cost-effective to remove that qualification is very much a decision for the Ministry of Defence. We stay in close contact with it about its plans, and we talk to it about the value-for-money trade-offs that are being made here.

- Q54 **Gareth Snell:** On the academy sector in particular, obviously the NAO previously looked at the way in which the academy data was being consolidated. It found that there were significant areas of concern—areas where they were not confident about the robustness of that data. I appreciate that the permanent secretary from the Department for Education has outlined something that they believe will address those qualifications, but the methodology that they appear to be applying is not that dissimilar to the methodology that they were applying when there were qualifications, because the report dates have not changed. How confident are you that what the DFE has said it is going to do and what you will put into the WGA will not lead to the same qualifications in future WGAs by the NAO and the Comptroller? They have not really been resolved; they have just been papered over.

Vicky Rock: I understand. Previously the Department for Education had, for two years, consolidated all academies into their accounts. They used the accounts for the academic year as at the end of August, and they used statistical methods to roll forward the balance from August to March. They first received a qualified opinion, and they later received an adverse opinion. It was very clear that it wasn't sustainable, particularly as the academy sector gets larger and becomes even more of a material part of



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the DFE consolidation. The change that happened subsequently was to strip academies out of the Department for Education's account and have them prepare their own sector account to the end of August. Excluding the largely resolved issue of land and buildings, that otherwise has a clean audit opinion.

Within the Whole of Government Accounts we will then have inherited the issue, exactly as you say, of how you bring an August account into a March account. For the last two years we have not made an adjustment to the DFE's figure, on the basis that we couldn't do it reliably. You are better off having August numbers, knowing what they represent and accepting the qualification on that, than have a qualification for numbers about which you have gone through a lot of effort and delayed your publication and still have not resolved.

- Q55 **Chair:** What percentage—I probably know this, but I can't remember it—of the total accounts is the academy accounts? It is tiny, isn't it? That is what I am driving at, really.

Vicky Rock: It is not too big. Academies' assets are around £50 billion, their liabilities are around £9 billion, and their income and expenditure are around £20 to £25 billion each.

- Q56 **Chair:** So there is a material impact on the Whole of Government Accounts. It is a big number, but I suppose not significant in that whole.

Vicky Rock: It is a material component, but one where, given the scale of the Whole of Government Accounts, there is a potential path to resolution, particularly when you consider the number of buildings. It is very common practice to do valuations, say every three to five years, and to do indexation in between.

However, there are definitely problems here. It is the task of the DFE accounting officer to provide us with a clean opinion for our March consolidation. And we will be working with them increasingly over the summer to see whether there are paths forward. It hasn't really been possible until we have had the sector account quicker, and also until we have had the trend data that allows you to see, August to August, how much it has changed, and therefore to get a sense of what the March value is in between? Is it materially different from August or not?

That is the opportunity that we have, with that two-year trend data, having moved away from the adverse opinions before. To have a clean August opinion is really helpful to us.

- Q57 **Gareth Snell:** Moving on from academies, as I understand it, some of the qualifications, particularly around some of the liabilities in the Ministry of Defence, are likely to be recurring qualifications unless there are some retrospective applications of new accountancy processes rather than just prospective ones. As I understand it, the Treasury are not necessarily looking to apply some of those retrospective applications, so how do you intend to deal with future qualifications if you are not going to deal with the retrospective applications of the new auditing standards?



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Vicky Rock: This is the MOD IFRS 16 issue. Yes, if they only apply it prospectively, there will be a qualification that exists in their own accounts. I don't have a very good sense of how material it is in WGA and how much time would elapse before it would naturally run off, so I think this is very much something that we need more information from the MOD on as they go through their review of contracts. However, I would not be looking to do my own analysis and adjustment within WGA separate to the MOD's work, because I just don't think that we could do that in a reliable way.

Q58 **Gareth Snell:** Okay. So that is very much something that has to be owned and operated by the MOD in order to address—

Vicky Rock: It is.

