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Meg Hillier MP
Chair of the Public Accounts Committee
House of Commons London
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[By email]

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Dear Ms Hillier,

WHOLE OF GOVERNMENT ACCOUNTS (WGA) 2018-19

I am writing to you following the evidence session on 19th November to follow up on some of the questions raised. The Treasury is grateful to the Committee for its continued support for the Whole of Government Accounts (WGA) and for its recognition of the improvements that have been made.

1. The Public Value Framework: an outcomes-based performance regime for government

Last month's Spending Review placed a strong focus on outcomes and tied spending and performance closely together. To implement this approach, the government has developed provisional priority outcomes for each UK government department, including cross-cutting outcomes. These were published in the Spending Review 2020 document. The government has also identified a set of provisional metrics against which progress towards delivering the outcomes will be measured. These will be published in the coming weeks.

These provisional outcomes and metrics will be refined as part of a reformed planning and performance framework. Plans for their delivery over the course of the next financial year (2021-22) will be published next year following approval by the Cabinet Office, HM Treasury and No 10. Departments will report regularly to the Cabinet Office and HM Treasury on progress against these metrics, while citizens will be able to track government performance against finalised outcomes through public reporting.

The Treasury and the Cabinet Office will write to the Public Accounts Committee before the start of the next financial year setting out more detailed plans for taking forward an improved planning and performance system, which will support delivery of outcomes in the long term.

2. The operation of the tax system for businesses who have received grants in the last financial year, even though they were to support them in this financial year

Mr Harra will be writing to the Committee shortly on this matter.

3. Covid-19 and government liabilities

The Committee asked about potential liabilities that may give rise to significant provisions or contingent liabilities in departmental annual reports and accounts (ARAs) as a result of the impact of the pandemic.

The public expenditure costs of the various measures to support the economy, businesses, individuals and public services through the pandemic will be reflected in departmental ARAs. Some of these can be seen in the 2019-20 ARAs as liabilities in relation to future agreed measures, as well as through an increased level of uncertainty for judgements and estimates as a result of Covid-19, particularly for asset and liability valuations. These will also be reflected in the 2019-20 WGA.

For others, the timing and details of some of the government announcements at the year-end meant that many were reported as a non-adjusting post balance sheet event under international financial reporting standards. These measures will not be fully recognised until the 2020-21 ARAs and the 2020-21 WGA.

The Committee highlighted a few areas that are expected to flow through to the accounts. For example, the deferral of some tax payments may lead to an increased risk to recoverability of those payments. HMRC, in their 2019-20 ARA, reported that due to the impact of the COVID-19 outbreak, the end of year HMRC debt balance for March 2020 was £2.5 billion higher than forecast, coming in at £22.4 billion, significantly over the forecast of £19.9 billion. Note 4.2 of HMRC's account set out their assessment of the potential Covid-19 impact on impairments of receivables. Their central estimate is £1.6bn. The department reports its expectation of a further substantial increase in the debt balance during 2020-21 due to the economic impact of Covid-19.

DWP report in their ARA that they temporarily suspended most claimant debt recovery and the expected level of debt recovery has been updated accordingly, although the Department did not consider the impact to be material to the 2019-20 ARA.

The support for individuals such as the Coronavirus Job Retention Scheme (CJRS) and the Self-Employed Income Support Scheme (SEISS), although disclosed in HMRC's 2019-20 ARA, will not be fully reflected in the financial statements until 2020-21. HMRC reported in their ARA that as at 30 September 2020 they had received claims for CJRS of £39.2 billion and £13.3 billion for SEISS. There will be further payments until the schemes close.

The various loan schemes such as the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme, the Future Fund and the Bounce Back Loan Scheme (BBLS), as well as the Trade Credit Reinsurance Scheme, are all measures that support UK businesses. These schemes also do not have a financial impact on the 2019-20 financial statements but will come through more fully from 2020-21.

BEIS reported in their ARA that, as at 18 August, £10.5 billion of loans had been provided through CBILS, £1.4 billion through CLBILS and £34.2 billion through BBLS. The economic conditions will affect the likelihood of recovery of these loans and the BEIS ARA reported estimated losses as at September 2020 to be in a range of 10-25% of the value of loans awarded for CBILS, 5-20% for CLBILS and 35-60% for BBLS. However, these estimates will be revised as more data becomes available and actual losses could be significantly different to the forecast.

The cost of the government's Covid-19 business support grants was reflected in 2019-20 and BEIS recognised a £10.8 billion provision. These grants have now been paid out, clearing the liability.

For the Department for Education, the valuation of the student loan book is dependent on economic conditions. DfE reported in their 2019-20 ARAs that the impact of Covid-19 on the economic forecast had reduced the fair value of student loans by £2.5 billion.

Details of other dedicated Covid-19 interventions and an analysis of resources deployed for programmes related to the response to the pandemic will also be reported in 2020-21 and these may give rise to further liabilities other than those referenced above.

As we discussed at the hearing, the WGA is not the best source of timely information on the fiscal costs of unfolding events. A great deal of information has been and will be provided through other routes, well before the 2020-21 WGA. For example, last month, the OBR published an extensive analysis of the impact of the pandemic on the fiscal position, including full details of the government's policy response, and the estimated cost.

4. UK Government's cost effectiveness and management of the NDA, and efforts to decommission nuclear sites

The Nuclear Decommissioning Authority (NDA) is the UK body responsible for decommissioning and making safe the UK's nuclear legacy sites. Given the high hazard work they undertake it is important that they operate and are regulated to the highest standard. The government is keen for the NDA to carry out its work in the most cost-effective way possible whilst maintaining safety standards.

In the Spending Review 2020 we worked with the NDA and BEIS to scrutinise the NDA's funding requirements, including looking at options to identify potential efficiencies without compromising safety. We will continue to work with BEIS to ensure robust oversight of and challenge to the NDA's spending, particularly on major project business cases, and to improve risk management.

5. Trend information in WGA

The Committee rightly observed that one of the chief benefits of the WGA is to be able to compare trends from one year to another as well as longer term trend data. Most figures presented in WGA show the previous year comparator, and they also show five-year trend data for contingent liabilities and total assets and liabilities in the performance analysis section.

The Treasury would like to continue to improve the presentation and usefulness of the information in WGA and will continue to look at other areas where we can include longer term trend data. If there are specific areas where the Committee would like to see longer term trend information, then we would be happy to address that request. The Treasury greatly values feedback from the Committee.

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