Gareth Snell: What conversations are you are having with the MoD? The Treasury will obviously have an opinion on whether it would like that to be retrospective as well as prospective, but how forcefully is that being conveyed to the MOD, in terms of their own accounts?

Vicky Rock: For the Treasury, our first priority here is financial management, and that understanding on a prospective application is the first priority, because it gives you that better understanding of the full extent of the contracts you are entering into. So I think we challenge them on their cost estimates on retrospective, to see how realistic that is, and to make sure that assessment is being done with the best available evidence.

James Bowler: There is a cost-benefit with all of these qualifications. On the boundary one, the qualification is that we don't absorb the assets and liabilities of the financial assets that we own—Royal Bank of Scotland—and our view is that the time and effort to do that is not worth it. We hope to sell the bank before we would be able to do that.

On local government, the big discrepancy, which is a qualification, is that they value their infrastructure on historical cost rather than on replacement cost, which I have to say is a huge difference. Again, that is a huge undertaking for them to revalue that. So we are pragmatic about the realities of that.

Equally, with the MOD, we talk to them a lot about their financial management and we have to work out where they need to put their resources in, and I think the first stage is getting ready for this new financial standard on leasing, which will be prospective and not retrospective in the first instance.

Q59 **Gareth Snell:** Mr Bowler, I will take your example of local government for a moment. Without straying into policy, is there a concern within the Treasury that there is a reluctance to apply in each Department either a retrospective change in the auditing standard or, for local government, a more reasonable indicator of liability, because that would push up those Departments' liabilities? That goes back to us saying that that can be a stick with which the Treasury beats Departments, which say "If we carry on counting it this way, we are not as bad as our friends down the road,



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who are much worse than we are.”

James Bowler: No, I really don't think that is the case. Most obviously, in local government, if and when they move from historical costs to replacement costs, there will be enormous change. The reason not to do that isn't to not show the difference; it is just a huge accounting undertaking to be able to achieve it.

Q60 **Gareth Snell:** So it is the volume of work rather than a concern about the outcome?

James Bowler: Yes. As Ms Rock says, in the debate that the MOD has been having for years with the NAO on its leasing approach, the MOD has argued that it has not been there and that it is not a priority for them to solve that. I do not know whether the NAO agrees or disagrees with that. We inherit that qualification.

Q61 **Gareth Snell:** Given the MOD's slack approach to reporting contingent liabilities across whole areas of things, the way it deals with that is probably a slightly different conversation for another day.

May I move on ever so slightly to our exit from the European Union? Sir Tom, the PAC Report in January talked about whether there should be a greater depth of reporting of the actual costs associated with any expenditure incurred by our preparation for leaving the European Union. You appreciate that the 2017-18 accounts will not show final expected expenditure, but in terms of the preparation for our leaving, why has there not been as much information included in the WGA in a way that this Committee might have been anticipating?

Sir Tom Scholar: Over the past couple of months, we have prepared a very full report on all financial issues relating to EU exit, building very much on the feedback from this Committee over the last year or so. We have published that in a different publication, slightly later than the Whole of Government Accounts. That is the publication on European Union finances, which we publish every year—I write to this Committee every year to draw your attention to it.

We had, at an earlier stage, planned to include more of the material in that report in the Whole of Government Accounts. We decided not to for two reasons. First, and most importantly, it was not quite ready in time to go into the Whole of Government Accounts, which we did not want to delay. Secondly—Vicky can talk more about this—we have had quite a lot of feedback that one of the things that people value in the accounts is that they are quite tightly constructed around the applicable accounting standards for the year in question. Obviously, quite a lot of that material relates to different years. We have put it all in there with a cross-reference in the Whole of Government Accounts.

One of the things for which we would be very grateful to the Committee—we could perhaps explore this when we carry out the user survey—is the way you think that is best reported. Is the way we have done it okay, or would you like to see more in the Whole of Government Accounts? That is



perhaps something that we could come back to. The material is all there, it is all published and it is cross-referred to from WGA.

- Q62 **Gareth Snell:** That is very helpful—I cannot speak on behalf of the Committee, but I am sure the Chair will. In the 2018-19 accounts that you will now be looking at, there is obviously a much greater level of spending, arguably on preparedness for leaving the European Union, both with and without a deal. Have you given any consideration to how you will differentiate between existing expenditure that has been reprioritised to deal with no-deal and with-deal preparations, and new spending to deal with that as an entity in itself?

Sir Tom Scholar: Again, let me turn in a moment to Vicky. The 2018-19 Whole of Government Accounts, when it comes along, will include on EU exit something very similar to what we have got in front of us today, because it will relate to a year in which the UK was an EU member for the whole of that year. You will get the same, quite high-level, consolidated information on outgoings, incomings, liabilities and so on. One thing we are looking at right now is Departments preparing their 2018-19 reports, which are obviously due to be published in the coming weeks. What is the information that they can most helpfully give? We do not and will not have a category of expenditure that is called “expenditure on EU exit”, because that is not a recognised form of expenditure in accounting terms. Departments obviously incur a lot of different types of expenditure. Mostly those are staffing costs, I think, but they may also be legal costs, consultancy or, in some cases, procurement. There is not a ready-made category of expenditure to interrogate, but we do totally recognise the very strong interests of this Committee and public interest in what the cost of it all is. We are therefore looking at how Departments can make some declaration of that, probably in their report, rather than the accounts.

Chair: Sir Tom, given that everyone has got a number of work streams for each Department, there are a lot of staff who have definitely been recruited for Brexit preparedness work. The figures for before we leave, if we do leave, are fairly clear in that case. That is one thing. Is that easier to calculate and where exactly will that be recorded in future? Secondly, if we leave, there will be work carried out that will implement things, such as replicating EU bodies in the UK. Those will be fairly trackable expenses. Surely you have got to track that. Mr Snell wants to come in on that point.

- Q63 **Gareth Snell:** In relation to expenditure in Departments relating to leaving under the auspices of the withdrawal agreement and expenditure relating to leaving without the withdrawal agreement, I think that from a public scrutiny perspective it would be interesting to be able to discern how much has been spent not only on preparing for leaving the European Union as a whole, but on preparing for different methods, so as to understand basically how much Parliament’s dithering has cost the country, to put it bluntly.

Sir Tom Scholar: Some of this is easier to identify than other bits. What is certainly easy to identify—we have published it and it is in this EU finances document—is the additional money that has been provided to



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Departments to prepare for EU exit over the past three years. That is the total of £4.2 billion. We have got a table that shows it by Department by year. That is the additional money. What is much harder and what we do not have figures on is the resources that the Departments have allocated to that through reprioritising existing resources—basically, moving staff off one area and on to EU exit. We do not have that information because it is not separately recorded.

- Q64 **Gareth Snell:** So that is not being recorded in any Department, so you could not give a global figure and each Department could not give a departmental figure for how much they have had to spend preparing for no deal as an outcome, as opposed to preparing to leave in an orderly way with a deal as part of a new withdrawal agreement. Does that data simply not exist, or does it exist and it is not recorded or consolidated?

Sir Tom Scholar: That data does not exist. If I give the example of the Treasury, which is the Department that I know most about in this respect—

Gareth Snell: That is reassuring.

Sir Tom Scholar: We have been allocated various reserve claims—additional money related to EU exit along with other Departments. We have also reprioritised staff within the Department off one thing and on to another. We have made an estimate that in 2018-19 we had 500 full-time equivalents working one way or another on EU exit, and that is something like a third of our total staff complement. That is not an auditable figure; it is an estimate of staff time. Within that, we do not have an estimate of how much is related to leaving with an agreement and how much is related to no deal, because in nearly every case it is the same member of staff. If you are working on financial services, for example, you are preparing for financial services legislation in both cases, and it is hard to work out which relates to which.

- Q65 **Gareth Snell:** Okay, I understand that the Treasury is perhaps a slightly different beast, given the nature of its functions within the Government, but let us take the Department of Health and Social Care or the Department for Transport. We know that the Department for Transport chartered a series of boats in case it needed to move goods across the Channel. We know that the Department of Health and Social Care bought a load of fridges to store medicines. We know that the Department for Business, Energy and Industrial Strategy did certain things around licensing requirements. Are you saying that the Departments themselves would not be able to say how much of the money that they had been given, or even that they have reprioritised, was spent on activity that was clearly in preparation for no deal, as opposed to preparation for leaving the European Union with a deal? Does that data just not exist?

Sir Tom Scholar: I will ask Vicky to talk in a moment about the work that we are doing with Departments on their disclosures in the 2018-19 accounts. In the particular examples you have given, it will certainly be the case that in each of those Departments there are some clearly



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identifiable amounts of money—expenditure—devoted to the examples that you gave. That would be clearly identifiable and clearly related to a particular purpose and not another. What will be much harder for any Department to provide is a breakdown of the totality of staff costs, not least because a particular member of staff—

Q66 **Gareth Snell:** So there are tangibles and intangibles, in terms of costs.

Sir Tom Scholar: Particular procurement is easier to identify and separate out than staffing costs. Vicky, would you like to add to that?

Vicky Rock: That is correct. We have highlighted to Departments Parliament's interest in this area. We have to be quite careful that any figures we put out to the public are very robust and credible, which is why I would be very cautious about us putting anything into the public domain such as estimations of staff costs. They would not reach the bar for what is an official statistic; you would not want that to get diluted. What are these figures? They need context. If the Department is further ahead in identifying its non-procurement spend, it needs to be able to set out the context that relates to, and why.

We have therefore given guidance to Departments to be as forthcoming as they can be in their performance report. I am not expecting us to be in a position to have a single figure that we could aggregate—that is not something that we are seeking to do because the definitional and data requirements are things we are just not set up to deliver.

Q67 **Chair:** One proxy would be the additional staff recruited in Departments. Over time, I suppose it will become business as usual—when it stops being Brexit work and starts being business-as-usual work is, I suppose, an interesting debate—but that is a useful proxy.

Vicky Rock: Yes. An exact example that we have given to Departments is, in describing how they meet their objectives, where we have Departments that have had large inflows or outflows of staff, or where we have had lending between Departments, we have pushed them to disclose that and how they are meeting their EU exit preparations.

Q68 **Chair:** I will bring in the Comptroller and Auditor General here. Mr Davies, is what you have heard enough for the National Audit Office over time to assess what Government are truly spending on Brexit and Brexit preparedness? And any hints for Sir Tom, while he is here?

Gareth Davies: Clearly the audit process will be constrained by the data available. We cannot create prime data that does not exist. Work so far has either operated at a higher level, in overall funding allocations, or has focused in on specific projects and areas of high risk and so on. If the question is, are we going to be able to produce an auditable assessment of total costs, the obvious answer is, only as far as the prime data will allow us. Those are obviously discussions we need to take on from here.

Chair: They sound like intense discussions, because obviously Parliament and everyone will want to see what the cost is. So there are some proxies and high-level figures, but it is actually difficult to prove exactly what is



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spent on what.

I would have thought, Sir Tom, that it would be quite useful for a Department if you had a new Minister coming in. If I were a new Minister going into a Department now, I would think, "What is it that we could stop doing and use instead? Do you have an idea of what happens when you move staff over and take them off a project? Can you streamline a project?"—those sorts of questions. If a new Government or new Minister is coming in and wanting to shape policy, that kind of data—even if it is in proxy form and not absolutely detailed—would surely be a useful tool to help shape the work of a Department. Do you think that is something that, with the information that is available, could be done or is being done?

Sir Tom Scholar: It is certainly being done at the Treasury, and I am sure it is being done everywhere else. It is part of the normal process of managing a Department and reprioritising according to Ministers' requirements.

Q69 **Gareth Snell:** Taking you back, Sir Tom, to your earlier point on the usefulness and value of the WGA, rather than being a point in time, it is more about demonstrating trends in expenditure on Government spending. If, as I expect, '18-19 will be a particularly big year for Government spending related to our exit from the European Union, because the 29 March deadline was never achieved, how will you account in future years for that not skewing trends in expenditure? If you are not going to account for it separately, will there be some sort of narrative or context integrated into certain Departments—for instance, we know the Home Office did a lot of work with Border Force—in order to be clear about the fact that the increased expenditure was a one-off in a particular area?

Q70 **Chair:** Mr Snell is cynically thinking that they might try to command it every year. I'm sure the Treasury does, too.

Sir Tom Scholar: Of course, you are right to say that in both 2017-18 and 2018-19 quite large, specific additional sums were allocated to Departments for EU exit, just as they have been for 2019-20. As I said right at the beginning of the session, we do not currently have plans for '20-21. We are in the process of working through what the baseline is for Departments. Because the additional EU exit money was explicitly agreed, first for one year and then for a second year, at the moment that drops out at the baseline. I am sure a number of Departments would be saying they have ongoing costs and ongoing work beyond that. It is just another pressure for the spending review that needs to be looked at. There is a different question, to which I do not know the answer because we have not worked it out yet, but it will be in the spending review: how do we account for this? How do we explain this?

Q71 **Gareth Snell:** It's the explanation bit that I am more interested in. On a whole-of-Government basis, it could look like reductions in spending in certain areas are not reductions—it is actually normalisation back to pre-Brexit panic levels. It is about how that context is captured in a



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document. For people not on this Committee—we have had a very dumbed-down version from the NAO, so that we could understand it—it is quite an impenetrable document, from a narrative perspective.

Vicky Rock: We always endeavour to provide at least five years of trend data. I take your point that we might sing our own praises for reducing the number by 3%, but it had been 5% higher. The five-year trend data, and the narrative that that required, should help that.

Chair: I warn you that we are expecting a vote, which we were not expecting so early.

- Q72 **Nigel Mills:** It is not unusual in commercial accounts to see exceptional costs disclosed where they are one-offs or restructuring, so you can separately identify that they will not be recurring. Did you consider whether Brexit-related costs, such as extra staff, should have been shown as an exceptional cost, just to facilitate that assessment of what is recurring and what is not?

Vicky Rock: I would not see that as meeting the requirement under accounting standards for being an exceptional cost. It is best drawn out through the narrative and the multi-year trend data.

- Q73 **Nigel Mills:** We don't do Brexit all the time—at least I hope not.

Sir Tom Scholar: What you can see very clearly is the additional cost to the totals, in terms of the additional expenditure incurred and allocated to Departments beyond what they have already been allocated. That is clear; it is £4.2 billion since 2016.

- Q74 **Chair:** But it's all the costs of what they are not doing instead, isn't it?

Sir Tom Scholar: That is the bit you cannot see.

- Q75 **Chair:** I think this will be an ongoing debate, but I am aware that there is a vote, so I will plough on. Forgive me—I thought we would be nearly finished, but we will have a delay when that happens. I should say that it is a free vote, but it is about the CAG, and his powers to investigate restoration and renewal. I will leave my Committee to judge how they are going to vote on that basis. I am abusing my position there.

I wanted to touch on the McCloud ruling—the public service pension ruling—which we are expecting by the end of this year. That could have a big impact. How much do you think that will cost Government, Mr Bowler?

James Bowler: The Court of Appeal ruled in December 2018 against the Government on judges and firefighters' pensions. This is against the transitional protection. We are seeking the right to appeal to the Supreme Court, and we have not heard back yet.

- Q76 **Chair:** When will you hear back?

James Bowler: I have no idea. We are seeking the right to appeal. If they allow us the right to appeal, we then appeal, so there is quite a way to go.



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Q77 **Chair:** So really, as you sit here today, you have no idea of timescale at all.

James Bowler: No, I don't. Obviously if we are not allowed to appeal it all happens a lot quicker.

Q78 **Chair:** If you're not allowed to appeal, obviously you will have to come up with the money. How much are you expecting it to cost, because there will be knock-on effects on other pension schemes as well?

James Bowler: I have an answer to your question, which I will give. This is about judges and firefighters, but transitional protection is also in every other element of public sector pensions. At the time of the ruling, the Chief Secretary to the Treasury set out in a written ministerial statement that remedying the entirety of transitional protection across all these, not just judges and firefighters, would come at a cost of some £4 billion a year.

Q79 **Chair:** That is £4 billion a year, so the amount that would need to be paid out straight away with pensions would obviously depend on the rate of retirement and so forth, and who is in a transitional protection group. Do you know how much would have to be paid out if you either lose your appeal or do not get granted an appeal? What would be the initial cost?

James Bowler: As in, to the judges and firefighters?

Chair: Yes.

James Bowler: I don't have that figure.

Q80 **Chair:** Could you let us know that?

James Bowler: Yes.

Q81 **Chair:** That is first off. Then, of course, who will pay for it? Will Departments be expected to pay for this, or does it count as what you would call in local government an "additional burden"?

James Bowler: There is a set of things here. Like you say, if the Court says that we have to remedy this, we have to remedy it, and the payment has to be made. How do I put this? I am sure that Departments will say to the Treasury that they would like us to help them in meeting that expenditure. There have been various changes to pensions over the last few years, and we made an allowance to the change in discount rates that we did in 2018. The Treasury has made an allowance in this year, and in the spending review we will continue to negotiate to cover the costs of that particular change.

Q82 **Chair:** Have the Departments done an analysis of what the pay-out rates would have to be over time? Have they done an analysis of who would be in the transitional protection and what the pay-outs would have to be? It will not be the same every year, will it?

James Bowler: Vicky might be able to help me here. Is it the case, Vicky, that in their accounts coming up, we have given guidance to Departments



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about what they would need to declare as the potential provision/liability of this judgment in this case, and that the core Departments are looking to do that in laying their accounts before you in the coming weeks?

Q83 **Chair:** Right—so we will know before we break for the summer.

Vicky Rock: Yes. We have been working on aiming to get a consistent approach across central Government. We have been engaging with the NAO centrally, and the Government Actuary's Department has been assisting Departments with their evaluations, so we should see it coming through as an increase in pension liability.

Q84 **Nigel Mills:** While we are on pensions, it seems that we have to do this every year, but can I just ask why the state pension is not included as a liability in these accounts?

Vicky Rock: The state pension is not required under international financial reporting standards to be met in the accounts.

Q85 **Nigel Mills:** Because?

Vicky Rock: When you look at the requirements, you need to have a current obligation as a result of a past event. Certainly Government do have a constructive obligation to provide a state pension, but there is work that the International Public Sector Accounting Standards Board has just concluded. In January it issued a standard on this that supports the previous view that we've taken, which is that there is a subsequent obligating event. You've still got different and additional criteria that you need to meet, which is you need to be alive in order to receive it.

Q86 **Nigel Mills:** That is the same for the public sector employee pension: you don't get that unless you live.

Vicky Rock: A different accounting standard applies for employees; that is for other liabilities. This international public sector standard has looked specifically at benefits and at the state pension, and has come to the conclusion that we had, which is that the liability is only for that month.

Q87 **Chair:** Liability is interesting. We've got to give time for the vote, so I don't want to go into this too deeply, but if all your health colleagues do a great job and people live longer, there is a bigger liability for state pensions, whereas if people still die too young, because they are smoking too much, then it is cheaper.

James Bowler: It is probably worth saying that there will be more implications in the state pension age. The Office for Budget Responsibility publishes a fiscal sustainability report that explicitly looks at the impact of commitments on long-term finances. The main one it looks at is the implications of an aging population on pensions and indeed health. So, it does set it out.

Q88 **Chair:** That is interesting, because the WGA feeds into what the OBR does; it does that risk element, but it is not in the WGA. Maybe will we leave it there?



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James Bowler: Equally, nor is all future public spending, or all future tax raised. If you did put the state pension in the WGA, then boom! The WGA would be a small thing on the side of an enormous state pension.

- Q89 **Nigel Mills:** That is kind of the point; it is hugely material. God knows what it would do to the debt that you disclose in these accounts.

James Bowler: I am trying to suggest that we are very alive to the future implications of the state pension; that is why there is a whole set of policy on this.

- Q90 **Nigel Mills:** I don't doubt that the users of these accounts aren't particularly alive to just how big a liability sits there. It would probably more than double the net debt that you disclose. I dread to think what the actual present value of our future state pension liability is for everyone who has paid any national insurance.

Vicky Rock: It is a trade-off that we have to make with this set of accounts, because you could always expand the scope of it, but ultimately we produce an IFRS-based set of accounts because people find them understandable and useful. We try to highlight its limitations. We have put some additional disclosures on the state pension this year, and we do try to place WJ amongst a suite of publications that give you that fiscal picture and grow that other sense of affordability.

- Q91 **Chair:** At least, as we had requested, it is in here on page 30. It is listed. I would love to just discuss pensions, but I hope Mr Mills can take that up in another place. I am aware that the vote is approaching. Can I quickly ask Ms Rock about assets recorded? You have significant asset sales, but they are not reported in the same way as the liabilities. Why aren't we getting better information on assets? Is it because the Department still haven't gathered that?

Vicky Rock: Sorry; I didn't quite follow.

Chair: The information on significant liabilities is much better than the information on assets. I wondered why that is. Is it because the information that you are getting from Departments isn't good enough?

Vicky Rock: We have good data on assets. We have a similar level of granularity. If there is an area where our data on assets isn't as helpful as it could be, I'd certainly like to know. Is there an intention to have a look at that?

- Q92 **Chair:** Parliament gets more information on asset sales; we have been looking at this quite a bit as a Committee. Are you planning to record those differently? We have had an interesting conversation with Mr Roxburgh, which I won't repeat, in the last couple of weeks about asset sales, money going to the Treasury and policy issues. Who wants to take this question? Maybe Mr Roxburgh.

Charles Roxburgh: As you know, as part of the balance sheet review, one of the recommendations to ourselves is to report more clearly to you. With any material asset sale, above a materiality test, there will be a

report in a written ministerial statement setting out the rationale for the sale and the impact on a range of fiscal metrics. That again is responding to one of the requests from this Committee to look not just at one metric, but the sale value versus retention value, and the impact on different fiscal metrics, such as PSNB, PSND and PSN FL. There will be more disclosure on each asset sale, and then this Committee can choose what to do with it.

Q93 Chair: Will that then be reflected in the WGA?

Vicky Rock: We do disclose significant asset sales. A lot of them feature in the events-after-reporting period, where they come after the cycle.

Q94 Chair: So it is partly a time lag issue.

Vicky Rock: I think it is partly a time lag, but we always endeavour to check whether there are any significant asset disposals that should be separately disclosed, including ones that happen after the period, because we appreciate that it is an area of interest.

Q95 Chair: It is an area of interest. Also, if you have sold it once, you cannot sell it again, so it is interesting to see the trends on asset sales over time, because it is a diminishing pool, for the most part.

I want to ask about PF2. We looked at the Stonehenge tunnel recently. We are about to produce a report on that and the Thames crossing, because they were going to be funded by PF2. The Treasury was going to cover this. It was announced that it was going to be funded by the Government. How will that happen, Mr Roxburgh? How will they be funded?

Charles Roxburgh: The Government remain committed to progressing both projects. On the A303, which is slightly further along the line, Highways England submitted their development consent order last year. The Government released £21 million of funding for the development phase. Ministers will consider the outline business case for the A303 project over the summer. Decisions on funding that will take place as part of the spending review later in the year.

Q96 Chair: Given that it was going to be done under PF2, so therefore it was going to happen, is there any prospect it will not happen because it is wrapped up in the spending review?

Charles Roxburgh: No, just because it was being done with PF2 does not mean it would happen. This Committee would applaud the view that we should only do projects on their merits. Because it is off-balance sheet, we should not somehow exclude a project from scrutiny. Far from it.

Q97 Chair: Absolutely not from scrutiny, but the PF2 vehicle meant it was slightly easier to fund if it was not coming straight out of the taxpayers' pocket in the same way.

Charles Roxburgh: That is exactly the fiscal illusion that the OBR criticised on PF2. As for this phrase, "off-balance sheet", PFI and PF2



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projects are not off this balance sheet. They are included in the Whole of Government Accounts balance sheet.

Chair: Spread over a different period of time.

Charles Roxburgh: On Mr Snell's earlier point about how this influences policy making, to the extent that the Whole of Government Accounts presents a better picture of the Government's assets and liabilities, we felt the fact that it was on that balance sheet was part of the logic. We did not want the fiscal illusion that, because the project was off-balance sheet, it did not have scrutiny. So the A303 project and, in time, the LTC project will be judged on their merits. If they are good projects with a good business case, they will be considered against all the other projects being looked at in the zero-based review of capital projects in the spending round. If they meet the bar of being a good project, they will get funded.

This is also the context of a much higher level of Government funding for public projects. On the road investment scheme that is done in five-year programmes, on what is called RIS1, the Government committed £17.6 billion for roads. For RIS2, the provisional draft number is £25.3 billion. There is a lot more money to invest in roads, and that is what those projects will be assessed against.

Q98 **Chair:** I think Sir Geoffrey would be asking more questions if he were here, but he is not, so you are off the hook for the moment. I am aware the vote is about to happen, so we might break very suddenly. If I do not get to say goodbye, thank you already.

A lot of the things that we have requested in previous years have been added in as commentary in the accounts. We have talked about shaping decisions before. Is it just that you are adding a commentary to explain it, which is a good thing, or will it actually make any difference to how you shape them and use them in future? I will start with you, Ms Rock. Are they just words of explanation, rather than something material?

Vicky Rock: When I think about the explanations that we have provided, we try and explain a lot in relation to the national accounts. You can see over time the national accounts in WGA getting much closer with the introduction of public sector net financial liabilities, so when it comes to the different treatments between Whole of Government Accounts and national accounts, it is not really words in WGA and that's it; it gets assessed under both frameworks. Increasingly, those frameworks are getting closer together, and they have now got far more in common than they have separately.

When we think about things such as the asset sales disclosure guidance that Mr Roxburgh mentioned, those disclosures are happening based on what they did to the fiscal aggregates, and what they did against the carrying value on the balance sheet. What you see is much more of a reflection of the effect on both WGA and national accounts coming through more strongly.



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To me, that is probably one of our large areas of explanation of what it means in practice. There are others where we explain the scope of the Whole of Government Accounts where we are not looking to alter that scope. We do think they are very useful as an IFRS-based set of accounts and get a lot of support on that front. In that case, that is an area where the context is helping with navigation and with trying to meet user needs and other documents. If there is more that we can continue to do to make sure that people have the complete picture, that would help.

Chair: Part of that will be the consultation that you are having with your users, so perhaps we will park that for the moment, unless Mr Snell wants to come in briefly.

Q99 **Gareth Snell:** That was the point that I was going to make: there seems to be an explanation of why things are being done before the users have been asked what they want. I wonder whether, as part of your user survey, you intend to consider Parliament and this Committee as part of your user group when deciding how this might go forward in future.

Vicky Rock: Without a shadow of a doubt.

Sir Tom Scholar: Absolutely. Perhaps we could have a discussion with the Clerk about how best to get the views of the Committee. We have discussed that with the NAO and thought that maybe we could have a joint informal session.

Chair: A workshop might be an easier way of doing it. Thank you very much for your time. The transcript will be up on the website in the next couple of days, and we have one other question that we may write to you about.